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Health Reimbursement Arrangements: At-A-Glance

Affordability, Premium Tax Credits, and the Family Glitch

A Note on Affordability

Affordability is a key term for two separate purposes:

(1) a group health plan, and
2) the ACA Exchange.

An employer may choose one of three safe harbors to determine annual household income (e.g., the W-2 safe harbor, the rate of pay safe harbor, or the federal poverty line safe harbor) for purposes of affordability under the employer shared responsibility provisions. The formula is different from the way the ACA Exchange determines affordability for purposes of premium tax credits.

For purposes of a premium tax credit, the ACA Exchange helps an individual determine if coverage made available through the employer, in this case the ICHRA, offers affordable coverage to the employee.

NOTE, HOWEVER, because the employer may use a safe harbor to determine affordability for purposes of the second shared responsibility penalty, the employer is not subject to penalties even if the ACA Exchange determines the individual qualifies for a premium tax credit. These safe harbors are not used by the marketplace to determine affordability for premium tax credits. The marketplace looks at the individual's household income.

Q: How do Advanced Premium Tax Credits work with ICHRA?
A: When an employee is offered a reimbursement through an ICHRA, if the reimbursement amount makes their offer of coverage affordable (per the annual ACA percentage), that employee is not eligible to receive premium tax credits. (2023 affordability amount is 9.12% of gross household income.)

Q: What happens if an employee accepts the tax credits when they have received an affordable offer of coverage?
A: When they file their taxes, and submit their 1095, the form indicates that they were given an affordable offer of coverage and the employee will be required to pay back the tax credits.

Q: What if an employer does not make an affordable offer of coverage to an employee?
A: If the employer has NOT made an affordable offer of coverage and an employee accepts premium tax credits, the government will require the employer to pay their portion of the Shared Responsibility Payment for each month in which that employee accepts the tax credits. For 2023, the Shared Responsibility Payment is $360 per month or $4,320 for a 12-month period.

Q: Is affordability calculated on individual only coverage?
A: Yes. When doing the math on affordability, the individual only rates are used.

Q: Does that mean that employees can take tax credits for their dependents?
A: It does. In late 2022, the federal government fixed what had been termed "The Family Glitch." This means that now someone who is offered an affordable ICHRA can take the reimbursement from their employer for themselves and accept tax credits for their dependents.