Affordable Care Act and the Employer Mandate

Understanding the Affordable Care Act's Employer Mandate

The Affordable Care Act (ACA), passed in 2010, introduced major changes to healthcare and tax laws. One of its key provisions, the Employer Mandate, became effective on January 1, 2015. This mandate requires certain employers to offer health coverage to their full-time employees or face potential penalties.

IRS Enforcement and Penalties

Starting in 2015, the IRS began enforcing the Employer Mandate by issuing Letter 226J penalty notices to employers who failed to meet ACA reporting requirements. Enforcement has continued for tax years 2016 through 2020 and may apply to earlier years as well. There is no statute of limitations for ACA penalties.

Why This Matters

- Avoid costly penalties
- Offer compliant health coverage
- Manage healthcare costs effectively

Who Must Comply?

Applicable Large Employers (ALEs)

Businesses are considered ALEs if they had 50 or more full-time or full-time equivalent (FTE) employees during the previous calendar year.

- Full-time employees: Work at least 30 hours per week.
- FTEs: Calculated by adding the total monthly hours of part-time employees and dividing by 120.
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If the combined total of full-time and FTE employees is 50 or more, the business is an ALE and must comply with the Employer Mandate.

Determining Full-Time Status

1. Monthly Measurement Method
    - Best for employees with consistent schedules.
    - Employees working 30+ hours per week are considered full-time.
2. Look-Back Measurement Method
    - Ideal for variable-hour employees.
    - Employers review a measurement period (3–12 months).

What Coverage Must Be Offered?

ALEs must offer health coverage that meets three key standards:

1. Minimum Essential Coverage (MEC) Coverage must meet ACA definitions, including employer-sponsored plans, government programs, and grandfathered plans.
2. Minimum Value (MV) The plan must cover at least 60% of expected healthcare costs.
3. Affordability The employee's share of the premium must be affordable based on IRS guidelines.

To avoid penalties, ALEs must offer MEC that meets MV and affordability standards to all full-time employees and their dependents every month.

ACA Affordability Mandate (2026)

Under the Affordable Care Act (ACA), Applicable Large Employers (ALEs)—those with 50 or more full-time or full-time equivalent employees—must offer health insurance that meets three key standards:

✅ 1. Minimum Essential Coverage (MEC)

Coverage must qualify as MEC and meet Minimum Value (MV), meaning it covers at least 60% of expected healthcare costs.

✅ 2. Affordability Threshold

For plan years beginning in 2026, coverage is considered affordable if the employee's monthly cost for the lowest-cost, self-only plan does not exceed 9.96% of their household income.

✅ 3. Safe Harbors for Employers

Because employers typically don't know household income, the IRS allows three safe harbor methods:

- **W-2 Safe Harbor:** Employee contribution must be ≤ 9.96% of Box 1 W-2 wages.
- **Rate of Pay Safe Harbor:** Contribution must be ≤ 9.96% of monthly salary or hourly wage × 130.
- **Federal Poverty Line (FPL) Safe Harbor:** Contribution must be ≤ 9.96% of the FPL for a
- single individual (about $129.89/month for 2026).

ACA IRS Reporting Requirements (2025 Filing for 2026)

ALEs must report health coverage details to the IRS and employees using specific forms:

Required Forms

- Form 1095-C: Sent to each full-time employee detailing coverage.
- Form 1094-C: Summary form submitted to the IRS.

For more information, see the IRS Instructions for Forms 1094-C and 1095-C:
https://www.irs.gov/pub/irs-pdf/i109495c.pdf
2026 Form 1095-C
2026 Form 1094-C