

September 2025

Pay-or-Play Affordability Percentage Will Increase for 2026

On July 18, 2025, the IRS released [Revenue Procedure 2025-25](#) to index the contribution percentage in 2026 for determining the affordability of an employer's health plan under the Affordable Care Act (ACA). For plan years beginning in 2026, employer-sponsored coverage will be considered affordable under the ACA's "pay-or-play" rules if the employee's required contribution for self-only coverage does not exceed **9.96%** of their household income for the year.

This is a significant increase from the affordability contribution percentage for 2025 (9.02%) and the highest this percentage has ever been. Applicable large employers (ALEs) will need to consider this affordability percentage in developing their health plan contribution strategies for the 2026 plan year. ALEs may be able to increase employees' health coverage contributions for 2026 while still meeting the adjusted affordability percentage.

As background, the ACA's pay-or-play rules require ALEs to offer affordable, minimum-value health coverage to

their full-time employees (and dependents) or risk paying a penalty. The affordability of health coverage is a key point in determining whether an ALE may be subject to a penalty. An ALE's health coverage is considered affordable if the employee's required contribution to the plan does not exceed 9.5% (as adjusted annually) of the employee's household income for the taxable year.

For 2026 plan years, an ALE's health coverage will be considered affordable if the employee's required contribution for self-only coverage under the employer's lowest-cost plan does not exceed 9.96% of the employee's household income. Because an employer generally will not know an employee's household income, the IRS has provided three optional safe harbors that ALEs may use to determine affordability based on information that is available to them: the Form W-2 safe harbor, the rate of pay safe harbor and the federal poverty level safe harbor.

DOL Updates Model Employer CHIP Notice

The U.S. Department of Labor (DOL) has released a new [model employer Children's Health Insurance Program \(CHIP\) notice](#) with information that is current as of July 31, 2025.

Federal law imposes an annual notice requirement on employers that maintain group health plans in states that provide premium assistance subsidies under a Medicaid plan or a CHIP plan. An employer can choose to provide the notice on their own or concurrent with the furnishing of:

- Materials notifying the employee of health plan eligibility;
- Open enrollment materials; or
- The Summary Plan Description.

An employer is subject to this annual notice requirement if their group health plan covers participants who reside in a state that provides a premium assistance subsidy, regardless of the employer's location.

The DOL's model notice, which employers may use for this disclosure, is updated periodically to reflect changes in the states that offer premium assistance subsidies. The DOL's model employer CHIP notice includes information that is current as of July 31, 2025.

Employers could also choose to prepare their own notices or modify the model notice. Employers should be sure to include at least the minimum relevant state contact information for any employee residing in a state with premium assistance.