IRS Reporting Resource Guide

Affordability Safe Harbor Testing

Three Options for Testing

Affordability Method	Description

Federal Poverty Level

Multiply the Federal Poverty Level (FPL) for 1 person in Vermont by 9.69%, and compare to the contribution from an employee to the lowest cost single plan. If the contribution for the lowest cost single plan is lower than 9.69% of the Federal Poverty Level for a single in Vermont, this safe harbor provision may apply.

Heads up! For this safe harbor, employers may use the Federal Poverty Level in effect up to 6 months before the start of the plan year.

For employers using a calendar year Section 125 cafeteria plan year in 2017, the FPL is $11,880 annually or $990 per month. If the lowest cost plan available to employees requires employees to contribute no more than $95.93 per month for employee-only coverage, the plan likely passes this safe harbor affordability test.

For employers using a fiscal Section 125 cafeteria plan year of July 1, the maximum monthly employee-only contribution can be determined as follows:

FPL Year	Cafeteria Plan Year	Applicable Period	FPL Applicable	Monthly	Afford. Percentage	Max. EE Only Contribution
2016	July 1 PY	Jan through June 2017	$11,880	$990	9.69%	$95.93
2017		July through December 2017	$12,060	$1,005		$97.38

Form W-2

Compare each applicable employee's income as reported in Box 1 of their W-2 to the lowest cost single plan available to that employee. If the employee contribution is less than 9.69% of the value reported in Box 1 of that employee's W-2, the safe harbor provision may apply to that employee.

Heads up! Because the W-2 is not produced until after the calendar year ends, it is not possible for an employer to conduct this calculation before the end of the year. Additionally, this test must be conducted for each applicable employee.

Rate of Pay

Identify the lowest paid full time employee (30 hours a week or more). If the employee is salaried, divide by 12 to arrive at the starting point. If the employee is hourly, multiply their hourly rate by 130 hours to arrive at the starting point.

Compare 9.69% of the monthly salary or hourly rate multiplied by 130 hours with required contribution for the lowest cost single plan. If the employee contribution is less than the test value, safe harbor provisions may apply.

Heads up! If you have multiple contribution structures for different classes of employees, repeat this process for each class of employees.

“Rate of Pay” Recommendation and Formula

The “Rate of Pay” method is most likely to benefit VEHI members by requiring less administrative work and providing more flexible and favorable outcomes.
The basic calculation is below.

Hourly pay of your lowest paid FT Employee ✖ **130 Hours** ✖ **9.69%** = **Safe Harbor Testing Value**

*Compare the safe harbor testing value number to the employee’s contribution to the lowest cost single plan. **If the safe harbor value is more,** the employer is able to claim safe harbor using the Rate of Pay method.*

Working Example using “Rate of Pay”

School District ABC offers 2 plan choices to full time employees. The lowest cost plan requires an employee to contribute $50.00 per month toward to cost of employee-only coverage. Of all full time employees eligible for coverage, the lowest paid employee is paid $10 per hour.

$10 per hour ✖ **130 Hours** ✖ **9.69%** = **$125.97**

$125.97 is greater than the $50 contribution, therefore the plan passes this safe harbor test and can claim ‘Rate of Pay’ safe harbor.