



ACA Penalties by Company Size

The following is a general overview of the penalties that may apply if employers do not comply with key provisions under the Affordable Care Act (ACA). The information is subject to change based on new government requirements or amendments to the law. Additionally, your company or group health plan may be exempt from certain requirements and/or subject to more stringent requirements under your state's laws. If you have any questions regarding your obligations, please consult knowledgeable employment law counsel.

Special Note: The ACA amended various federal laws, including the Internal Revenue Code (Code) and the Employee Retirement Income Security Act (ERISA). Therefore, enforcement of many ACA requirements may be carried out through the mechanisms provided for in those laws. For purposes of this chart:

- The term “\$100 excise tax” refers to a penalty tax, imposed on employers under the Code, of \$100 per affected individual for each day the plan is not in compliance+
- The term “ERISA penalties” refers to a civil action by the U.S. Department of Labor (DOL) or plan participants or beneficiaries to compel the plan or sponsor to comply with ERISA. Civil money penalties may also apply

Penalties for all employers

Employers Sponsoring Group Health Plans

Employer Payment Plans Prohibited

- Employer payment plans—arrangements under which an employer reimburses an employee for some or all of the premium expenses incurred for an individual health insurance policy, or uses its funds to directly pay the premium for an individual policy—are considered group health plans that do not comply with the ACA (with exceptions, such as certain types of HRAs)

Dependent Coverage to Age 26

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties. Plans that offer dependent coverage must continue to make the coverage available until a child reaches the age of 26, regardless of other coverage options
- Penalties for Noncompliance: Plans cannot impose lifetime or annual dollar limits on coverage of “essential health benefits”

No Lifetime or Annual Limits

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties
Note: Health plans may continue to limit the number of visits to health providers and days of treatment so long as the visit or day limit does not amount to a dollar limit
- Plans cannot exclude individuals from coverage or limit or deny benefits on the basis of pre-existing medical conditions



No Pre-Existing Condition Exclusions

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties
- Plans must give participants certain rights with respect to choosing a primary care provider or a pediatrician (when the plan requires designation of a primary care physician), obtaining OB/GYN care without prior authorization (if coverage is provided for OB/GYN care under the plan), and coverage of emergency services (for plans that provide those benefits)

Patient Protections

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties
- *Note: Plans must also provide a notice to participants outlining their right to choose a primary care provider or pediatrician, or to obtain OB/GYN care without prior authorization, when applicable.*
- Plans cannot use a waiting period—the time that must pass before coverage for an employee or dependent who is otherwise eligible to enroll under the terms of the plan can become effective—that exceeds 90 days

90-Day Limitation on Waiting Periods

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties
- Employers sponsoring a health-contingent wellness program in connection with a group health plan (that is, a program that requires an individual to satisfy a standard related to a health factor in order to obtain a reward) must confirm the program complies with nondiscrimination rules

Non discrimination for Wellness Programs

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties. Plans must provide an SBC to participants and beneficiaries at several points during the enrollment process and upon request, explaining what the plan covers and what it costs

Summary of Benefits and Coverage (SBC)

- Penalties for Noncompliance: Plans that willfully fail to provide the required information will be subject to a fine of up to \$1,362 for each failure (each participant or beneficiary constitutes a separate offense). Plans are also generally subject to the \$100 excise tax and ERISA penalties
- Plans must ensure that participants and beneficiaries are provided with notice of any material modification that would affect the content of the SBC (and that occurs other than in connection with coverage renewal or re-issuance) no later than 60 days prior to the effective date of the change

Notice of Modification

- Penalties for Noncompliance: Plans that willfully fail to provide the required information will be subject to a fine of not more than \$1,362 for each failure (each participant or beneficiary constitutes a separate offense). Plans are also generally subject to the \$100 excise tax and ERISA penalties
- Employers of fully insured plans are responsible for distributing rebates, which were received as a result of insurers not meeting specific standards related to how premium dollars are spent, to eligible plan enrollees where appropriate

Medical Loss Ratio (MLR) Rebates

- Penalties for Noncompliance: Any portion of a rebate constituting plan assets must be handled in accordance with ERISA's fiduciary responsibility provisions. Fiduciaries that do not follow the basic standards of conduct may be personally liable
- Employers that sponsor certain self-insured plans must pay fees to fund the Patient-Centered Outcomes Research Institute (fees are filed annually using Form 720 and are due no later than July 31st of the year following the last day of the plan year to which the fee applies)

PCORI Fees for Employers Sponsoring Self-Insured Plans

- Note: A 2019 continuing spending resolution reinstated PCORI fees for the 2020-2029 fiscal years. As a result, specified health insurance policies and applicable self-insured health plans must continue to pay these fees through 2029
- Penalties for Noncompliance: Standard penalties related to late filing or late tax payment generally apply, but these penalties may be waived or abated if the employer has reasonable cause and the failure was not due to willful neglect

Employers Sponsoring Non-Grandfathered Group Health Plans

Preventive Services Coverage

- Plans must cover certain preventive services delivered by in-network providers without cost-sharing (with exceptions for providing contraceptive coverage for certain entities with sincerely held religious beliefs or moral convictions)
- Penalties for Noncompliance: \$100 excise tax; ERISA penalties
- Plans must follow improved procedures regarding decisions to deny payment for treatment or services

Reviewing Claims Decisions

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties
- *Note: Plans must also provide specific notices to participants and beneficiaries when a claim for benefits is denied*

Coverage of Essential Health Benefits

- Fully insured plans offered in the small group market must cover a core package of items and services known as “essential health benefits”
- Penalties for Noncompliance: \$100 excise tax; ERISA penalties.
- Out-of-pocket costs under the plan for coverage of “essential health benefits” provided in-network cannot exceed certain limitations

Limits on Cost-Sharing

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties

Employers Sponsoring Grandfathered Group Health Plans

Disclosure of Grandfathered Status

- A plan must include a statement indicating the plan believes it is a grandfathered plan, along with certain other information, in any plan materials provided to participants or beneficiaries describing plan benefits
- Penalties for Noncompliance: Loss of grandfathered status, which requires the plan to come into compliance with all ACA provisions that previously did not apply because the plan was exempt



Cafeteria Plan Benefits

- Employers may not provide a qualified health plan offered through the Individual Health Insurance Exchange (Marketplace) as a benefit under the employer's Section 125 cafeteria plan (a plan which meets specific requirements to allow employees to receive benefits on a pre-tax basis)
- Penalties for Noncompliance: In general, if a plan fails to comply with Section 125, it is not considered a cafeteria plan and employees' elections of nontaxable benefits will result in gross income to the employees. ERISA penalties may also apply
- Note: This requirement does not apply to group coverage offered through the SHOPExchange

Health FSAs Through Cafeteria Plans

- A health flexible spending arrangement (FSA) must be offered through a cafeteria plan in order to comply with the annual dollar limit prohibition
- Penalties for Noncompliance: \$100 excise tax; ERISA penalties

Health FSAs as Excepted Benefits

- A health FSA must qualify as excepted benefits to comply with the preventive services requirements
- Penalties for Noncompliance: \$100 excise tax; ERISA penalties

Health FSA Contribution Limits

- The amount of salary reduction contributions to health FSAs must be limited to \$3,200 for 2024. Written cafeteria plans must reflect this change
- Penalties for Noncompliance: If a cafeteria plan fails to comply with Section 125 or fails to satisfy any of the written plan requirements for health FSAs, the plan is generally not considered a cafeteria plan and employees' elections of nontaxable benefits result in gross income to the employees
- Depending on the type of HRA offered (two additional options became available for plan years beginning in 2020), the HRA must satisfy certain plan design requirements

Health Reimbursement Arrangements

- Penalties for Noncompliance: \$100 excise tax; ERISA penalties

All Employers (No Group Health Plan Required)

Exchange Notice

- Employers must provide written notice about the Health Insurance Exchange (Marketplace) to each new employee at the time of hiring, within 14 days of the employee's start date
- Penalties for Noncompliance: There is no fine or penalty for failing to provide the notice. Employers must withhold an Additional Medicare Tax—at a rate of 0.9%—on wages or compensation paid to an employee in excess of \$200,000 in a calendar year

Additional Medicare Tax for High Earners

- Penalties for Noncompliance: Employers that do not deduct and withhold the Additional Medicare Tax as required are liable for the tax, unless the tax they failed to withhold is paid by the employee. Even if not liable for the tax, employers that do not meet their withholding, deposit, reporting, and payment responsibilities for the Additional Medicare Tax may be subject to the applicable penalties for willfully failing to deduct and withhold

ACA Section 1557 Nondiscrimination Requirements

- Covered entities administering any health program or activity that receives federal financial assistance from the U.S. Department of Health and Human Services (such as that accept Medicare or doctors who accept Medicaid) must comply with Section 1557 of the ACA, which prohibits discrimination on the basis of race, color, national origin, sex, age or disability
- Penalties for Noncompliance: The enforcement mechanisms available for employment discrimination under existing federal laws also apply for purposes of Section 1557. [Click here](#) for a list of remedies where discrimination is found under these laws (refer to Section XIII). Compensatory damages for violations of Section 1557 are also available in appropriate administrative and judicial actions

Penalties for all employers

Employer Information Reporting on Health Insurance Coverage

Note: Self-insured employers providing minimum essential health coverage (regardless of size) are subject to a separate set of information reporting requirements; however, the penalties for non compliance are the same

- Applicable large employers subject to the pay or play rules (generally those with 50 or more full-time employees, including full-time equivalents) are required to report certain information to the IRS and to their full-time employees regarding their compliance with the pay or play rules and the health care coverage that they have offered
- Penalties for Noncompliance: General reporting penalty provisions for [failure to file correct information returns](#) and [failure to provide correct employee statements](#) by the required deadlines may apply—ranging from \$60-\$310 per return, with a maximum penalty of over \$3 million per year (adjusted for inflation). Lower penalties may be applicable to employers with gross receipts of \$5,000,000 or less. In certain circumstances, penalties may be waived

Employer Shared Responsibility (Pay or Play) Rules

- [Applicable large employers](#) or ALEs (generally those with 50 or more full-time employees, including full-time equivalents) must offer affordable health insurance that provides a minimum level of coverage (“minimum value”) to their full-time employees (and dependents) or pay a penalty if any full-time employee is certified to have received premium tax credit for purchasing coverage through the Health Insurance Exchange (Marketplace)
- Penalties for Noncompliance: There are two circumstances under which ALEs may owe a penalty:
 - Employers Not Offering Coverage: An ALE that does not offer coverage, or offers coverage to fewer than 95% of its full-time employees (and their dependents), during the calendar year owes a penalty equal to the number of full-time employees employed for the year (minus up to 30) multiplied by \$2,000 (as adjusted), as long as at least one full-time employee receives a premium tax credit. For an ALE that offers coverage for some months but not others during the calendar year, the penalty’s calculated separately for each month for which coverage was not offered. The amount of the penalty for the month equals the number of full-time employees employed for the month (minus up to 30) multiplied by 1/12 of \$2,000 (as adjusted). The adjusted \$2,000 penalty amount is \$2,880 for 2023 and \$2,970 for 2024

- Employers Offering Coverage That is Not Affordable or Does Not Provide Minimum Value: For an ALE that offers coverage to at least 95% of its full-time employees (and their dependents), but has one or more full-time employees who receive a premium tax credit, the penalty is calculated separately for each month. The amount of the penalty for the month equals the number of full-time employees who receive a premium tax credit for that month multiplied by 1/12 of \$3,000 (as adjusted). The penalty is the lesser of the amount calculated or the amount that would be owed if the employer did not offer coverage. The adjusted \$3,000 penalty amount is \$4,320 for 2023 and \$4,460 for 2024

Penalties for employers with 250+ employees

Employers Sponsoring Group Health Plans

Form W-2 Reporting

- Employers who must file 250 or more Forms W-2 for the preceding calendar year and who sponsor a group health plan are required to report the cost of coverage provided to each employee on the Form W-2 (provided to employees in January), with certain exceptions
- Penalties for Noncompliance: General reporting penalty provisions for failure to file correct information returns and failure to provide correct employee statements by the required deadlines may apply—ranging from \$60-\$310 per return, with a maximum penalty of over \$3 million per year (adjusted for inflation)—with certain exceptions if the failure is due to reasonable cause and not willful neglect

+The excise tax applies on the day a failure first occurs and ends on the day the failure is corrected. The minimum tax is \$2,500 for violations not corrected before the date a notice of examination of income tax liability is sent to the employer, and which occur or continue during the period under examination. The minimum tax for violations determined to be more than “de minimis” is \$15,000.

No excise tax will be imposed if:

- The employer did not know, and exercising reasonable diligence would not have known, that a failure existed; or
- The failure was due to reasonable cause and not willful neglect, and the failure is corrected during the 30-day period starting from the date the employer knew, or exercising reasonable diligence would have known, that the failure existed
 - If the failure was not corrected within 30 days, the maximum tax imposed will be the lesser of \$500,000 or 10% of the amount paid or incurred by the employer during the preceding taxable year for its group health plans

Additionally, the tax may not apply to certain fully insured small employer plans (generally those with no more than 50 employees) for a failure to comply that is solely because of the health insurance coverage offered by the issuer.