

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 amends various preexisting 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](#)).

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

[Dependent Coverage to Age 26](#)

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: \$100 excise tax; ERISA penalties.

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.

[No Pre-Existing Condition Exclusions](#)

Plans cannot exclude individuals from coverage or limit or deny benefits on the basis of pre-existing medical conditions

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

[90-Day Limitation on Waiting Periods](#)

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

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

[Nondiscriminatio](#)

Employers sponsoring a health-contingent wellness program in connection

n for Wellness Programs

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

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 \$1,264 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 reissuance) 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 \$1,190 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 **reinstates 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)

Patient Protections

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)

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 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.

Fully insured plans offered in the small group market must cover a core package of items and services known as "essential health benefits"

Coverage of Essential Health Benefits

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

Note: If allowed by a particular state and insurer, a small business may be able to [renew its current group coverage](#) that does not comply with the requirements related to essential health benefits through policy years beginning on or before Oct. 1, 2022 (so long as the coverage comes into compliance by Jan. 1, 2023).

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.

Note: If allowed by a particular state and insurer, a small business may be able to [renew its current group coverage](#) that does not comply with the requirements related to cost-sharing limits through policy years beginning on or before Oct. 1, 2022 (so long as the coverage comes into compliance by Jan. 1, 2023).

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.

Employers With Tax-Favored Arrangements

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 SHOP Exchange.*

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.

A health FSA must qualify as excepted benefits to comply with the preventive services requirements

Health FSAs as Excepted Benefits

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

The amount of salary reduction contributions to health FSAs must be limited to **\$2,850** for 2022. 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.

Health FSA Contribution Limits

*Note: If a cafeteria plan timely complies with the written plan requirement limiting health FSA salary reduction contributions, but one or more employees are erroneously allowed to elect a salary reduction of more than the limit for a plan year, the plan **may still be considered a cafeteria plan for that plan year** if certain conditions are satisfied.*

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)

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

Exchange Notice

Penalties for Noncompliance: There is [no fine or penalty](#) for failing to provide the notice.

Employers must provide reasonable break time for an employee to express breast milk for her nursing child for one year after the child's birth, as well as a place to do so (other than a bathroom) that is shielded from view and free from intrusion from coworkers and the public

Break Time for Nursing Mothers

Penalties for Noncompliance: Any employee who is terminated or otherwise discriminated against may file a retaliation complaint with the DOL or may file a private cause of action seeking appropriate remedies including, but not limited to, employment, reinstatement, lost wages and liquidated damages. The DOL can also seek injunctive relief in federal district court, and may obtain reinstatement and lost wages for the employee.

*Note: Employers with fewer than 50 employees **are not subject to the break time requirement** if compliance would impose an [undue hardship](#).*

Additional

Employers must withhold an Additional Medicare Tax—at a rate of 0.9%—

Medicare Tax for High Earners on wages or compensation paid to an employee in excess of \$200,000 in a calendar year

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.

Health Programs That Receive Federal Financial Assistance from HHS

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 hospitals that accept Medicare or doctors who accept Medicaid) must comply with the [final rule implementing Section 1557 of the ACA](#), which prohibits discrimination on the basis of race, color,

ACA Section 1557 national origin, sex, age or disability

Nondiscrimination Requirements

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 EMPLOYERS WITH 50+ EMPLOYEES

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 noncompliance 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 \$50-\$280 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.

[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 a premium tax credit for purchasing coverage through the Health Insurance Exchange (Marketplace)

Employer Shared Responsibility (Pay or Play) Rules

Penalties for Noncompliance: There are two circumstances under which

ALEs may owe a penalty:

1. **Employers Not Offering Coverage:** For 2021, 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 \$2,700, 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 is 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 \$2,700.
2. **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) in 2021, 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 \$4,060. The penalty is the **lesser** of the amount calculated or the amount that would be owed if the employer did not offer coverage.

PENALTIES FOR EMPLOYERS WITH 250+ EMPLOYEES

Employers Sponsoring Group Health Plans

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

Form W-

2 Reporting

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 \$50-\$280 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.*