FREQUENTLY ASKED QUESTIONS ABOUT THE PATIENT CENTERED OUTCOMES/COMPARATIVE EFFECTIVENESS/PCORI FEE

06.26.2012

What plans does the PCORI fee apply to?

All plans that provide medical coverage to employees owe this fee. Medical coverage includes PPOs, HMOs, POS, HDHPs, and HRAs.

The fee does not apply to:

- Stand-alone dental and vision plans (stand-alone means these benefits are elected separately from medical and have discrete premiums, or the benefits are provided under separate policies from the medical coverage)
- Life insurance
- Short and long term disability and accident insurance
- Long term care
- Health FSAs to which only employee contributions are made, or to which limited employer contributions are made (the employer contribution cannot exceed the greater of $500 or a match of the employee's contribution)
- Health savings accounts
- Hospital indemnity or specified illness coverage
- EAP and wellness programs that do not provide significant medical care or treatment
- Stop-loss coverage

Does the fee apply to all medical plans?

Yes it does. There are no exceptions for small employers. There are no exceptions for government, church or not-for-profit plans. Grandfathered plans owe this fee. Union plans must pay the fee on their members.

When is the PCORI fee due?

The fee is due by July 31 of the year following the calendar year in which the plan/policy year ends.

The fee applies from 2012 to 2019, based on plan/policy years *ending* on or after Oct. 1, 2012 and before Oct. 1, 2019.

Plan/Policy Year	**Fee Is First Due ($1.00/person)**	**Year 2 Fee Is Due ($2.00/person)**	**Last Year Fee Is Due ($2.00, indexed/person)**
November 1, 2011 – October 31, 2012	July 31, 2013	July 31, 2014	July 31, 2019
December 1, 2011 – November 30, 2012	July 31, 2013	July 31, 2014	July 31, 2019
January 1, 2012 – December 31, 2012	July 31, 2013	July 31, 2014	July 31, 2019
February 1, 2012 – January 31, 2013	July 31, 2014	July 31, 2015	July 31, 2020
March 1, 2012 – February 28, 2013	July 31, 2014	July 31, 2015	July 31, 2020
April 1, 2012 – March 31, 2013	July 31, 2014	July 31, 2015	July 31, 2020
May 1, 2012 – April 30, 2013	July 31, 2014	July 31, 2015	July 31, 2020
June 1, 2012 – May 31, 2013	July 31, 2014	July 31, 2015	July 31, 2020
July 1, 2012 – June 30, 2013	July 31, 2014	July 31, 2015	July 31, 2020
August 1, 2012 – July 31, 2013	July 31, 2014	July 31, 2015	July 31, 2020
September 1, 2012 – August 31, 2013	July 31, 2014	July 31, 2015	July 31, 2020
October 1, 2012 – September 30, 2013	July 31, 2014	July 31, 2015	July 31, 2020

Note: No fee is due for plan/policy years before these dates. If a plan/policy year began between Oct. 2, 2012 and Oct. 31, 2012 the first fee is due by July 31, 2013.

How is the fee paid?

The fee will be calculated and paid by:

- The insurer for fully insured plans (although the fee likely will be passed on to the plan)
- The plan sponsor of self-funded plans, including HRAs
    - The plan's TPA may assist with the calculation, but the plan sponsor must file IRS Form 720 and pay the applicable fee
    - If multiple employers participate in the plan, each must file separately unless the plan document designates one as the plan sponsor

How much is the fee?

The fee is $1.00 per covered life in the first year the fee is in effect. The fee is $2.00 per covered life in the second year. In the third through seventh years, the fee is $2,00, adjusted for medical inflation, per covered life.

The fee is based on covered lives (i.e., employees, retirees and COBRA participants and covered spouses and children).

- Note that the plan only needs to count the employee/retiree/COBRA participant when counting for an HRA. Covered dependents are not counted for HRAs.

Employees and their dependents who are residing outside U.S. (based on the address on file with the employer) may be excluded.

What if the plan terminates?

The fee is due for each plan year the plan was in effect.

What if a plan is implemented after 2012?

The fee will be due for each year the plan is in effect. The rate for that plan year will apply (for example, if the first year is Jan. 1, 2013 – Dec. 31, 2013, the first fee will be $2.00 per covered life and will be due on July 31, 2014).

How is the fee calculated?

Plan sponsors of self-funded benefits have several options to calculate the fee:

- Actual Count Method - Count the covered lives on each day of the plan year, and average the result
- Snapshot Count Method - Determine the number of covered lives on the same day (plus or minus three days) of each quarter or month, and average the result
    - Example: Acme has a calendar year plan. Acme has chosen to measure on the first calendar day of each quarter. On Jan. 1, 2012 it had 127 covered lives on its plan. On April 1, 2012 it had 130 covered lives. On July 1, 2012 it had 132 covered lives. On Oct. 1, 2012 it had 128 covered lives. Acme will owe $129 on July 31, 2013 (127 + 130 +132 +128 = 517. Dividing by 4 gives an average of 129.25, which will be rounded down to 129 covered lives.)
- Snapshot Factor Method - Determine the number of covered employees/retirees/COBRA participants on the same day (plus or minus three days) of each quarter or month who have self-only coverage and the number who have other than self-only coverage. Multiply the number of employees/retirees/COBRA participants with other than self-only coverage by 2.35 to approximate the number of covered dependents (rather than actually counting them), and add that to the number of employees/retirees/COBRA participants with self-only coverage. Average the result.

- Example: Blackstone has a calendar year plan. Blackstone has chosen to measure on the first workday of each month. Its covered employees are:

  Jan. 2, 2012 - 50 (self-only) and 40 (other than self-only)
  Feb. 1, 2012 – 50 (self-only) and 40 (other than self-only)
  March 1, 2012 – 52 (self-only) and 42 (other than self-only)
  April 2, 2012 – 53 (self-only) and 41 (other than self-only)
  May 1, 2012 – 54 (self-only) and 40 (other than self-only)
  June 1, 2012 – 53 (self-only) and 42 (other than self-only)
  July 2, 2012 – 54 (self-only) and 42 (other than self-only)
  Aug. 1, 2012 – 49 (self-only) and 40 (other than self-only)
  Sept. 4, 2012 – 48 (self-only) and 41 (other than self-only)
  Oct. 1 – 2012 – 48 (self-only) and 40 (other than self-only)
  Nov. 1, 2012 – 50 (self-only) and 40 (other than self-only)
  Dec. 3, 2012 – 51 (self-only) and 43 (other than self-only)

  For the year, Blackstone has at total of 612 self-only employee lives and 491 other than self-only employee lives. Blackstone will multiply the 491 by an assumed 2.35 dependents per employee, for total of 1,153.85 employee/dependent covered lives. Add 612 and 1,153.85 for 1,765.85 total lives and divide by 12 for the average number of lives. Blackstone will owe $147 on July 31, 2013 (1,765.85 divided by 12 gives an average of 147.154, which will be rounded down to 147 covered lives).

- 5500 Method - Determine the number of participants at the beginning and end of the plan year as reported on the 5500
  - If dependents are covered, add the participant count for the start and the end of the plan year

    Example: Smith Bros. has a November 1 plan. Smith's plan covers dependents. Smith's 5500 for the plan year Nov. 1, 2011 – Oct. 31, 2012 showed 131 participants at the beginning of the year and 137 participants at the end of the year. Smith will owe $268 on July 31, 2013 (131 + 137 = 268).

  - If dependents are not covered, add the participant count for the start and the end of the plan year and average the result.

    Example: Taylor Trucking has a March 1 plan year. Taylor's plan does not cover dependents. Taylor's 5500 for the plan year March 1, 2012 – Feb. 28, 2013 showed 450 participants at the beginning of the year and 461 participants at the end of the year. Taylor will owe $456 on July 1, 2014 (450 + 461 = 911. Divide by 2, to get 455.5 and round up.)[1]

  - The 5500 must be filed by July 31 to use this option.

- *For the first year only*, employers that sponsored a self-funded plan with a plan year that began before July 11, 2012 may use any reasonable method to determine the average number of lives.

May an employer change its calculation method?

The same method must be used throughout a reporting year, but it may be changed from year to year.

What if the employer sponsors multiple plans?

If there are multiple self-funded plans (such as self-funded medical and HRA) with the same plan year, only one fee would apply to a covered life.

- For example, Z Corp. has a self-funded medical plan and a self-funded HRA that operate on a calendar year basis. The medical plan has 110 covered employees and 205 covered dependents. The same 110 employees are covered by the HRA. Z Corp. will owe $315 on July 31, 2013 [(110 + 205) x $1].

If there are both fully insured and self-funded plans, a fee would apply to each plan unless the employee is only covered under one type of plan – the insurer would pay the fee on the insured coverage and the plan sponsor would pay the fee on the HRA.

- For example, Jay County has a fully insured medical plan and an integrated self-funded HRA. Both operate on a May 1 plan year. 130 employees and 212 dependents are covered by the medical plan and HRA. The insurer will pay a fee of $342 on the employees and dependents covered under the fully insured medical policy on July 31, 2014. Jay County will pay a fee of $130 on July 31, 2014 (because Jay owes the fee on the employees, but not the dependents, covered under the HRA).

How is the fee paid?

The fee will be reported and paid on IRS Form 720 each July 31.

- Even though Form 720 is generally filed quarterly, the PCORI report and fee will just be filed once per year, at the end of the second quarter (unless the employer needs to file the form to report another tax).
- Even though government, church and not-for-profit plans don't generally file federal tax returns, they are required to file the Form 720.
- Only the relevant parts of the form need to be completed. The relevant parts are:
    - Identifying information at the beginning of the form
    - Part II, line 133 (self-funded plans complete the "Applicable self-insured plans" line; the "Specified health insurance policies" line will be completed by carriers for insured policies)
    - Part III, items 3 and 10
    - The signature section

  - The voucher form, if the form is mailed
- The form may be filed electronically or mailed to:

Department of the Treasury
Internal Revenue Service
Cincinnati, OH 45999-0009

- A sample form completed by a plan sponsor for a self-funded plan can be found here:

http://wn.ubabenefits.com/Download.aspx?ResourceID=10488

Is the fee tax-deductible?

Yes, the fee is tax-deductible.

An IRS FAQ may be found here: Patient-Centered Outcomes Research Trust Fund Fee (IRC 4375, 4376 and 4377): Questions and Answers

The Form 720 may be found here: http://www.irs.gov/pub/irs-pdf/f720.pdf

The Form 720 instructions may be found here (see pages 8 – 9): http://www.irs.gov/pub/irs-pdf/i720.pdf

The regulation may be found here: Fees for the Patient-Centered Outcomes Research Trust Fund

[1] It is unclear how rounding should be handled if the fraction is 0.5 or higher. Clearly fractions of less than 0.5 can be rounded down.