What is the PCORI Fee?

The Patient Protection Affordable Care Act (PPACA), or PPACA as it is better known, established a nonprofit Patient-Centered Outcomes Research Institute (PCORI) to support the research of effective clinical practices to assist patients, clinicians, purchasers, and policy makers in making better health care decisions. The funding of this organization’s research will be sustained by health insurers providing insured based medical programs as well as by employers sponsoring self-insured medical plans. This fee that health insurers and employer plan sponsors will be subject to is referred to as the PCORI fee.

The PCORI fees are scheduled to apply every year for the next seven years, affecting all plan years ending on or after October 1, 2012 and before October 1, 2019.

What Tax Advantaged Account Based Plans are Subject to the PCORI Fee?

The Patient Protection Affordable Care Act (PPACA) has introduced several new provisions affecting the administration of tax advantaged programs like Health Savings Accounts, Flexible Spending Accounts, and Health Reimbursement Arrangements. Since the PCORI fee is applicable to self-funded medical plans, this compliance notice focuses on potential fees that plan sponsors may be subject in offering a Health Reimbursement Arrangement or a Flexible Spending Account program deemed a non-excepted benefit.

Flexible Spending Accounts are not subject to the PCORI fee if the following two conditions are met:

- The maximum benefit payable to the participant does not exceed two times the employee’s salary reduction; or if greater the employee’s salary reduction plus $500.

- The employer makes available another non-excepted benefit such as a group sponsored health benefit (HMO, PPO, High Deductible Health Plan).

CareFlex Comment: CareFlex anticipates that most employer sponsored FSA programs will not be subject to the PCORI fee since employers typically maintain a group sponsored medical plan and don’t provide a company match or contribution into a Flexible Spending Health Care Account. Providing relief to employers with HSA Account participation, Health Savings Accounts are not subject to the PCORI fee.

How Much is the PCORI Fee?

The annual charge imposed by the Patient-Centered Outcomes Research Institute on insurers that offer health insurance policies and employers that sponsor self-insured medical plans is $1.00 per covered life for all plans that end after October 1, 2012 and before October 1, 2013.

The annual fee is scheduled to increase to $2.00 in the second year (all plans ending after October 2013) with projected future adjustments to be based on inflationary changes in the per capita of National Health
The Application of the PCORI Fee to Potential Health Benefit Offerings

How the PCORI fee applies to each employer plan sponsor depends on the type of health benefit offerings. The following highlight the most common arrangements and application of the fee to each plan.

Fully Insured Health Insurance Offering:
Employers offering only a fully insured health insurance plan are subject to the PCORI fee. The responsibility of paying this fee however falls to the health insurer. Health insurers will assess and pay the PCORI fee on the behalf of all employers maintaining a fully-insured medical plan.

Fully Insured Health Insurance Plan + Health Reimbursement Arrangement (HRA):
Employers that offer both a fully insured medical plan and a self-insured plan such as a Health Reimbursement Arrangement will be subject to two separate fees, one fee for the insured medical plan and one fee for the self-funded HRA plan. Essentially, plan sponsors will be required to pay the fee twice on the same lives. Employers will only be responsible for reporting and paying the fees associated with the HRA benefit as the health insurers will be responsible for paying the fully-insured PCORI fee.

Self-Insured (Self-Funded) Health Plan:
Employer plan sponsors offering a self-insured health plan will be responsible for an annual PCORI fee. Unlike with a fully-insured medical plan, the employer plan sponsor will need to assess the fee and make the payment to the IRS.

Self-Insured (Self-Funded) Health Plan + Health Reimbursement Arrangement (HRA):
Final regulations provide a special rule for employers that are offering multiple self-insured medical plans such as a self-insured medical plan and a Health Reimbursement Arrangement. Regulations state that employers offering multiple self-funded arrangements will only be required to report and pay one fee if the self-insured medical plan and the HRA operate on the same plan year. HRAs that are integrated with the self-insured medical plan automatically satisfy this requirement.

CareFlex Comment: CareFlex anticipates that the majority of employers affected by the introduction of the PCORI can relate to the fully-insured health plan offering with an integrated HRA program. The regulations allow for a special rule for employers satisfying this condition that will help minimize the financial impact of the PCORI fee, see “How is the Fee Calculated?” for more information.

How is the Fee Calculated?
The PCORI fee is assessed on the average number of covered lives during the plan year. This count should include employees, their spouses and their dependents. Former employees that continued coverage through COBRA should also be accounted for in preparing the average covered lives count. Employers sponsoring a self-insured medical option including a Health Reimbursement Arrangement are allowed one of three ways to determine their average life count:

Actual Count:
The Actual Count method would require that the employer add up the total number of lives each day of the plan year and divide that by the total number of days in the plan year. Although most accurate, this method does require substantial work to calculate total covered lives.

Snapshot:
The Snapshot method allows employers two options to determine the appropriate count. Utilizing one of the two
snapshot methods, employers would record the average number of covered lives by adding the total number of lives covered on one or more dates during each quarter of the plan year. To maintain uniform consistently, employers must use the same range of dates that were used in the first quarter (must be within three days of the date used).

The first snapshot method is referred to as the “Snapshot Count” method as it simply is an average of the total number of lives for each designated date during each quarter of the plan year.

The second snapshot option is referred to as the “Snapshot Factor” method. This method uses the same frequency and timing for documenting the participation count but utilizes a factor to account for dependent lives. The number of covered lives using this method is calculated by adding the total number of employees covered at the individual only coverage level by all the employees with non-individual coverage multiplied by 2.35.

**Form 5500:**
Employers that are required to file a Form 5500 may elect to determine the average number of covered lives by referencing participation counts reported on the 5500 filing. The applicable number of covered lives for a self-insured medical plan equals the sum of total participants covered at the beginning and end of the plan year. This method will have limited adoption as regulations require that the 5500 filing must be filed no later than the due date for the PCORI fee.

**Special Rule for Counting HRA Participants:**
If an employer plan sponsor offers a HRA or FSA as the only self-insured medical plan, then the Employer may treat each plan participant’s account as covering only one single life, therefore eliminating dependents from the PCORI reporting. This ruling provides employers with a significant savings as dependents covered by the HRA program will not be assessed a fee.

**CareFlex Comment:** The "Actual Count Method" will provide the most accurate count of covered lives; however, CareFlex recommends that Employers offering a fully insured medical plan plus an HRA benefit take advantage of the Special Rule associated with HRA plans and base the average number of covered lives on the Snapshot Count method. Using historical CareFlex monthly invoices, employers should be able to determine an average covered life count for reporting and paying the PCORI fees for a HRA.

**Who is Responsible for Paying the Fee?**
Employers that offer an insured medical plan will have the annual fee accessed and paid for by the health insurer. Although health insurance carriers will be responsible for making the payment of the annual fees, employers can assume that the cost will eventually be factored into the next health insurance renewal.

Employers that are maintaining a self-insured medical plan including a Health Reimbursement Arrangement (HRA) will be responsible for reporting and paying the annual PCORI fee.

Final regulations have confirmed that Third Party Administrators, or entities like CareFlex Benefit Solutions, will not be able to pay the fee on the behalf of the employer plan sponsor. Please note that the PCORI fee is assessed to the plan sponsor and not to the Plan itself. Employers should pay the annual fee outside of the plan, using employer general assets.

**When is the Annual Fee Due?**
Employers subject to an annual PCORI fee for sponsoring a HRA benefit are required to report and submit payment to the IRS no later than July 31st of the calendar year immediately following the most recently closed plan.
In the first year, only employers that have HRA plans that end on November 30, 2012 or December 31, 2012 are required to pay the fee in 2013. Employers with plan years that end after December 31, 2012 will have to report in 2014.

**CareFlex Comment:** During the first year of the PCORI fee, only a small sample of CareFlex clients will be affected and be required to report and pay. For further clarification, please contact CareFlex.

**How is the Fee Paid?**

Employers will only be required to pay the PCORI fee once every year. The IRS will use Form 720, the Quarterly Federal Excise Tax Return Form, to document and collect the payments associated with the PCORI fee. Form 720 is available online [www.irs.gov](http://www.irs.gov) and may be filed electronically.

**Final Regulations on PCORI Fees**

- IRS Form 720 Quarterly Federal Excise Tax Return
- IRS Instructions for Form 720

At this time the IRS has not updated the referenced form used to report and pay the PCORI fee for plans that ended after October 1, 2012. CareFlex will continue to monitor the IRS for its eventual release and will provide future compliance updates once available. If you have questions or concerns regarding the information provided, please contact CareFlex Benefit Solutions at (888) 577-2762 or support@careflex.com.

Best Regards,

Kyle Morrow
Vice President

**CareFlex**

(888) 577-2762 General
(410) 414-8406 Direct
Email: kmorrow@careflex.com