HIGHMARK®

An Independent Licensee of the Blue Cross and Blue Shield Association

CLOSE-UP:
Reporting health coverage costs on W-2s

May 16, 2011

The Affordable Care Act requires employers to report the aggregate cost of applicable employer-sponsored coverage, regardless of grandfathered status, on each employee's W-2 for taxable years after December 31, 2010. The Internal Revenue Service has provided transition relief from this reporting requirement, explaining that although employers may choose to implement for Forms W-2 issued for 2011 (generally furnished in January 2012), the reporting requirement is not mandatory for such forms. The reporting obligation is mandatory for W-2s issued for the year 2012 (generally furnished to employees in January 2013).

Why is the reporting required?

The purpose of this reporting requirement is to give employees information about the actual value of their employer-provided health care benefits. This reporting will have no impact on the taxable income of an employee. Employee premiums will still be made on a pre-tax basis.

Are all employers required to report these costs?

Generally, all employers who provide applicable employer-sponsored coverage during a calendar year are subject to the reporting requirement, including federal, state and local government entities, and churches and other religious organizations. The cost of coverage provided by the federal government, any state or political subdivision, under a plan maintained primarily for members of the military or for members of the military and their families, are not included in the aggregate reportable cost.

Does this apply to retiree coverage?

Employers are not required to issue W-2s reporting the aggregate cost of applicable employer sponsored coverage to retirees who receive health care coverage, but who no longer receive wages or salaries, because the employer would not otherwise issue a W-2).

What does the aggregate cost include?

Generally, the aggregate cost of applicable employer-sponsored coverage that must be reported includes both the portion of the cost paid by the employer and the portion of the cost paid by the employee, regardless of whether the employee paid through pre-tax or after-tax contributions. Types of coverage that must be reported include:

- Medical plans
- Prescription drug plans
- Executive physicals
- On-site clinics that provide more than minimal care
- Medicare supplemental policies
- Employee assistance programs
- Dental and vision plans integrated with medical coverage

The aggregate reportable cost does not include the following:

- Contributions to Health Savings Account and Archer Medical Savings Account.
- Employee salary reductions (for all qualified benefits) that equal or exceed the amount of the health Flexible Spending Accounts (FSAs) under a cafeteria plan for the plan year. Please note that contributions to health FSAs are subject to specific rules as explained in Notice 2011-28 issued by the Internal Revenue Service (IRS) on March 29, 2011.
- The cost of coverage under a Health Reimbursement Account.
- The cost of coverage under a non-integrated dental or vision plan.
- The cost of coverage provided by a multi-employer plan.
- Health Insurance Portability and Accountability Act excepted benefits.
- Accident and disability insurance.
- Long-term care coverage.

Are transition relief measures available?

The IRS has provided limited transition relief to facilitate compliance with the reporting requirement. Future guidance may limit the availability of some or all of this transition relief. However, such guidance will be prospective only and will not be applicable earlier than January 1 of the calendar year beginning at least six months after issuance. This transition relief includes:

- Employers who were required to file fewer than 250 W-2s for the preceding calendar year are not required to report the cost of health coverage prior to January 2014.
- Employers who provide coverage for a period after an employee terminates employment may use any reasonable method of reporting cost of coverage, provided that the chosen method is applied consistently for all such employees.
- Employers who contribute to a multi-employer plan are not required to include the cost of coverage provided to an employee under that multi-employer plan in determining the aggregate reportable cost.
- Employers are not required to include the cost of coverage under an HRA in determining the aggregate reportable cost.
- Employers are not required to include the cost of coverage under stand-alone dental and vision plans.
- Employers are not required to include the cost of coverage under self-insured plans not subject to COBRA continuation coverage or similar requirements.

How is the W-2 amount calculated?

The reportable cost for an employee is the sum of the reportable costs for each period (such as a month) during the year as determined under the method used by the employer. An employer is not required to use the same method for every plan, but must use the same method in a plan for every employee receiving coverage under that plan. The calculation is always made based on a calendar year.

The calculation method must be one of the following:

- **The COBRA applicable premium method** – Under this method, the reportable cost for the period equals the COBRA applicable premium for that coverage for that period.
- **The premium charged method** – Under this method, the reportable cost equals the premium charged by the insurer for that individual employee's coverage - single-only or family, as applicable. This method is permitted only for insured group health plans.
- **The modified COBRA premium method** – Permitted where the employer subsidizes the cost of coverage or the actual premium charged by the employer to COBRA qualified beneficiaries for each period in the current year equals the COBRA applicable premium for each period in a prior year.

What is a composite rate? What happens to employers who charge them?

An employer is considered to charge employees a composite rate if there is a single coverage class (an employee is charged no greater amount for electing to cover dependents), or if employees are charged the same premium under a plan that offers different types of coverage, such as self and family or self-plus-one and family. In such a case, the employer may calculate and use the same reportable cost for a period for the single class of coverage under the plan, or all the different types of coverage under the plan for which the same premium is charged to employees, provided this method is applied to all types of coverage under the plan.

There are also specific rules for other circumstances, including:

- Changes in the reportable cost during a year
- Calculating reportable cost where an employee begins, changes or terminates coverage during a year
- Whether a prior or subsequent employer must report the aggregate reportable cost of coverage when an individual transfers to a new employer that qualifies as a successor employer.

Please note that information contained in this Close-Up is based on our understanding of the Patient Protection and Affordable Care Act of 2010, as amended, and guidance as of the date of this publication.