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HEALTH CARE
REFORM

A Quick Reference Guide to PPACA's Fees and Taxes

Employers will either need to calculate and pay fees or anticipate premium rate increases as a result of an insurer's payment of the fee or tax.

The Patient Protection and Affordable Care Act (PPACA) requires either health insurance companies or plan sponsors (typically the employer) to pay three fees and taxes, including the Patient-centered Outcomes Research Institute (PCOR) fee, the reinsurance fee and the health insurance tax (HIT) as summarized below:

Description	PCOR	Reinsurance	HIT
What and When	7-year annual fee on plans (2013-2019)	3-year annual fee on plans (2014-2016)	Permanent annual tax on health insurers
Purpose	Fund outcomes-based research for clinical effectiveness	Fund reinsurance program for state health insurance exchanges	Help fund exchanges and PPACA implementation
Applicable Plans	Fully and self-insured	Fully and self-insured	Fully insured only
Who Pays	Fully insured plan: Insurer Self-insured plan: Employer	Fully insured plan: Insurer Self-insured plan: Employer	Insurer
How Much	Year 1: $1 per covered life Year 2: $2 per covered life Year 3: $2.08 per covered life	2014: $63 per covered life 2015: $44 per covered life 2016: Exact amount unknown	$8 billion apportioned among insurers (increases each year)
How Paid	Self-report on IRS Form 720	Report filed Nov. 14 Payment due Jan. 15	Report on IRS Form 8963 Paid after IRS assessment
Types of Plans Subject to Fees and Taxes	Major medical COBRA and state continuation Retiree-only HRA Non-excepted FSA Prescription drug	Major medical COBRA and state continuation Retiree-only Non-excepted FSA Non-integrated HRA	Major medical Stand-alone dental Stand-alone vision Retiree-only Prescription drug
Notable Plan Type Exclusions	Stand-alone dental Stand-alone vision Excepted health FSA HSA Stop-loss/indemnity reinsurance	Stand-alone dental Stand-alone vision Excepted health FSA Integrated HRA HSA Prescription Drug Stop-loss/indemnity reinsurance Self-insured/ self-administered*	Voluntary Fixed-indemnity Supplemental Specified disease HRA Health FSA HSA Stop-loss
Tax Treatment	Tax deductible	Tax deductible	Not tax deductible
ERISA Treatment	Plan sponsor may not use plan assets to pay.	Plan sponsor may use plan assets to pay.	N/A

*For 2015 and 2016 only, self-insured group health plans that do not use a third-party administrator for certain core administrative functions (including claims processing, adjudication or plan enrollment) are exempt from the reinsurance fee. Ask your advisor for more details.

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Based on their benefits package offerings, employers will need to determine whether the PCOR or reinsurance fee will apply directly to them, thus necessitating filing and payment requirements. If, instead, the insurer is responsible for those fees, and for the HIT, employers must anticipate the related cost to insurers to be passed through to the employer via premium rate increases.

Guidance for Employers in Calculating the PCOR and Reinsurance Fees

Both the PCOR and the reinsurance fee apply to the total number of covered lives, which includes not only employees, but also any spouses and dependents covered under the plan. To calculate the number of covered lives, employers may use any of the following four methods:

Actual Count Method

For the PCOR fee, under the actual count method, the employer calculates the sum of the lives covered for each day of the plan year and divides that sum by the number of days in the plan year. For the reinsurance fee, under the actual count method, the employer calculates the sum of the total number of lives covered for each day of the first nine months of the benefit year and divides that sum by the number of days in those nine months.

Snapshot Method

Under the snapshot method, the employer adds the total of lives covered on one date (or an equal number of dates) in each quarter, and then divides the total by the number of dates for which a count was made.

Snapshot Factor Method

Same as the snapshot method, except that the employer counts the number of participants with self-only coverage on the designated date, plus the number of participants with coverage other than self-only coverage on the designated date multiplied by 2.35.

Form 5500 Method

Under the Form 5500 method, the employer may use the number of participants reported on Form 5500. If the employer offers only single coverage, then the employer should add the participant count on the first and last day of the plan year and divide by two. If the employer offers family coverage (any coverage other than single-only), then the employer should add the participant count on the first and last day of the plan year (but would not divide that sum by two).

Special Counting Rules: Multiple Self-insured Arrangements and HRAs/Health FSAs

Finally, there are some special rules for multiple self-insured arrangements and for HRAs and health FSAs. For a single employer that sponsors multiple self-insured arrangements (such as a self-insured medical plan combined with a self-insured prescription plan or HRA), if the plans have the same plan year, then the employer can treat the multiple arrangements as one plan (and therefore pay only one fee, calculating covered lives based on one of the three above methods).

For HRAs and health FSAs, the employer can simply count one covered life per HRA or health FSA account (rather than looking at total covered lives).

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