FLEX

PCORI Fee Update

May 2, 2013

The Affordable Care Act (ACA) created the Patient-Centered Outcomes Research Institute (PCORI) to advance comparative effectiveness research and help patients, clinicians, purchasers and policy-makers make informed health decisions. The research will be funded, in part, by fees paid by health insurance carriers and sponsors of self-insured health plans.

Recent guidance helped clarify some of the confusion about Patient-Centered Outcomes Research Institute (PCORI) fees **applicable to self-insured plans, including Health Reimbursement Arrangements (HRAs) and Flexible Spending Accounts (FSAs)**.

Health insurance carriers and sponsors (employers) of self-insured plans are required to pay PCORI fees for **plan years ending after September 30, 2012**.

The fee will be $1 per covered life during the first year and will increase to $2 per covered life plan years ending on or after October 1, 2013. **The initial fee will be payable by July 31, 2013 for the previous ending plan year on the Quarterly Federal Excise Tax Return, also known as Form 720.** The fees will be discontinued for plan years ending after September 30, 2019.

<u>The following are the most recent updates:</u>

HRAs integrated with fully insured major medical coverage: The PCORI fees for the fully insured major medical coverage will be paid by the insurance carrier; however, the plan sponsor (employer) will need to pay the fees for the HRA. The employer can treat each participant in the HRA as covering a single life for purposes of the PCORI fee. Therefore no fee is required on the HRA for the participant's spouse or dependent children.

FSAs:

FSAs that meet the definition of an excepted benefit are exempt from PCORI fees; however, if the FSA doesn't meet the definition of an excepted benefit the fee is payable by the plan sponsor (employer). In this scenario the employer can also treat each participant in the FSA as covering a single life for purposes of the PCORI fee.

FSAs will be considered excepted benefits and exempt from PCORI fees if two requirements are satisfied.

1. Other major medical coverage is made available by reason of employment.
2. The maximum benefit payable to <u>any</u> participant for the year cannot exceed two times the salary reduction for the year (or, if greater, the amount of the employee's salary reduction plus $500). ***In other words, it must satisfy one of these three requirements:***

- The employer does not make any contributions to the FSA.
- The employer makes no more than a dollar-for-dollar match to the FSA.
- The employee contributes no more than $500 to the FSA.

The following remains unchanged:

HRAs integrated with self-funded major medical coverage: The PCORI fee will be paid by the plan sponsor (employer) on the total number of covered lives. This number includes coverage provided to spouses and dependent children. There have been three suggested methods to calculate the total number of covered lives:

- **Actual Lives Approach** - Add up the total number of covered lives each day during the plan year and divide that number by 365.
- **Snapshot Approach** - Select one day during each quarter of the plan year and calculate the total number of covered lives. Take the sum of the quarters and divide that number by 4.
- **Approximate Approach** - Take the total number of employees with self-only coverage and add to that the number of employees with at least 1 dependent multiplied by 2.35.

The plan sponsor is not "double charged" for the HRA and major medical coverage in this scenario. Only one fee will be applicable.