ALEXANDER BENEFITS CONSULTING

A Quick Reference Guide to PPACA's Fees and Taxes

The Patient Protection and Affordable Care Act (PPACA) introduces three new fees and taxes for health insurance companies and plan sponsors (typically the employer). Those three new fees and taxes include the Patient-centered Outcomes Research Institute (PCOR) fee, the reinsurance fee and the health insurance tax (HIT). The chart below summarizes these three fees and taxes:

Description	PCOR	Reinsurance	HIT
What and When	8-year annual fee on plans (2013-2018)	3-year annual fee on plans (2014-2016)	Permanent annual fee 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 Years 2-8: $2 per covered life	2014: $63 per covered life 2015-2016: 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 FSA HSA Stop-loss	Stand-alone dental Stand-alone vision Excepted FSA Integrated HRA HSA Prescription Drug Stop-loss	Voluntary Fixed-indemnity Supplemental Specified disease HRA 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

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Based on their benefit 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. Indeed, industry experts predict a 4–7 percent increase in premium rates in connection with these new PPACA fees and taxes.

Guidance for Employers in Calculating the PCOR and Reinsurance Fees

Employers subject to the PCOR or reinsurance fees may use any one of three methods for calculating the number of covered lives: the actual count method, the snapshot method and the Form 5500 method. There are also some special considerations for employers that sponsor multiple self-insured plans and for health reimbursement arrangements (HRAs) and flexible spending arrangements (FSAs).

Importantly, 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. The employer should choose the method that results in the lowest total count.

Actual Count Method	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.
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.
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/FSAs

Finally, there are some special rules for multiple self-insured arrangements and for HRAs and 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 FSAs, the employer can simply count one covered life per HRA or FSA account (rather than looking at total covered lives).

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