June 2016

Patient Centered Outcomes Research Institute Fee

The temporary annual Patient Centered Outcomes Research Institute (PCORI) fee is due July 31, 2016 for plan years ending in 2015. Fully insured plans will rely on their carrier to submit this fee. Plan sponsors (generally the employer) of self-insured health plans, including non HIPAA-excepted health flexible spending accounts (FSA) and health reimbursement arrangements (HRA), must submit this fee on their own.

The total amount due is based on the average number of lives covered under the plan multiplied by a specified fee. Lives generally include employees, spouses, dependent children, domestic partners, qualified beneficiaries on COBRA or other continuation coverage and retirees who reside in the United States. The fee amount is based on the date the plan year ends. Plans that end between January 1, 2015 and September 30, 2015 pay $2.08 per average covered life per year. Plans that end between October 1, 2015 and December 31, 2015 pay $2.17 per average covered life per year.

The fees are treated and enforced like taxes but are generally deductible. The fee should be paid from the employer’s general assets and cannot be paid with plan assets (generally employee or participant contributions).

Several counting methods are permissible for plan sponsors to determine the average number of covered lives. Self-insured plans, that are responsible for calculating and paying their own fee, may choose from one of several methods offered by the IRS to calculate the average number of covered lives in a year. The allowed methods are: actual count, snapshot count, snapshot factor, and Form 5500. The same method must be used for the entire plan year. A different method may be chosen each plan year.

Fully insured plans paired with a non HIPAA-excepted health FSA or HRA will be subject to a double reporting/payment of the fee. In this situation, only the average number of employees is counted; the number of dependents is disregarded. The plan sponsor only pays the fee for the non HIPAA-excepted health FSA or HRA, while the insurance carrier pays the fee for the insured group health plan.

Self-insured medical plans paired with a non HIPAA-excepted health FSA or HRA established and maintained by the same plan sponsor with the same plan year are subject to a single fee per average covered life.

The fee is reported on IRS form 720 (Quarterly Federal Excise Tax Return) and related instructions are provided. Form 720 may be filed electronically. Although the Form 720 is a quarterly form, the PCORI fee is filed and paid annually by July 31. If the Form 720 is filed solely for the purpose of reporting and paying the PCORI fee, no filing is required in other quarters unless other non-PCORI fees or taxes are to be reported.

The instructions suggest taxpayers maintain all supporting documentation for at least four (4) years from the date the tax is paid.

For additional information on this fee, the IRS maintains a PCORI webpage.

The Patient Protection and Affordable Care Act is a complex law. Any statements made are based solely on our experience as consultants and should not be viewed as legal or tax advice. Marsh & McLennan Agency LLC shall have no obligation to update this publication and shall have no liability to you or any other party arising out of this publication or any matter contained herein.