



A Week in Review

Health Care Reform – W-2 Reporting Requirements

The Patient Protection and Affordable Care Act (PPACA) requires companies offering a group sponsored medical plan to report the aggregate cost of the health (medical) coverage on their employee's W-2s. The initial effective date for this requirement was the 2011 tax year; but that was delayed until the 2012 tax year (W-2s issued in January, 2013). Most employers that provide a group sponsored medical plan and file 250 or more W-2s will need to comply with the reporting requirement. **The IRS delayed the reporting requirement for small employers (those who file fewer than 250 Forms W-2s) by making it optional for these employers until further guidance is issued.** Penalties for non-compliance are significant; \$200 per W-2, capped at \$3 million per employer.

What Needs to be Included in Reporting

The reportable cost is truly that of the medical coverage for any employee who has received compensation from the employer during the year, and who has the group sponsored coverage. Since retirees do not receive compensation, they will not need to be included. The reportable cost does not include any of the following:

- employer contributions to a Health Reimbursement Account (HRA), Health Savings Account (HSA), or Archer Medical Savings Account (MSA)
- dental and vision coverage offered through a separate policy,
- long term care
- critical illness coverage, fixed indemnity or any post-tax benefits offered to the employees

How to Calculate the Reportable Cost

The cost of group sponsored medical coverage is generally considered the aggregate COBRA cost. This includes both employer and employee contributions. There are two acceptable methods for calculating COBRA cost:

- The premium method simply is the COBRA applicable premium. For fully insured plans this is your monthly premium. For self-funded plans using a composite rate, that is acceptable as well. In most cases this is the method that will be used to determine the reportable cost. You would take the monthly COBRA applicable premium and multiply that by the number of months in the year that the employee had the coverage to get the W-2 reportable cost.
- The modified COBRA premium method is used when an employer subsidizes the cost of COBRA. In this case a good faith estimate of the unsubsidized COBRA premium would be used. You would then multiply that by the number of months in the year that the employee had the coverage to get the W-2 reportable cost.

More information on the W-2 reporting requirement including what companies and coverages are excepted from the rules can be found on the IRS website, www.irs.gov/pub/irs-drop/n-11-28.pdf