



## A Week in Review

# Health Care Reform – W-2 Reporting Capabilities

The Patient Protection and Affordable Care Act (PPACA) requires companies to report the cost of their group medical coverage on their employee's W-2. The penalties for non-compliance are significant; \$200 per W-2, capped at \$3 million per employer. The initial effective date for this requirement was the 2011 tax year; however, the effective date was delayed until the 2012 tax year (W-2s issued in January, 2013). The IRS issued guidance in the form of Notice 2011-28, which provides details on the W-2 reporting requirement.

This bulletin will discuss three key points relating to this requirement:

1. What coverage needs to be included in the reporting
2. Who is required to comply with this reporting
3. How to calculate the cost of coverage

Please note: the reporting requirement is for informational purposes only. It does not cause the coverage to become a taxable benefit. (You will want to enter code DD in box 12 of the W-2; this indicates the amount is non-taxable.)

### What Needs to be Included in Reporting

Companies offering a group sponsored medical plan need to include the *aggregate cost of the health (medical) coverage* on the W-2 of 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 in the reporting.

The reportable "cost" is truly that of the medical coverage and does not include:

- 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

### Who is Required to Comply

Most employers that provide a group sponsored medical plan during the calendar year will need to comply with the W-2 reporting requirement. There are only a couple noted employer types that are not required to comply:

- Indian tribal governments (must be Federally-recognized)
- State, Federal, or any plan providing health coverage specifically for members of the military and their families
- Self-insured group health plans that are not subject to any federal continuation coverage requirements (COBRA, Federal Employee Health Benefits program, or the Public Health Service Act)
- Small companies who file less than 250 W-2s



## How to Calculate the W-2 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 methods that can be used to calculate the 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.

As you can see, calculating the reportable cost will be fairly straight forward for *most* employees. There are a couple of situations however, that will require more work in calculating the reportable cost:

- Group sponsored medical plans that have mid-year renewals will need to pro-rate any cost increases since the W-2 reporting requirement is for the calendar year.
- Employees that experience a mid-year change of status (birth of a child which changes the coverage level from single to family, for example) must take these changes into account when calculating the reportable cost.

There is also a very rare instance that would require employer contributions to a Medical Flexible Spending Account (FSA) to be included in the reportable W-2 cost. This would only come into play if **all** of the following occur:

- The employer offers a full-credit Section 125 plan (a plan that offers credits which employees use to purchase medical, dental, vision, or other qualified benefits).
- The employer allows remaining credits to be contributed to a medical FSA.
- The annual pre-tax employee contributions for all benefits is less than the amount credited to the medical FSA for the plan year.

In this case, the W-2 reportable cost is calculated by subtracting the employee's contributions for all qualified benefits from the employee's medical FSA contributions.

More information on the W-2 reporting requirement can be found on the IRS website, [www.irs.gov/pub/irs-drop/n-11-28.pdf](http://www.irs.gov/pub/irs-drop/n-11-28.pdf)