

Informational W-2 Reporting of Health Insurance Costs

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With the passage of the Patient Protection and Affordable Care Act (PPACA), certain employers will be required to report the aggregate cost of health insurance coverage on employees' W-2 forms in January 2013. The drafters of the PPACA and related legislation indicated that the requirement to report health care costs to employees was meant to help employers.

Apparently, Congress was not aware of the various ways that employers already communicated the cost and value of all of their employee benefit programs through open enrollment communications, benefit statements, and employee meetings. This "simple" requirement has created many questions and challenges for both employers and employees. As the reporting deadline approaches, it is a good time to review the basics.

The IRS issued Notice 2011-28 last year to clarify their initial guidance and provide some relief for smaller employers, and additional questions and answers to assist with employer compliance. Employers that issue 250 or more W-2 forms (not 250 employees) annually must report the total cost of health insurance on employees' W-2 forms for calendar year 2012. Those employers that issue fewer than 250 W-2 forms are exempt from this requirement until further guidance is issued by the IRS (IRS will provide a six month advance notice for future guidance). Employers that are not subject to the requirement can voluntarily comply.

Beginning with W-2 forms issued in January 2013, covering calendar (and tax) year 2012, employers must report the aggregate cost of employer-sponsored health insurance in box #12 with a Code of "DD." In general, the reportable cost for a fully insured employer-sponsored plan would be the applicable premium rate multiplied by the number of months (or partial month) that an employee was covered during 2012. For a self-insured employer, the employer can use the applicable COBRA rates for the calculation. Although the

requirement seems straightforward, it has created a number of questions for employers:

WHAT PLANS TO REPORT?

Employers are required to report the aggregate (employer and employee share) cost of the following:

- Medical
- Health FSA value for the plan year in excess of employee's cafeteria plan salary reductions for all qualified benefits
- Domestic partner coverage included in gross income
- Hospital indemnity or specified illness (insured or self-funded), paid through salary reduction (pre-tax) or by employer

The following benefits are required to be reported if the employer charges a COBRA premium:

- Employee Assistance Plan (EAP) providing applicable employer-sponsored health care coverage
- On-site medical clinics providing applicable employer-sponsored health care coverage
- Wellness programs providing applicable employer-sponsored health care coverage

The reporting of these benefits is optional:

- Dental or vision plan not integrated into another medical or health plan
- Dental or vision plan which gives the choice of declining or electing and paying an additional premium
- Health Reimbursement Arrangement (HRA) contributions
- Multi-employer plans
- Self-funded plans not subject to Federal COBRA
- EAP, on-site medical clinics, and wellness programs that provide employer-sponsored health care coverage and no COBRA premium is charged.

DOES EVERYONE RECEIVE A W-2?

Employers are not required to issue a W-2 to an individual who would not otherwise receive one, just to report the value of a required benefit. An example is a retiree or separated employee with no W-2 wages in 2012, but is covered by a reportable employer-sponsored plan. Additionally, an employer is not required to include the cost of coverage on any W-2 form issued prior to January 2013; for example, if a terminated employee requests a W-2 form for 2012 prior to January 2013.

WHAT IS THE REPORTABLE COST?

Employers must include both the employer and employee portion of a reportable plan on an employee's W-2, regardless if the employee pays with pre-tax or after-tax dollars. If premiums change mid-calendar year, as is the case with non calendar year plans, then the reportable cost must include the actual premium costs for the coverage during the calendar year.

If an employee changes coverage tiers (e.g., single to family) or between plans offered during the calendar year, either through open enrollment or a qualifying event, then the cost of coverage for the calendar year should be adjusted to reflect the actual costs for the employee during the calendar year. An employer can use a reasonable cost method to determine the cost

for the month in which the change occurs—beginning of month, mid-point, end of month, or average cost—as long as it is applied consistently for all similarly situated employees.

WHAT ABOUT MULTIEMPLOYER PLANS?

An employer that contributes to a multiemployer plan is not required to report the contribution(s) to the multiemployer plan on an employee's W-2 form. Other reportable coverage provided to the employee outside of the multiemployer plan would still be required to be reported.

Employers have largely been relying on payroll providers for compliance assistance. Most large payroll providers have made changes to their systems to internally track the employer share of the cost of coverage based on the employee pre-tax deduction, so that when W-2s are generated the total aggregate reportable cost will be readily available. Employers who utilize smaller payroll firms, or handle payroll internally, have either used a simple spreadsheet to track reportable costs by employee or worse, are waiting until year-end to calculate the totals to manually include on the W-2 form.

Employers will need to remind employees of this PPACA requirement prior to the issuance of W-2 forms in January of 2013. For some employees, the amount included

on the W-2 form could be substantial if the employee was enrolled in family coverage for 12 months. Employees need to be educated that this amount:

- Is required to be included under PPACA;
- Includes both the employer and employee share of premiums; and
- Is not taxable, and will not affect their taxes due or refund amount.

The IRS notices and press releases have made it clear that this is an informational reporting requirement only and they are not contemplating making employer provided health insurance taxable. However, as employers begin to report aggregate health insurance costs to comply with this law, the IRS will now have a very robust database on the total amount of employer-sponsored health insurance coverage provided to employees, and Congress could use this data to calculate the amount of lost tax revenue and propose future changes to the taxability of employer sponsored health insurance coverage. ☺

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