



Accountants and Consultants

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### MEMORANDUM

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**TO:** CLIENTS, FRIENDS & COLLEAGUES  
**FROM:** ROBERT J KLAUSNER, CPA  
**SUBJECT:** PATIENT-CENTERED OUTCOMES RESEARCH INSTITUTE FEE (PCORI)  
**DATE:** JUNE, 2014  
**CC:**

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The following is a brief summary of the new PCORI fees and filing requirements that are required for Sponsors of self-funded plans and Issuers of fully insured plans.

The Patient Centered Outcomes Research Institute (PCORI) is an organization established by the Patient Protection and Affordable Care Act (PPACA) aimed at giving patients a better understanding of the prevention, treatment, and care options available, and the science that supports those options. PCORI will be funded by fees paid by health insurance issuers and employers who sponsor self-insured group health plans. Most plans must begin paying this fee by July 31, 2013. The following alert discusses which self-insured plans must pay a fee, how to calculate the fee, and how to pay the fee.

Here is the important part. The fee is treated like a tax, and is required to be paid annually on Form 720, "Quarterly Federal Excise Tax Return," by July 31 of the calendar year immediately following the last day of the applicable plan or policy year. For example, for plan or policy years ending on December 31, 2012, the fee and filing are due no later than July 31, 2013. If the plan is insured, the insurance company will pay the fee. However, if the plan is self-funded, the employer is responsible.

### **Which Benefit Plans are subject to PCORI fees?**

Generally, any plan established or maintained by one or more employers for their employees that provides accident or health coverage, any portion of which is provided other than through an insurance policy, is a self-insured plan subject to PCORI fees. This includes the following employer-sponsored self-insured health plans:

- Health Insurance Policies i.e. Accident/Health Plans
- Self-Insured Plans
- Government Plans (other than excepted plans)
- COBRA Plans
- Dental plans, vision plans, and health FSAs that are not excepted benefits under HIPAA;
- HRAs that are not excepted benefits under HIPAA;
- Retiree-only plans; and
- employee assistance programs (EAPs) and wellness programs that provide "significant" medical benefits.

## What is an excepted FSA/HRA?

An excepted Health Reimbursement Arrangements (HRA) is one that only covers dental and/or vision expenses. All others are subject to the fee.

A Flexible Spending Account (FSA) is excepted from the fee if both of the following two conditions are met:

1. The employer's contribution to the plan does not exceed the employee's contribution and
2. The employer offers health insurance.

If an FSA and an HRA are offered with a fully funded insurance plan, you only have to count the employees toward the fee, not the covered dependents, when counting lives covered under the FSA and HRA. Furthermore, if an employer has an FSA and an HRA that are non-excepted and have the same plan year, then plan sponsors only have to count an employee once, even if that employee is covered by both. If you include both an FSA and HRA when creating your report for a single plan year, a participant with both benefits will be counted once. Participants with either benefit will be counted once.

Issuers of fully insured plans and plan sponsors of self-funded plans will be assessed:

| <b>Fee:</b>                             | <b>Plan years ending between:</b> | <b>Filing Date:</b> |
|---|-----------------------------------|---------------------|
| \$1 per average number of covered lives | Oct. 1, 2012 and Dec. 31, 2012    | July 31, 2013       |
| \$1 per average number of covered lives | Jan. 1, 2013 and Sept. 30, 2013   | July 31, 2014       |
| \$2 per average number of covered lives | Oct. 1, 2013 and Dec. 31, 2013    | July 31, 2014       |
| \$2 per average number of covered lives | Jan. 1, 2014 and Sept. 30, 2014   | July 31, 2015       |

The fee is based on increases in the projected per capita amount of the National Health Expenditures. Oct. 1, 2014 and Sept. 30, 2019. The filing date is July 31 of the calendar year immediately following the last day of the plan year. **The fee is tax deductible.**

## How Do You Determine the Fee?

There are several methods to determine the average number of covered lives. The methods vary depending on whether the coverage is fully insured or self-funded. For self-funded plans, these include:

- 1) **Actual Count Method**
- 2) **Snapshot Method**
- 3) **Form 5500 Method**

## What Types of Coverage Are Subject to the Fee?

The fee applies to medical and prescription drug plans, whether group or individual, fully insured or self-funded and regardless of whether employees are active or retired, including "retiree-only" plans. The fee also applies to COBRA coverage under such plans. The fee applies to Health Reimbursement Accounts (HRAs) in these situations:

- If the employer also sponsors a self-funded medical plan that has the same benefit year as the HRA, and the covered person has coverage under both the self-funded plan and the HRA, the fee need only be paid with respect to the self-funded medical plan.
- If the employer also sponsors a fully insured medical plan, and the covered person has coverage under both the fully insured plan and the HRA, the fee will be paid twice: once by the insurer on the fully insured plan and once by the employer on the HRA.

### **What Types of Coverage Are Exempt from the Fee?**

The fee does not apply to lives covered by HIPAA excepted benefits, (including flexible spending accounts (FSAs) as long as they meet the criteria for excepted benefits), health savings accounts, employee assistance programs, disease management programs or wellness programs if the program doesn't provide significant medical care or treatment benefits; or government programs such as Medicare, Medicaid, state children's health insurance programs and other federal programs covering members of the armed forces and Indian tribes.

### **What Do Employers Need to Know?**

Sponsors of self-funded plans are required to file federal excise tax form (Form 720) to report their liability of this fee by July 31 of the calendar year immediately following the last day of the plan year and pay the fee directly to the IRS. For our fully insured plans, the Insurance Company is responsible for filing the form and paying the required PCORI fee. The first filing is due July 31, 2013. Non-filers will incur severe penalties.

If you have questions about the PCORI fees or if you are subject to them, please contact Robert Klausner at 973-882-8810 x308 or [rklausner@pk-cpas.com](mailto:rklausner@pk-cpas.com).