



## Health Care Reform: W-2 Reporting Requirement

Health care reform requires employers to report the aggregate cost of employer-sponsored health coverage on employees' Form W-2s. This new reporting requirement, originally scheduled to take effect for the 2011 tax year, was delayed till the 2012 tax year. New guidance released by the Internal Revenue Service (IRS) on 3/29/11 provides:

- The reporting requirement is informational only and is NOT subject to tax.
- The cost is to be reported on Form W-2, Box 12, using code DD.
- Employers are NOT required to issue a Form W-2 to individuals they are not otherwise required to provide a W-2 for, such as a retiree or former employee receiving no compensation.
- Employers are NOT required to report the cost of coverage on any W-2 issued before January 2013.
- The aggregate cost of coverage is a monthly calculation; if an employee changes plans during the calendar year or if the plan is a non-calendar year plan, the calculation needs to change to reflect any change in cost.

### EXCEPTION TO THE REPORTING REQUIREMENT

Employers who file fewer than 250 Forms W-2 for the 2012 tax year (which are required to be issued by 1/31/13) are NOT subject to this new reporting requirement for 2012 Forms W-2. These employers not required to report the cost of coverage on the 2012 W-2 will be required to begin reporting for the 2013 tax year, which allows these employers an additional year to prepare for this requirement.

### AGGREGATE COST OF COVERAGE

The aggregate cost of employer-sponsored coverage is the total cost of coverage under all employer-sponsored coverage provided to the employee, with a few exceptions. The aggregate cost includes both the employee and employer portion of the premium, regardless of whether such contributions are made pre-tax or after-tax.

The guidance also provides that the cost of coverage under a health reimbursement arrangement (HRA)/medical expense reimbursement arrangement (MERP) is not included in the aggregate cost of coverage. Stand-alone dental or vision plans are also excluded if those plans are not integrated into a group health plan providing health coverage. These two limited exceptions are likely temporary and these costs will likely have to be reported in future years.

**Included in the Reporting Requirement:**

- Medical plans
- Prescription drug plans
- Executive physicals
- On-site clinics if they provide more than de minimus care
- Medicare supplemental policies
- Employee assistance programs
- Dental and vision plans (except stand-alone)

**Excluded from the Reporting Requirement:**

- Health Flexible Spending Account (FSA)
- Health Savings Account (HSA)
- Archer MSA
- Health reimbursement arrangement (HRA)/medical expense reimbursement account (MERP)
- Specific disease
- Hospital/fixed indemnity plans

**METHODS TO DETERMINE THE COST OF COVERAGE:**

1. **COBRA Applicable Premium Method:** Reportable cost for a period equals the COBRA premium for that period.
2. **Premium Charged Method** (for insured plans): Premium charged by the insurer for each period is the reportable cost for that period.
3. **Modified COBRA Premium Method** (for employers subsidizing the cost of COBRA coverage or who determine the cost of coverage for a year by applying the cost of coverage in the prior year): The actual premium charged by the employer for COBRA participants for each period in the current year is equal to the COBRA applicable premium for each period in the prior year.

**EMPLOYER BOTTOM LINE:**

Employers should work with their payroll vendor or payroll department to ensure they are ready for this reporting requirement or to determine if they are exempt from the requirement for the 2012 tax year. Contact your KTB agent with any questions about your employer-sponsored coverage.

*In response to the Patient Protection and Affordable Care Act and the Health Care and Education Tax Credit Reconciliation Act, collectively known as Health Care Reform, Kistler Tiffany Benefits has formed a Health Care Reform committee to monitor legislation and provide guidance to our valued clients. Our team is creating user-friendly tools and resources, as well as establishing best practices for our clients in regards to the application of this legislation. For more information regarding our services, please contact us at [reform@ktbenefits.com](mailto:reform@ktbenefits.com).*