Affordable Care Act Implementation Alert

The Affordable Care Act and your self-funded health plan

Independence Administrators

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Patient-Centered Outcomes Research Institute (PCORI) Fee

WHAT IS THE PCORI FEE? WHAT IS THE PURPOSE OF THE PCORI FEE?

The Patient Protection and Affordable Care Act (PPACA) levies a new Patient-Centered Outcomes Research Institute (PCORI) fee payable by issuers of health insurance policies and sponsors of self-funded plans.

The PCORI fee will contribute to the Patient-Center Outcomes Research Trust Fund (Trust Fund), which will finance the Patient-Center Outcomes Research Institute (PCORI). The Institute is an independent organization whose role is to fund and produce reliable, evidence-based research guided by patients, caregivers, and the health care community to determine the comparative clinical effectiveness of medical treatments.

WHAT ARE THE REPORTING AND PAYMENT REQUIREMENTS?

Under the provisions of the PPACA, the PCORI fee is assessed at **one dollar per covered life** ("covered lives" include plan participants and covered dependents/beneficiaries) per plan year beginning with policy and plan years ending on or after October 1, 2012, and before October 1, 2013, and **two dollars per covered life** per plan year for plan years ending on or after October 1, 2013, and before October 1, 2014. In subsequent years, the fee is indexed to the projected per capita amount of National Health Expenditures. The fee is phased out after October 1, 2019.

The PCORI fee must be reported and paid for a plan year no later than July 31 of the year following the last day of the previous plan year. **Therefore, only employers whose plan year ended on or between October 1, 2012, and December 31, 2012, are required to report and make a payment by July 31, 2013.**

Here is an easy way to determine your applicable dollar amount and payment due date:

If your plan ends	applicable dollar amount	payment due
on or after October 1, 2012 and before January 1, 2013	$1 per life covered	July 31, 2013
on or after January 1, 2013 and before October 1, 2013	$1 per life covered	July 31, 2014
on or after October 1, 2013 and before January 1, 2014	$2 per life covered	July 31, 2014
on or after January 1, 2014 and before October 1, 2014	$2 per life covered	July 31, 2015
on or after October 1, 2014 and before October 1, 2019	To be determined	July 31 of the year following the plan's end date

The PCORI fee must be reported and paid on the Form 720 "Quarterly Federal Excise Tax Return".

HOW IS THE PCORI FEE CALCULATED?

The PCORI fee is calculated by multiplying the average number of covered lives for the plan year by the applicable dollar amount for the plan year. To determine the average number of lives covered under a self-funded plan during a plan year, a plan sponsor is permitted to use any one of these methods:

- **Actual Count Method.** The plan would count the total covered lives for each day of the plan year and divide that number by the total number of days in the plan year.
- **Snapshot Methods**
  - **Snapshot Count Method.** The plan would count the number of covered lives on at least one date in each quarter of the plan year and divide by the number of dates chosen. (The date(s) in the 2nd, 3rd and 4th quarters must correspond to date(s) in the 1st quarter).

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  – **Snapshot Factor Method.** Similar to the Snapshot Count Method, except that covered lives, on any date, would be equal to the sum of a) the number of employees with single coverage, plus b) the number of employees with coverage other than single coverage multiplied by 2.35. Note that this method may be advantageous for employers with a high member-to-employee ratio for employees enrolled in coverage other than single coverage.

- **Form 5500 Method.** For self-only coverage, determine the average number of covered lives by combining the total number of participants at the beginning of the plan year with the total number of participants at the end of the plan year (each as reported on the Form 5500) and divide by two. In the case of plans with self-only and other coverage, the average number of total lives is the sum of total participants covered at the beginning and the end of the plan year, as reported on the Form 5500.

WHAT IS THE ROLE OF INDEPENDENCE ADMINISTRATORS?

Beginning in early April, 2013, Independence Administrators will be expanding its standard monthly reporting package with a report showing the number of covered lives on each day of the month, for a rolling 12-month period for each plan we administer on our client's behalf.

This new reporting information of daily covered lives will enable our clients to use the counting method of their choice (Actual or Snapshot method) to calculate the average number of covered lives. However, it is ultimately the client's decision as to which of the various methods to use.

HOW DO CLIENTS USE THE PCORI SNAPSHOT COUNTS TO DETERMINE THE AVERAGE NUMBER OF LIVES COVERED AND ASSOCIATED FEES?

Clients must select a minimum of four corresponding dates (One per quarter during the plan year. For example, the last day of every first month of a quarter.) More dates may be selected, but they must have corresponding dates in each quarter.

Depending on the dates selected and method used, the covered lives count – and, therefore, fees – could vary significantly. See the following examples for an indication of how your choice of Snapshot Count Method and dates can affect your calculation of the PCORI fee.

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Snapshot Count Method

Example One: Employer A is the plan sponsor of the Employer A self-funded health plan. The plan year runs concurrently with the calendar year. Employer A uses the Snapshot Count method to determine the average number of lives covered under the plan for the plan year. **Employer A decides to use the last day of each quarter** to determine the average number of covered lives for the plan year ending December 31, 2012. Therefore, Employer A would use the counts of covered lives on the following dates: March 31, June 30, September 30, and December 31:

Example One of the Snapshot Count Method	
Covered lives on Jan 31:	4,000
Covered lives on Feb 29:	4,250
Covered lives on Mar 31:	***4,500***
Covered lives on Apr 30:	4,750
Covered lives on May 31:	5,000
Covered lives on June 30:	***5,250***
Covered lives on Jul 31:	5,500
Covered lives on Aug 31:	5,750
Covered lives on Sept 30:	***6,000***
Covered lives on Oct 31:	6,250
Covered lives on Nov 30:	6,500
Covered lives on Dec 31:	***6,750***

Sum of four dates chosen = 22,500; divided by 4 (dates) = 5,625.

Average lives covered: 5,625

Therefore, Employer A calculates that the average number of lives covered under the plan for the plan year January 1, 2012, through December 31, 2012, is 5,625. Employer A would then multiply 5,625 by the applicable dollar amount of $1 and get a PCORI fee of $5,625. Employer A would be required to report and remit payment of the PCORI fee on the Form 720 by July 31, 2013.

PCORI fee: $5,625

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Example Two: Assume Employer A from Example One again, but Employer A decides to use the **last day of the first month of each quarter** to determine the average number of covered lives for the plan year ending December 31, 2012. Therefore, Employer A would use the counts of covered lives on the following dates: January 31, April 30, July 31, and October 31:

Example Two of the Snapshot Count Method	
Covered lives on Jan 31:	***4,000***
Covered lives on Feb 29:	4,250
Covered lives on Mar 31:	4,500
Covered lives on Apr 30:	***4,750***
Covered lives on May 31:	5,000
Covered lives on June 30:	5,250
Covered lives on Jul 31:	***5,500***
Covered lives on Aug 31:	5,750
Covered lives on Sept 30:	6,000
Covered lives on Oct 31:	***6,250***
Covered lives on Nov 30:	6,500
Covered lives on Dec 31:	6,750

Sum of four dates chosen = 20,500; divided by 4 (dates) = 5,125.

Average lives covered: 5,125

Therefore, Employer A calculates that the average number of lives covered under the plan for the plan year January 1, 2012, through December 31, 2012, is 5,125. Employer A would then multiply 5,125 by the applicable dollar amount of $1 and get a PCORI fee of $5,125. Employer A would be required to report and remit payment of the PCORI fee on the Form 720 by July 31, 2013.

In this example, the average number of covered lives and corresponding PCORI fee are directly affected by the dates the employer chooses to use.

PCORI fee: **$5,125**

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HOW DO PLAN SPONSORS KNOW WHICH PCORI FEE METHOD WILL PROVIDE THE LOWEST FEE CALCULATION?

There is no single method that yields the best calculation for all organizations. There are several scenarios that can be analyzed using a variety of permitted methods and dates to determine the lowest fee calculation.

More information on PCORI can be found on the Institute's website, www.pcori.org.

You may also review a complete copy of the final regulations on PCORI.

To learn more about how Independence Administrators can support you in complying with the requirements of the Affordable Care Act, or if you have questions about your plan, **please contact your Independence Administrators Account Representative**.

Independence Administrators does not provide legal and/or tax advice. The consultation is provided only to provide the Plan Sponsor with information to help meet the requirements of the Affordable Care Act. The final determination of whether the Plan Sponsor meets the requirements of the Affordable Care Act will need to be made by the Plan Sponsor in consultation with the employer's own legal counsel and/or tax advisor.

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