



Issued date: 12/02/13

Health care reform provides that employers must report the aggregate cost of employer-sponsored coverage on each employee's annual Form W-2, beginning for the 2012 calendar year (reported on the January 2013 W-2). The amount reported is not taxable. Below you will find a summary of the guidance issued regarding W-2 reporting.

Who Must Report?

All employers that provide employer-sponsored coverage during a calendar year, including federal, state and local government entities, churches, and other religious organizations must report the cost of coverage, except:

- small employers (employers that were required to file fewer than 250 Forms W-2 for the preceding calendar year);
- employers that contribute to a multiemployer plan (i.e., a collectively bargained plan governed by a board);
- Federally-recognized Indian tribal governments;
- tribally chartered corporations wholly-owned by a federally recognized Indian tribal government;

- self-insured plans that are not subject to COBRA (e.g., a self-insured church plan); and
- governmental plans maintained primarily for members of the military and their families.

An employer must issue a Form W-2 including the aggregate cost to any individual to whom the employer is otherwise required to issue a Form W-2 and not to a former employee receiving no compensation.

What is the Aggregate Cost of Employer-Sponsored Coverage?

The aggregate cost generally includes both the portion of the cost paid by the employer and the portion of the cost paid by the employee, regardless of whether the employee paid for any cost through pre-tax or after-tax contributions. It is not reduced by any amount of the cost of coverage included in the employee's gross income and is determined by tier (e.g., for single-only coverage or for family coverage), as applicable to the employee. If an employee commences, changes or terminates coverage during the year, the reportable cost for the employee for the year must take into account the change in coverage.

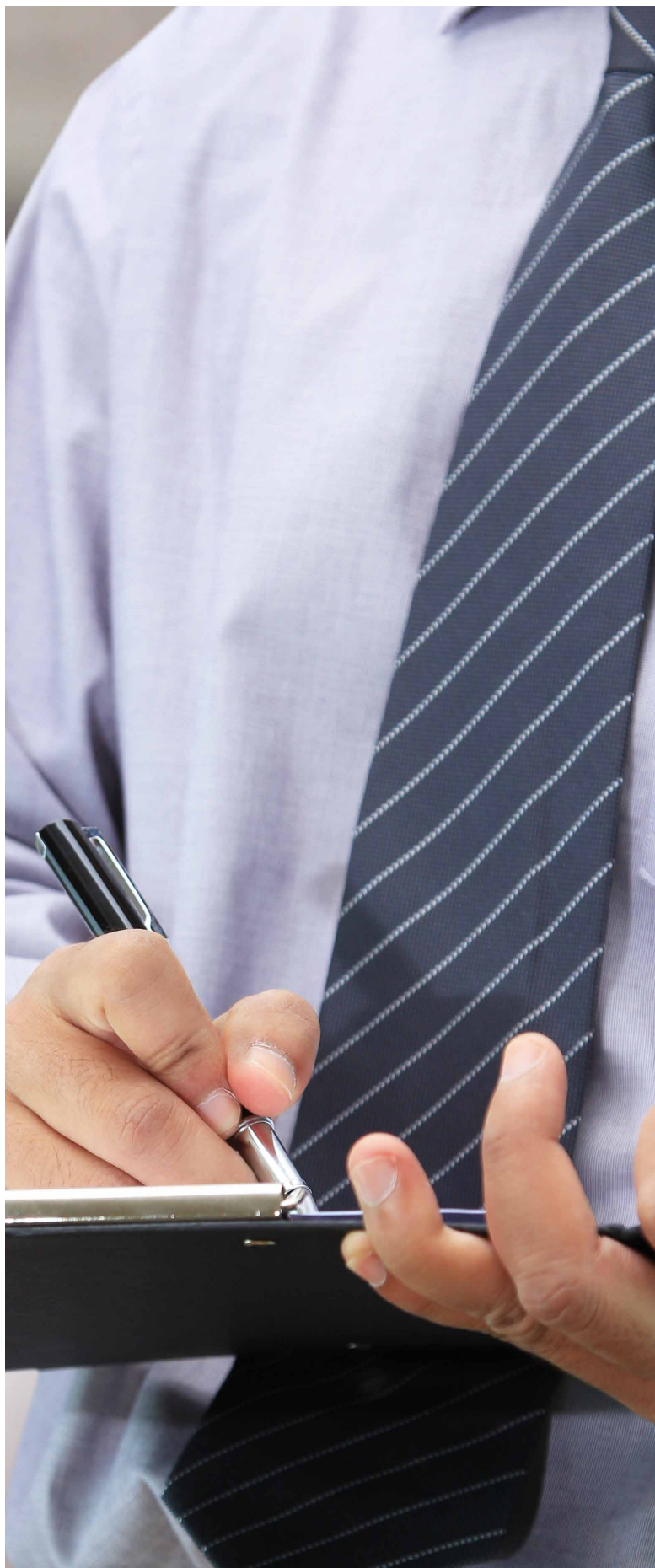
What is Employer-Sponsored Coverage?

Employer-sponsored coverage means coverage under any group health plan, including a major medical plan and onsite clinic, but not:

- a dental plan or a vision plan under a separate policy, certificate, or contract of insurance or where such plan is not integrated into a group health plan;
- a health reimbursement arrangement (“HRA”);
- coverage for long-term care,
- accident coverage;
- disability coverage;
- coverage only for a specified disease or illness or hospital indemnity or other fixed indemnity insurance, the payment for which is not excludable from gross income and for which a business deduction under § 162(l) is not allowable;
- the amount contributed to any Archer MSA;
- the amount contributed to any health savings account (“HSA”);
- the amount of any salary reduction election to a health FSA; and
- when a health FSA has employer flex credits, if the amount of salary reduction (for all qualified benefits) elected by an employee equals or exceeds the amount of the health FSA for the plan year, the amount of the health FSA.

Coverage provided under an EAP, wellness program, or onsite medical clinic is only included in the W-2 reporting to the extent that the coverage is a group health plan. (EAPs providing medical benefits (e.g., counseling by a trained professional) will be subject to the W-2 reporting requirement). There is an exception to the reporting where an employer does not charge a COBRA premium for these coverages.

If coverage contains both reportable and non-reportable benefits, an employer may use any reasonable allocation method to determine the cost of the portion of the program providing applicable employer-sponsored coverage.



For a helpful chart, visit:

<http://www.irs.gov/newsroom/article/0,,id=254321,00.html>.

How is the Reportable Cost Calculated?

Employers may calculate the reportable cost under a plan using one of the following methods:

COBRA Applicable Premium Method: this method uses the COBRA rate, excluding any administrative fee (i.e., 100% of the cost of coverage, not 102% of the cost of coverage).

Premium Charged Method: this method uses the amount charged by the carrier under an insured plan only.

Modified COBRA Premium Method: If the employer subsidizes the cost of COBRA, the employer may determine the reportable cost for a period based upon a reasonable good faith estimate of the COBRA applicable premium for that period, if such reasonable good faith estimate is used as the basis for determining the subsidized COBRA premium. If the actual premium charged by the employer to COBRA qualified beneficiaries for each period in the current year is equal to the COBRA applicable premium for each period in a prior year, the employer may use the COBRA applicable premium for each period in the prior year as the reportable cost for each period in the current year.

An employer is not required to use the same calculation method for every plan, but must use the same method with respect to a plan for every employee receiving coverage under that plan. The reportable cost under a plan must be calculated on a calendar year basis. Plans that operate on an off-calendar plan year will need to reflect any applicable cost changes that occur mid-year. If an employee has terminated employment during a calendar year, an employer may apply any reasonable method, provided the method is used consistently for all employees.

Reporting the Cost

The aggregate cost is reported in box 12 on Form W-2, using code DD. Retroactive plan changes do not have to be reported. The aggregate reportable cost for a calendar year reported on Form W-2 may be based on the information available to the employer as of December 31 of the calendar year. Therefore, any election or notification that is made or provided in the subsequent calendar year that has a retroactive effect on coverage in the earlier year is not required to be included in the calculation of the aggregate reportable cost for the calendar year. In addition, an employer is not required to furnish a Form W-2c if a Form W-2 has already been provided for a calendar year, before this type of election or notification (e.g., if a Form W-2 is provided on January 15 and the election or notification is provided on January 20). If an employer's final payroll period includes December 31, the employer may include the coverage period that includes December 31 but continues into the subsequent calendar year in one of the following manners: (1) treat the coverage as provided during the calendar year that includes December 31; (2) treat the coverage as provided during the calendar year immediately subsequent to the calendar year that includes December 31; or (3) allocate the cost of coverage for the coverage period between each of the two calendar years under any reasonable allocation method, which generally should relate to the number of days in the period of coverage that fall within each of the two calendar years. Whichever method the employer uses must be applied consistently to all employees.