

Self-Funded Plans

W-2 Reporting: Calculating and Reporting the Cost of Coverage

Employers filing 250 or more W-2 forms in the preceding calendar year (2011 for 2012 W-2 forms) are required to report to employees the total cost of their employer-sponsored group health plan coverage under the Patient Protection and Affordable Care Act. The cost is reported to employees on their W-2 forms beginning with the 2012 W-2 forms furnished by Jan. 31, 2013. (Employers are not required to report the cost of health benefit coverage on any W-2 forms furnished to employees prior to January 2013.) Keep in mind that this requirement is informational only and does not mean that employer-sponsored coverage is subject to income tax.

At this time, employers filing fewer than 250 W-2 forms in January 2013 do not need to report cost of coverage on W-2 forms. This transition relief will continue until further guidance is issued.


What is included when reporting the cost of coverage?

The cost of coverage 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 that cost through pre-tax or after-tax contributions. The cost of coverage includes any embedded specialty benefits (vision or dental, for example).

The Internal Revenue Service requires that the cost of coverage be reported for the calendar year, so if the health plan runs on a plan year versus a calendar year, any premium increases need to be factored into the cost of coverage.

What is not included when reporting the cost of coverage?

- ▶ The Health Insurance Portability and Accountability Act, or HIPAA, “excepted benefits” plans are not subject to the W-2 reporting requirements (long-term care, accident, disability income, life, liability and supplemental liability and workers’ compensation insurance).
- ▶ While embedded, or integrated, specialty benefits must be included in the cost of coverage, stand-alone dental and vision plans are not subject to the reporting requirements.
- ▶ Employee assistance programs (EAP), wellness programs, or on-site medical clinic coverage, if that employer does not charge a premium for this type of coverage under COBRA, are not reportable.
- ▶ Amounts contributed to a health savings account or an Archer medical savings account, as well as salary reduction contributions to a health flexible spending arrangement are not reportable.

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- ▶ The reporting of coverage under a health reimbursement arrangement, is optional.

Who receives the cost of coverage information?

It's important to note that only the plan subscriber, the primary policyholder, requires the cost of coverage information on his or her W-2 form. Spouses and dependents would not have the cost of coverage on their W-2 forms. Report the cost within box 12 with a code DD on the W-2 form designated for cost of employer-sponsored health coverage.

Employers are not required to report the cost of coverage for non-active employees currently receiving health coverage, such as retirees, former employees not receiving compensation from the employer, or an individual to whom the employer is not otherwise required to issue a W-2.

Remember, it is the number of W-2 forms filed in the previous year, not the number of employees, that the IRS considers when determining which employers are obligated to report the cost of coverage.

How do you calculate the cost?

There are three ways the IRS suggests to determine the cost of coverage for employees. The applicable COBRA premium method, the modified COBRA premium method or the premium charged method. An employer is not required to use the same method for every plan, but must use the same method with respect to a plan for every employee receiving coverage under that plan.

Applicable COBRA premium method

Using this method, the reportable cost equals the applicable COBRA premium for the coverage period (minus the 2% COBRA administrative fee). Simply take the monthly applicable COBRA premium and multiply that by the number of months in the year that the employee had the coverage to get the W-2 reportable cost.

Modified COBRA premium method

An employer may use the modified COBRA premium method only where the employer subsidizes the cost of COBRA coverage. Employers that subsidize the cost of COBRA or charge a COBRA premium equal to the applicable premium from a prior year may use the prior year's premium or a good faith-estimate of the full COBRA premium for any subsidized premiums. Multiply that amount by the number of months in the year that the employee had the coverage to get the W-2 reportable cost. For self-funded plans using a composite rate, this is also an acceptable method.

Premium charged method

Only fully insured customers may use the premium charged method to report the cost of coverage.

When an employee's coverage changes

If the cost of coverage for a period of time changes during the year (termination, new hire, change in employee's status), the cost reported must reflect the change. The employer may use any reasonable method to determine the reportable cost for such period. This includes using the cost at the beginning of the period or at the end of the period, or averaging or prorating the reportable costs. Just be sure to use the same method for all employees with coverage under that plan.

The cost of coverage per employee should be calculated on a monthly basis. Events in an employee's life (marriage, divorce, children) will likely change his or her level of coverage, so it's helpful to track the costs monthly.

Finding cost of coverage data for your employees

Here are suggestions for finding the data to calculate the cost of coverage for employees:

- 1) Review your 2012 billing records from UnitedHealthcare.
- 2) Talk to your payroll vendor and request data for each employee.
- 3) Reach out to your COBRA vendor for the COBRA rate.

For more information about W-2 reporting

Visit the [United for Reform Resource Center](http://uhc.com/reform) at uhc.com/reform for more information and to review IRS guidance 2012-9.

The IRS has also supplied a [simple grid](#) that provides an overview of what should and should not be reported that is available on the United for Reform Resource Center. In addition, an explanatory [video](#) for employers, "Everything You Ever Wanted to Know About W-2 Reporting," is available.

Employers are encouraged to consult with their legal counsel or tax preparer for advice on what should be reported to meet the W-2 reporting requirement.

W-2 case study

Michelle is a single woman who has health insurance through her employer, Acme Company. The company's health plan is self-funded. Michelle's benefit premium is \$350 per month. On Feb. 15, Michelle married, and her husband is now covered under her health plan effective April 1. Her benefit premium rises to \$700. On Sept. 22, Michelle and her husband adopt a daughter, and family coverage, which begins on Oct. 1, is \$1,100. On Nov. 1, Michelle leaves Acme Company. She elects continuation of coverage. Here is how Acme calculates and reports Michelle's cost of coverage:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
\$350	\$350	\$350	\$700	\$700	\$700	\$700	\$700	\$900	\$1100	\$1122*	\$1122*

*Includes 2% administrative fee

Total cost of coverage using the applicable COBRA premium method = \$6,550

This is the dollar amount reported on Michelle's W-2 form.

Acme used the applicable COBRA premium method to calculate cost of coverage. Each time Michelle's coverage needs changed mid-month, Acme averaged the cost of the whole month. An employer may calculate the cost at the beginning of the month, the end of the month or as an average. While Michelle's husband also works for Acme Company, he is not the subscriber, so no cost of coverage information will appear on his W-2. When Michelle left the company, Acme elected to report only the cost of coverage under the calendar year for the months that she was an active employee. So, only January-October benefit premiums were counted. It's up to the company to decide whether or not to include the cost of coverage during the calendar year after an employee terminates and elects COBRA. (If Acme included the COBRA coverage it would exclude the 2% administrative fee in the total cost of coverage.) Acme must apply its method consistently for all employees terminating during the calendar year who have coverage under that group health plan.

Modernizing health care

As one of the largest participants in the health care system, we know firsthand the significant challenges our nation faces in improving access to quality care and managing costs for all Americans. We are actively working across the nation with states and the federal government to support broader access to health care coverage while lowering health care costs for our customers and helping to improve delivery of care.

UnitedHealthcare is committed to moving toward a modernized care delivery system ensuring that changes in health care are made as effectively as possible for the health of the American people.

The content provided is for informational purposes only and does not constitute medical advice. Decisions about medical care should be made by the doctor and patient. Always refer to the plan documents for specific benefit coverage and limitations or call the toll-free member phone number on the back of the ID card.

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