



Important Information Regarding Your 2019 Annual PCORI Tax Payment & Filing

(This year's deadline is Friday July 31, 2020)

Important Update: Last December, Congress extended the PCORI Tax for applicable plans for ten years. Prior to this extension, plans with Plan Year end dates on or after October 1, 2019 would not have been required to make a PCORI Tax Payment & Filing this summer. Due to the extension of the tax, those plans will be required to file this summer.

Employers that sponsored a Health Reimbursement Arrangement (HRA) and/or a self-funded major medical group health plan with a plan year that ended any time during 2019 face an important deadline for reporting that coverage and paying an associated tax to the IRS. This reporting and tax requirement is a provision of the federal Patient Protection and Affordable Care Act of 2010 (PPACA) and was first required of HRAs and other self-funded major medical group health plans in the summer of 2013. The tax is commonly known as the PCORI Fee.

This memo is intended to remind Plan Sponsors regarding the “Who, What, Where, When, Why and How” of reporting and paying the PCORI Fee.

What: PPACA created a new tax known as the Patient Centered Outcome Research Institute (PCORI) Fee. The PCORI Fee applies to group health plans including most HRAs.

During 2020, employer Plans Sponsors of non-Exempt HRAs¹ and self-funded major medical group health plans that experienced a Plan Year end date any time during 2019 are required to pay the PCORI Fee and file a Quarterly Federal Excise Tax Return reporting the amount of the calculated PCORI Fee. Employer Plan Sponsors of both a non-Exempt HRA and a self-funded major medical group health plan that covers the same employees for the same months of 2019 only need to pay the PCORI Fee for the self-funded major medical group health plan.

¹ Exempt HRAs are those that meet two conditions and are therefore considered to be HIPAA exempt Health FSAs. In order for an HRA to qualify as a HIPAA exempt Health FSA: 1) the Plan Sponsor of the HRA must also offer a separate comprehensive group health plan to HRA Plan Participants; and 2) the HRA must have a per employee annual maximum benefit of no more than \$500.

Who: Most employers that sponsor a Health Reimbursement Arrangement and/or self-funded major medical group health coverage for their employees will be required to pay the PCORI Fee directly to the IRS on or before July 31, 2020.

The PCORI Fee applies to group health plans regardless of whether the plan is fully insured or self-funded. Employees that are covered under a fully-insured group health plan and a separate self-funded group health plan (such as an HRA) are subject to two separate PCORI Fees.

For group health plans that are fully-insured, the insurance company is required to pay the PCORI Fee. For group health plans that are self-funded, the named Plan Sponsor is responsible for directly reporting and paying the PCORI Fee. For the purposes of the PCORI Fee, most HRAs are covered self-funded group health plans. Therefore, the named Plan Sponsor of the HRA must report and pay the PCORI Fee.

For single-employer HRA plans, the employer is the Plan Sponsor. For multiple-employer plans, the Plan Sponsor should be named in the HRA's written Plan Document (or perhaps a Summary Plan Description if there is no Plan Document). If a Plan Sponsor is not formally identified, each employer that has adopted a multiple-employer HRA plan is responsible for payment of PCORI Fees applicable to their employees. Employers providing HRA benefits through a multiple-employer HRA that are not the Plan Sponsor should verify that the named Plan Sponsor is reporting and paying the PCORI Fee on behalf of their employees to avoid potential penalties.

Unlike other benefit related requirements, there is no exemption from the PCORI Fee for government or church plans or plans of small employers.

How: Payment is made by the Plan Sponsor directly to the IRS along with an accompanying Quarterly Federal Excise Tax Return (also known as **Form 720**). A copy of Form 720 can be accessed [online](#). The official IRS Instructions for completing Form 720 also can be accessed [online](#). Instructions specific to the PCORI Fee begin on page 8.

Within Form 720, reporting of the PCORI Fee is done on the second page in Part II. The first section within Part II is labeled "Patient-Centered Outcomes Research Fee". Within that section, there are two separate line items. Plan Sponsors of HRAs and self-funded major medical group health plans only need to complete the information associated with the second line item labeled "Applicable self-insured health plans" (the first line item is for insurance carriers reporting on the lives they cover under fully-insured plans).



How Much: The amount of the annual PCORI Fee is based on two factors:

1. a per life rate based on the last day of the Plan Year that ended during 2019.
2. the number of lives covered by the group health plan

For covered group health plans with Plan Years ending in 2018, the per life rate is either \$2.45 or \$2.54. For Plan Years ending between January 1, 2019 and September 30 2019, the annual PCORI Fee is \$2.45 per covered life. For Plan Years ending between October 1, 2019 and December 31, 2019, the annual PCORI Fee is \$2.54 per covered life.

Important Reminder: Plan Sponsors should verify the Plan Year end date of their HRA Plan. This date will often differ from the Anniversary Date of the Plan Sponsor's Group Health Plan. For example, many HRA Plans are established as Calendar Year plans even when the group health insurance plan has a Plan Year end other than December 31. This may be done so that the HRA year corresponds to the group health insurance plan's deductible schedule.

Completing the necessary line-item on the Form 720 requires the Plan Sponsor to report the "**Average Number of Covered Lives**" under the Plan. Under guidance provided by the IRS and the Department of Labor, HRA Plan Sponsors are allowed to treat each Employee/Participant in the HRA as covering a single life for purposes of the PCORI Fee. Therefore no additional PCORI Fee is required if the HRA covers a Participant's spouse or dependent children. Only the average number of covered Employees should be reported.

For employer Plan Sponsors of self-funded major medical group health plans, the average number of covered individuals (including employees and dependents) should be reported.

Clients of Admin America's monthly HRA Administration Services should find a report of their HRA's Average Number of Covered Lives for their 2019 Plan Year in a separate attachment within the e-mail in which these instructions were originally sent. That report can also be requested via email from Admin America at employersupport@adminamerica.com.



Other Plan Sponsors are authorized to use one of three enumerated methods for calculating the “Average Number of Covered Lives” for reporting on Form 720:

The actual count method: Plan Sponsors may count covered lives on each business day of the Plan Year and divide the total of the daily counts by the number of business days.

The snapshot method: Plan Sponsors may count covered lives on the first business day of each quarter of the Plan Year and divide the total of the quarterly counts by four.

The Form 5500 Method: Plan Sponsors may use the number of Participants reported in a Form 5500 for the HRA Plan. This method is only available to Plan Sponsors that are not exempt from filing Form 5500s under ERISA or under the small plan exemption.

Once the Average Number of Covered Lives is entered in Form 720, calculating and reporting the amount of the applicable PCORI Fee is as simple as multiplying the Average Number of Covered Lives by the applicable Fee for this year (\$2.45 or \$2.54).

Please note that Form 720 must be signed by an authorized individual.

Payment and the completed Form 720 should be mailed to the following address:

Department of the Treasury
Internal Revenue Service
Ogden, UT 84201-0009

When: Payment of the PCORI Fee and filing of an accompanying IRS Form 720 is due on or before the July 31 in the year following the last day of the HRA Plan Year.

For plans that are required to file this year, please make sure that the signed Form 720 and the appropriate payment amount to the Department of the Treasury are mailed and postmarked on or before July 31, 2020.

Where (can you get more information):

Admin America will be happy to address any other questions you have about the PCORI Fee or HRA Compliance. You may contact us at via e-mail [employer support@adminamerica.com](mailto:employer.support@adminamerica.com) or via telephone at 678-578-4643.