Valent Group

Compliance Check

FAQs on the PCORI Fees

The Affordable Care Act (ACA) imposes a fee on health insurance issuers and plan sponsors of self-insured health plans to help fund the Patient-Centered Outcomes Research Institute. The fee, called the Patient-Centered Outcomes Research Institute (PCORI) fee, is calculated based on the average number of lives covered under the policy or plan.

A federal spending bill enacted at the end of 2019 **extended the PCORI fees for an additional 10 years**. As a result, these fees will continue to apply for the **2020-2029 fiscal years**. The PCORI fee is filed using IRS Form 720, *Quarterly Federal Excise Tax Return*. Although Form 720 is a quarterly return, for PCORI fees, Form 720 must be filed annually only, by **July 31 of each year**. IRS instructions for filing Form 720 include information on reporting and paying the PCORI fee.

This ACA Overview includes a set of **frequently asked questions** (FAQs) issued by the Internal Revenue Service (IRS) on the PCORI fee.

LINKS AND RESOURCES

Please see the following IRS resources for more information on the ACA's PCORI fees:

- Final regulations on the PCORI fees
- PCORI Fee Overview Page
- PCORI Fee: Questions and Answers
- IRS Form 720 and instructions
- PCORI Fee Due Dates and Applicable Rates
- A federal spending bill enacted at the end of 2019 extended the PCORI fees to apply for the 2020-2029 fiscal years.

PCORI Fees

- The ACA imposes PCORI fees on health insurers and self-insured plan sponsors.
- The fee originally applied to policy or plan years ending on or after Oct. 1, 2012, and before Oct. 1, 2019. **However, it was extended to apply through the 2029 fiscal year**.
- The fee is paid by July 31 of each year using IRS Form 720.

PCORI Fee FAQs

- The IRS issued FAQs on the PCORI fee to assist issuers and plan sponsors.
- The FAQs provide information related to calculating the PCORI fee, applicable due dates and correcting Form 720.

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Q1. What is the Patient-Centered Outcomes Research Trust Fund fee?

The PCORI fee is a fee on issuers of specified health insurance policies and plan sponsors of applicable self-insured health plans that helps to fund the Patient-Centered Outcomes Research Institute (PCORI). The institute will assist (through research, patients, clinicians, purchasers and policy-makers) in making informed health decisions by advancing the quality and relevance of evidence-based medicine. The institute will compile and distribute comparative clinical effectiveness research findings.

Q2. When did the PCORI fee go into effect?

The PCORI fees were originally scheduled to apply for plan years ending on or after Oct. 1, 2012, but *not* for plan years ending on or after Oct. 1, 2019. However, a federal spending bill enacted at the end of 2019 **extended the PCORI fees for an additional 10 years**. As a result, these fees will continue to apply for the **2020-2029 fiscal years**.

Q3. How much is the PCORI fee?

The amount of the PCORI fee is equal to the average number of lives covered during the policy year or plan year multiplied by the applicable dollar amount for the year. The applicable dollar amount is adjusted each year to reflect inflation in National Health Expenditures, as determined by the Secretary of Health and Human Services.

The applicable dollar amounts are:

- **$1** for policy and plan years ending after Sept. 30, 2012, and before Oct. 1, 2013.
- **$2** for policy and plan years ending after Sept. 30, 2013, and before Oct.1, 2014.
- **$2.08** for policy and plan years ending after Sept. 30, 2014, and before Oct. 1, 2015.
- **$2.17** for policy and plan years ending after Sept. 30, 2015, and before Oct. 1, 2016.
- **$2.26** for policy and plan years ending after Sept. 30, 2016, and before Oct. 1, 2017.
- **$2.39** for policy and plan years ending after Oct. 1, 2017, and before Oct. 1, 2018.
- **$2.45** for policy and plan years ending after Oct. 1, 2018, and before Oct. 1, 2019.
- **$2.54** for policy and plan years ending after Oct. 1, 2019, and before Oct. 1, 2020.
- **$2.66** for policy and plan years ending after Oct. 1, 2020, and before Oct. 1, 2021.
- **$2.79** for policy and plan years ending after Oct. 1, 2021, and before Oct. 1, 2022.

Q4. How does an issuer of a specified health insurance policy or the plan sponsor of an applicable self-insured health plan determine the average number of lives covered under the policy or plan in order to calculate the PCORI fee for the year?

The PCORI fee is imposed on an issuer of a specified health insurance policy and a plan sponsor of an applicable self-insured health plan, based on the average number of lives covered under the policy for the policy year or the plan for the plan year. The PCORI fee final regulations from Dec. 6, 2012, require:

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- Issuers of specified health insurance policies to use one of four alternative methods—the **actual count method**, the **snapshot method**, the **member months method** or the **state form method**—to determine the average number of lives covered under a policy for a policy year.

- Plan sponsors of applicable health plans to use one of three alternative methods—the **actual count method**, the **snapshot method** or the **Form 5500 method**—to determine the average number of lives covered under the applicable self-insured health plan for a plan year.

The final regulations explain the available methods in detail. In addition, for plan years ending on or after Oct. 1, 2019, and before Oct. 1, 2020, IRS Notice 2020-44 provides that issuers and plan sponsors may use **any reasonable method** to make this calculation, so long as it is applied consistently for the duration of the plan year.

Q5. Which individuals are taken into account for determining the lives covered under a specified health insurance policy or applicable self-insured health plan?

Generally, all individuals who are covered during the policy year or plan year must be counted when calculating the average number of lives covered for that year. Thus, for example, an applicable self-insured health plan must count an employee and his dependent child as two separate covered lives unless the plan is a health reimbursement arrangement (HRA) or flexible spending arrangement (FSA).

Q6. If an employer provides COBRA coverage or otherwise provides coverage to its retirees or other former employees, do covered individuals (and their beneficiaries) count as 'lives covered' for purposes of calculating the PCORI fee?

Yes. These covered individuals and their beneficiaries must be taken into account when calculating the average number of lives covered.

Q7. Who is responsible for reporting and paying the PCORI fee?

Issuers of specified health insurance policies and plan sponsors of applicable self-insured health plans are responsible for reporting and paying the PCORI fee.

Q8. What form will be used to report and pay the PCORI fee?

Issuers of specified health insurance policies and plan sponsors of applicable self-insured health plans will annually file Form 720, *Quarterly Federal Excise Tax Return*, to report and pay the PCORI fee. Form 720 was revised to provide for the reporting and payment of the PCORI fee. The Form 720 is due on July 31 of the year following the last day of the policy year or plan year. Electronic filing is available, but is not required. Payment is due at the time the Form 720 is due. Deposits are not required for the PCORI fee.

- Issuers and plan sponsors who are required to pay the PCORI fee, **but are not required to report any other liabilities on a Form 720**, will be required to file a Form 720 only once a year. They will not be required to file a Form 720 for the other quarters of the year.

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- Issuers and plan sponsors who are required to pay the PCORI fee **as well as other liabilities on a Form 720** will use their Form 720 for the second quarter to report and pay the PCORI fee that is due July 31. Only one Form 720 should be filed for each quarter.

Q9. What exceptions to the PCORI fee apply?

The PCORI fee does not apply to exempt governmental programs, including Medicare, Medicaid, Children's Health Insurance Program (CHIP) and any program established by federal law for providing medical care (other than through insurance policies) to members of the Armed Forces, veterans and members of Indian tribes (as defined in Section 4(d) of the Indian Health Care Improvement Act).

Also, health insurance policies and self-insured plans that provide only excepted benefits (such as plans that offer benefits limited to vision or dental benefits and most FSAs) are not subject to the PCORI fee. Further, health insurance policies or self-insured plans that are limited to employee assistance programs, disease management programs or wellness programs are not subject to the PCORI fee if these programs do not provide significant benefits in the nature of medical care or treatment.

The PCORI fee applies only to policies and plans that cover individuals residing in the United States. Thus, the PCORI fee does not apply to policies and plans that are designed specifically to cover employees who are working and residing outside the United States.

Q10. Are health insurance policies or self-insured health plans for tax-exempt organizations or governmental entities subject to the PCORI fee?

Yes. Unless the health insurance policy or self-insured health plan is an exempt governmental program described above, the policy or plan is a specified health insurance policy or applicable self-insured health plan subject to the PCORI fee and, accordingly, the health insurance issuer or plan sponsor is responsible for the PCORI fee.

Q11. When does the PCORI fee expire?

The PCORI fees were originally scheduled to apply for plan years ending on or after Oct. 1, 2012, but *not* for plan years ending on or after Oct. 1, 2019. However, a federal spending bill enacted at the end of 2019 **extended the PCORI fees for an additional 10 years**. As a result, these fees will continue to apply for the **2020-2029 fiscal years**.

Q12. Does the PCORI fee apply to an applicable self-insured health plan that has a short plan year?

Yes, the PCORI fee applies to a short plan year of an applicable self-insured health plan. A short plan year is a plan year that spans fewer than 12 months, and may occur for a number of reasons. For example, a newly established applicable self-insured health plan that operates using a calendar year has a short plan year as its first year if it was established and began operating beginning on a day other than Jan. 1. Similarly, a plan that operates with a fiscal plan year experiences a short plan year when its plan year is changed to a calendar year plan year.

Q13. What is the PCORI fee for the short plan year?

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The PCORI fee for the short plan year of an applicable self-insured health plan is equal to the average number of lives covered during that plan year multiplied by the applicable dollar amount for that plan year. For example, the PCORI fee for an applicable self-insured health plan that has a short plan year that starts on April 1, 2013, and ends on Dec. 31, 2013, is equal to the average number of lives covered for April through Dec. 31, 2013, multiplied by $2 (the applicable dollar amount for plan years ending on or after Oct. 1, 2013, but before Oct. 1, 2014).

Q14. What is the PCORI fee due date for the short plan year?

The PCORI fee is due July 31 of the year following the last day of the plan year (including a short plan year).

Q15. Can a plan sponsor or policy issuer that overpaid the PCORI fee due July 31 reduce the PCORI fee due the following July 31 for the amount of the prior year's overpayment?

No. Plan sponsors and policy issuers cannot reduce the PCORI fee due July 31 for any overpayment from a prior year. If a plan sponsor or policy issuer overpaid the PCORI fee reported on a previously filed Form 720, it should file Form 720X, *Amended Quarterly Federal Excise Tax Return*, for an overpayment of a previously filed PCORI liability. Form 720X is available on www.IRS.gov.

Q16. How should corrections be made to a previously filed Form 720 (for example, one that determined a fee using an incorrect applicable dollar amount)?

A plan sponsor or policy issuer should make corrections to a previously filed Form 720 by filing a Form 720X, *Amended Quarterly Federal Excise Tax Return*, including adjustments that result in an overpayment. Form 720X may be filed anytime within the applicable limitation period. Form 720X is available on www.IRS.gov.

Source: Internal Revenue Service

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