

June 10, 2024

# Annual PCORI Fee is Due July 31<sup>st</sup>

## Time to File and Submit Payment for the PCORI Fee

The Affordable Care Act (ACA) created the Patient Centered Outcome Research Initiative (PCORI) to evaluate and compare health outcomes. The annual PCORI fee partially funds this initiative. The fee applies to all health plans that provide coverage to employees, including church and government plans.

### How much?

The indexed fee schedule is based on the month the plan year ends and is described below.

For Plan Years...	Fee per Covered Life
Ending on or after October 1, 2022 and before October 1, 2023	\$3.00
Ending on or after October 1, 2023 and before October 1, 2024	\$3.22

### Who and when?

1. If a group health plan is fully insured, the insurance carrier is responsible for reporting and paying the PCORI fee. Insurance carriers typically pass the fee along to covered employers through higher premiums, but no further action is required by the covered employer.
2. The employer as plan sponsor is responsible for reporting and paying the PCORI fee for self-insured group health plans. A third party administrator or other vendor may assist with the calculation, but the plan sponsor must file the IRS Form 720 and pay the applicable fee. If multiple employers participate in the plan, each participating employer must file separately unless the plan document designates one employer as the plan sponsor.
3. IRS Form 720 and the PCORI fee are due by July 31, 2024, for plan years that ended in 2023.

## Highlights

### Overview

The PCORI fee is an annual fee that applies to most group health plans and is calculated based on the plan's number of covered lives.

### Fee per Covered Life

The annually indexed fee is \$3.22 for plan years ending on or after October 1, 2023 and before October 1, 2024.

Plan years ending on or after October 1, 2022 and before October 1, 2023 will owe \$3.00 per covered life.

Covered Lives include employees, retirees, COBRA participants and covered spouses and dependents.

### Key provisions

Groups health plans are required to report and pay the PCORI fee for plan years ending in 2023 by July 31, 2024.

- There are multiple ways to calculate the fee – employers should choose the method that works best for them.
- Insurance carriers are responsible for fully insured coverage.
- The employer, as plan sponsor, is responsible for self-insured coverage.
- There are special rules for HRAs.

### Employer action items

Self-insured plan sponsors should:

- Calculate their plan's PCORI fee using one of the four available methods; and
- Timely complete reporting using the updated IRS Form 720.

## Which plans are subject to the PCORI fee?

Most types of group health plans are subject to the PCORI fee, including group health plans that are “grandfathered” under the ACA, as well as retiree-only plans. It is easier to describe the excluded plans.

Plans Excluded from the PCORI Fee
Plans considered “excepted” benefits under HIPAA, including: <ul style="list-style-type: none"> <li>• Most health care flexible spending arrangements (HCFSA) so long as:               <ul style="list-style-type: none"> <li>– the employer also offers traditional medical coverage to HCFSA participants; and</li> <li>– the maximum annual HCFSA reimbursement is limited to the greater of the participant’s contribution plus \$500 or twice the participant’s contribution<sup>1</sup></li> </ul> </li> <li>• Dental or vision-only coverage (or HCFSA and health reimbursement arrangements (HRAs) limited to reimbursements for dental and vision expenses)</li> <li>• Employee assistance programs (EAPs), disease management, wellness plans, etc. if they do not provide significant medical benefits</li> </ul>
Expatriate insurance plans if the plan primarily covers employees working and residing outside the United States
Stop-loss or indemnity reinsurance policies
Non-group health coverage (e.g., life, disability, AD&D)

## How do you calculate the PCORI fee?

The fee depends upon the number of covered lives under a plan (i.e., employees, retirees, COBRA participants, and covered spouses and dependents). There are several options for calculating the fee, and employers may choose the option that best suits their circumstances.

The goal is to find the method resulting in the lowest fee owed. An employer must use the same method throughout a reporting year, but it may change methods from year to year.

- Actual Count Method. Count the covered lives on each day of the plan year and average the result. For example, a calendar year plan will add the covered lives on each day of the plan year and divide the result by 365.
- Snapshot Count Method. Determine the number of covered lives on the same day (plus or minus 3 days) of each quarter or month and average the result.

<sup>1</sup> This effectively means an employer cannot contribute more than \$500 toward an HCFSA if the employee elects \$0 in order for the HCFSA to qualify as an excepted benefit. An HCFSA with a 1:1 employer matching contribution also qualifies as an excepted benefit HCFSA. Employer contributions do not count toward the employee HCFSA annual contribution limit.

- Snapshot Factor Method. Using the same day (plus or minus 3 days) of each quarter or month, multiply the number of employees, retirees and COBRA participants who have elected a coverage tier other than self-only coverage by 2.35 (rather than actually counting dependents) and add that to the number of employees, retirees and COBRA participants with self-only coverage. Average the result.
- Form 5500 Method. Determine the number of participants at the beginning and end of the plan year as reported on Form 5500.
  - If dependents are covered, add the participant counts for the beginning and end of the plan year together.
  - If dependents are not covered, add the participant counts for the beginning and end of the plan year together and divide by two.
  - The Form 5500 must actually be filed by July 31st for this option to be available.

If there are multiple self-insured plans with the same plan year, such as a self-insured medical plan with an integrated HRA, only one fee applies per covered life. In other words, there is no need to double-count the participants for overlapping coverage. Separate PCORI fees apply to self-insured benefits with different plan years.

For short plan years, the number of covered lives will be averaged over the duration of the short plan year and multiplied by the applicable fee based on the date that short plan year ends.

**Example:** ABC Co. had a self-insured plan with a June 1 plan year, but changed to a calendar year plan as of January 1, 2024. In 2023, ABC would owe PCORI fees for two plan years that ended in 2023 (June 1, 2022-May 31, 2023, and a short plan year, June 1, 2023-December 31, 2023).

The fee for the June 1, 2022-May 31, 2023, plan year will be based on the average number of covered lives during that plan year multiplied by \$3.00.

To calculate the fee due for the short plan year, ABC will take the total covered lives from June through December of 2023 and divide that number by the seven months in plan year. That average number of covered lives would then be multiplied by \$3.22, since the plan year ended after October 1, 2023, and before October 1, 2024.

If the plan sponsor owes the fee for a HCFSAs or HRA because it is offered on a standalone basis or because it is integrated with fully insured coverage (such as a fully insured medical plan), the fee may be calculated by counting only covered employees, retirees and COBRA participants. In other words, spouses and dependents do not count.

### How do you report and pay?

Plan sponsors report the PCORI fee annually on IRS Form 720 by July 31<sup>st</sup>. Form 720 itself is a quarterly return, but employers who only need Form 720 for PCORI reporting purposes only file it once per year at the end of the second quarter. The IRS instructions are [here](#).

**Note:** Government, church and nonprofit employers are subject to the PCORI fee and required to file Form 720 if they sponsor a self-insured group health plan.

An employer only needs to complete certain portions of [Form 720](#) for PCORI purposes:

- Identifying information at the beginning of the form:
  - The quarter ending section should state “June 2024,” regardless of the plan year for which the Form is being filed.

<p><b>Form 720</b> (Rev. June 2024) Department of the Treasury Internal Revenue Service</p>	<p><b>Quarterly Federal Excise Tax Return</b></p> <p>See the instructions for Form 720. Go to <a href="http://www.irs.gov/Form720">www.irs.gov/Form720</a> for instructions and the latest information.</p>	<p>OMB No. 1545-0023</p>												
<p>Check here if:</p> <p><input type="checkbox"/> Final return</p> <p><input type="checkbox"/> Address change</p>	<p>Name _____ Quarter ending <b>June 2024</b></p> <p>Number, street, and room or suite no. _____ (If you have a P.O. box, see the instructions.) _____</p> <p>Employer identification number _____</p> <p>City or town, state or province, country, and ZIP or foreign postal code _____</p>	<p><b>FOR IRS USE ONLY</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>T</td><td></td></tr> <tr><td>FF</td><td></td></tr> <tr><td>FD</td><td></td></tr> <tr><td>FP</td><td></td></tr> <tr><td>I</td><td></td></tr> <tr><td>T</td><td></td></tr> </table>	T		FF		FD		FP		I		T	
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- Part II, line 133. Self-insured plans complete the appropriate “Applicable self-insured plans” line--; (c) or (d). The “Specified health insurance policies” line is completed by insurance carriers for fully insured policies:

Part II		(a) Avg. number of lives covered (see inst.)	(b) Rate for avg. covered life	(c) Fee (see instructions)	Tax	IRS No.
133	Patient-Centered Outcomes Research Fee (see instructions)					
	Specified health insurance policies					
	(a) With a policy year ending before October 1, 2023		\$3.00		}	133
	(b) With a policy year ending on or after October 1, 2023, and before October 1, 2024		\$3.22			
	Applicable self-insured health plans					
	(c) With a plan year ending before October 1, 2023		\$3.00			
	(d) With a plan year ending on or after October 1, 2023, and before October 1, 2024		\$3.22			

- Part III, lines 3 and 10 and the signature section:

Form 720 (Rev. 6-2024)		Page <b>3</b>
<b>Part III</b>		
<b>3</b>	Total tax. Add Part I, line 1, and Part II, line 2	<b>3</b>
<b>4</b>	Claims (see instructions; complete Schedule C)	<b>4</b>
<b>5</b>	Deposits made for the quarter	<b>5</b>
	<input type="checkbox"/> Check here if you used the safe harbor rule to make your deposits.	
<b>6</b>	Overpayment from previous quarters	<b>6</b>
<b>7</b>	Enter the amount from Form 720-X included on line 6, if any	<b>7</b>
<b>8</b>	Add lines 5 and 6	<b>8</b>
<b>9</b>	Add lines 4 and 8	<b>9</b>
<b>10</b>	<b>Balance Due.</b> If line 3 is greater than line 9, enter the difference. Pay the full amount with the return. (See instructions.)	<b>10</b>
<b>11</b>	<b>Overpayment.</b> If line 9 is greater than line 3, enter the difference. Check if you want the overpayment: <input type="checkbox"/> <b>Applied to your next return, or</b> <input type="checkbox"/> <b>Refunded to you.</b>	<b>11</b>
<b>Third Party Designee</b>	Do you want to allow another person to discuss this return with the IRS? (See instructions.) <input type="checkbox"/> <b>Yes.</b> Complete the following. <input type="checkbox"/> <b>No</b>	
	Designee's name _____ Phone no. _____	Personal identification number (PIN) _____
<b>Sign Here</b>	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.	
	Signature _____ Date _____ Title _____	Telephone number _____
<b>Paid Preparer Use Only</b>	Print/Type preparer's name _____ Preparer's signature _____ Date _____	Check <input type="checkbox"/> if self-employed PTIN _____
	Firm's name _____ Firm's EIN _____	Phone no. _____
	Firm's address _____	
Form <b>720</b> (Rev. 6-2024)		

Payment can be made electronically using the Electronic Federal Tax Payment System or by check or money order. Employers paying by check or money order should be sure to include their EIN and enclose the 720-V payment voucher found near the end of the Form 720. The Form and payment should be mailed to:

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

Form <b>720-V</b> (2024)					
----- <b>Detach here and mail with your payment and Form 720.</b> -----					
Form <b>720-V</b> Department of the Treasury Internal Revenue Service	<b>Payment Voucher</b> OMB No. 1545-0023 <span style="font-size: 2em; font-weight: bold;">2024</span>				
<b>Don't staple or attach this voucher to your payment.</b>					
<b>1</b> Enter your employer identification number (EIN). See instructions.	<b>2</b> Enter the amount of your payment. Make your check or money order payable to "United States Treasury." <table style="width: 100%; border: none;"> <tr> <td style="width: 70%; border: none;">Dollars</td> <td style="width: 30%; border: none;">Cents</td> </tr> <tr> <td style="border: 1px solid black; height: 20px;"></td> <td style="border: 1px solid black; height: 20px;"></td> </tr> </table>	Dollars	Cents		
Dollars	Cents				
<b>3</b> Tax period <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; text-align: center;"><input type="radio"/> 1st Quarter</td> <td style="width: 50%; text-align: center;"><input type="radio"/> 3rd Quarter</td> </tr> <tr> <td style="text-align: center;"><input type="radio"/> 2nd Quarter</td> <td style="text-align: center;"><input type="radio"/> 4th Quarter</td> </tr> </table>	<input type="radio"/> 1st Quarter	<input type="radio"/> 3rd Quarter	<input type="radio"/> 2nd Quarter	<input type="radio"/> 4th Quarter	<b>4</b> Enter your business name (individual name if sole proprietor).  Enter your address.  Enter your city or town, state or province, country, and ZIP or foreign postal code.
<input type="radio"/> 1st Quarter	<input type="radio"/> 3rd Quarter				
<input type="radio"/> 2nd Quarter	<input type="radio"/> 4th Quarter				

The fee is tax-deductible.

## About the author



**Andreena Norfleet, J.D.** is an Employee Health & Benefits Compliance Consultant for Marsh McLennan Agency's Compliance Center of Excellence.

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