

Health Care Reform— Insurance Premiums Recorded on the W-2



NEW RULES

2.1 TIMETABLE

Effective with health insurance premiums paid in 2012 for the W-2 issued for the 2012 tax year.

2.2 WHICH PREMIUMS

Premiums for group medical coverage (dental and vision plans are excluded unless bundled with the medical plan)—both the employer payment and the employee payment (if any) are combined.

2.3 TAX CONSEQUENCE

At present, this information is purely for statistical tracking purposes. The premiums shown on the W-2 have no tax consequence. (The so-called “Cadillac Tax” does not start under the law until 2018.)

2.4 EXCLUDED COSTS

Contributions to Flexible Spending Accounts (FSAs), Health Savings Accounts (HSAs) and Medical Savings Accounts (MSAs), Long Term Care coverage and certain specified disease policies are excluded from the reporting.

More administrative duties added to employers

Tracking health insurance premiums on the W-2

Employers are required to disclose the aggregate cost of “applicable employer provided coverage” beginning with the 2012 tax year (*optional before then*).

Time Period

This applies to all tax years after December 31, 2011. Thus the first W-2 issued in compliance with this requirement is for the tax year 2012.

Amount

Employers are required to disclose the aggregate cost of “applicable employer provided coverage.” This is regardless of whether the employer or employee pays. This targets medical plans only (but dental and vision plans are included if bundled with the medical plan); life or disability plans are excluded. The aggregate amount is either the fixed premium or, with a self-funded plan, using the same methodology for determining the applicable COBRA charges.

Implications

It starts as information gathering but some see this as a way for the government to assess the loss of tax revenue amassed by allowing this tax exclusion to continue, which will lead, outside of the proposed Cadillac Tax (2018) to the partial or full elimination of the exclusion. Until that changes, this information will be for reporting

purposes only and will not affect employer or employee taxes.

Aggregated Information

The W-2 reporting in aggregated, meaning that there is no need to break out medical from dental, and vision premiums (if bundled). They are all lumped together for reporting on the W-2.

Administration

Due to the newness of this law, it is not clear whether the many payroll systems available to employers will come out with modules for helping to track this data. In a simplistic fashion, the administration just requires a tracking of an employee’s medical premiums (and dental and vision insurance if bundled) for each of the twelve months that the employee is employed and covered. If a plan is self-funded, the equivalent cost used for COBRA purposes would be used. The entire gross premium is used, without regard to whether the employer or the employee paid part of the premium. (It appears that even a voluntary plan with no employer contribution would still be tracked.) Excluded plans for reporting purposes are FSAs, HSAs, MSAs, Long Term Care insurance, and various “dread disease” or accident policies (the kind normally sold by AFLAC). It appears that the cost of Employee Assistance Plans (EAPs) would be included if the plan includes as a benefit office visits with local providers.