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 also 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 on the W-2.
- 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. Employers 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: applicable COBRA premium method, the modified COBRA premium method or the premium charged method. Only those employers with fully insured plans may use 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.

**Premium charged method**
For fully insured plans, this is the actual monthly premium charged by the insurer for each employee's coverage (for example, for single-only coverage or for family coverage, as applicable to the employee) for each period as the reportable cost for that period.

**Applicable COBRA premium method**
Using this method, the reportable cost equals the applicable COBRA premium for the coverage period (minus the 2% 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.

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. Log on to Employer eServices (United Platform only).

**Using Employer eServices**

Although it is ultimately the employer's responsibility to determine cost of coverage information and what should be reported to meet the W-2 reporting requirement, we can help.

On Employer eServices, you can view your monthly invoices to find the premium costs per employee. Click on Electronic Billing and Payment to view invoices by month. Information can be exported into Microsoft Excel spreadsheet to calculate the costs.

**For more information about W-2 reporting**

Visit the United for Reform Resource Center 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

John is a single man who has health insurance through his employer, Acme Company. John's premium is $350 per month. He pays 50 percent of his premium and Acme pays 50 percent. On Feb. 14, John married his co-worker Julie, and she is now covered under his health plan effective April 1. The premium rises to $700. On Sept. 22, John and his wife adopt a son, and family coverage, which begins on Oct. 1, is $1,100. On Nov. 1, John leaves Acme Company. He elects continuation of coverage. Here is how Acme calculates John's cost of coverage:

<table>
<thead>
<tr>
<th>Month</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>$350</td>
</tr>
<tr>
<td>Feb</td>
<td>$350</td>
</tr>
<tr>
<td>Mar</td>
<td>$350</td>
</tr>
<tr>
<td>Apr</td>
<td>$700</td>
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<td>May</td>
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<td>Sep</td>
<td>$900</td>
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<tr>
<td>Oct</td>
<td>$1,100</td>
</tr>
<tr>
<td>Nov</td>
<td>$1,122*</td>
</tr>
<tr>
<td>Dec</td>
<td>$1,122*</td>
</tr>
</tbody>
</table>

*Includes 2% administrative fee

**Total cost of coverage for the year using the premium charged method = $6,550**

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

When John's coverage needs changed mid-month, Acme averaged the cost of the whole month. An employer can calculate the cost at the beginning of the month, the end of the month or as an average. Although John's wife also works for Acme Company, she is not the subscriber. No cost of coverage information will appear on her W-2. Even through Acme and John contribute to the premium, it's the total premium cost that is reported. When John left the company, Acme elected not to report his cost of coverage for the calendar year for the months after he resigned. 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.