



Hawaii Employers Council

DISCLAIMER: This information is provided by the Hawaii Employers Council for illustrative and informational purposes only, is not intended to constitute legal advice, and should not be interpreted as legal advice. You should consult with an employment attorney or human resources professional before using or relying upon any informational materials provided to you.]

FAQ: Employers Obligation to Report Cost of Group Health Insurance on W-2

For tax years beginning with calendar year 2012, employers with 250 or more employees (part-time or full-time) will be required to report the cost of employer-sponsored group health plan coverage on 2012 Form W-2 (to be reported in 2013). This requirement was originally scheduled to begin with the 2011 calendar year, but was postponed.

Small employers with less than 250 employees are subject to a one-year exemption, and will not have to comply with this reporting requirement until the 2013 tax year at the earliest.

The basics of the reporting requirement are as follows:

1. Employers must report the “**aggregate**” cost of employer-sponsored group health care coverage for each tax year, beginning with the 2012 tax year. The “aggregate” cost includes any amounts paid by either the employer or the employee and his/her covered spouse and dependents.
2. **Included Costs.** The aggregate costs for the following types of employer-sponsored group health coverage must be reported:
 - a. Health insurance
 - b. Dental and vision plans which are integrated as part of a medical insurance plan (but NOT stand-alone dental or vision plans)
 - c. Prescription drug plans
 - d. EAP plans
 - e. Medicare supplemental policies
 - f. The amount of employer-provided flex credits applied to a health FSA under a cafeteria plan during the calendar year, if the employee’s salary reduction for all non-taxable qualified benefits to the cafeteria plan is less than or equal to the employer flex credit contribution to the health FSA. **
 - g. Other group health plan costs for medical services, supplies, and benefits which are excludable from gross income.
3. **Excluded Costs.** The costs of the following types of plans or coverage are NOT subject to reporting:
 - a. Stand-alone dental or vision plan coverage (e.g. HDS, Delta plans)
 - b. Multi-employer health plan coverage (e.g. union health plans)
 - c. Self-insured health coverage that is not subject to COBRA
 - d. Independent coverage for specified diseases (e.g. cancer insurance plans)
 - e. Accident or disability income insurance
 - f. Workers compensation coverage

- g. Supplemental liability insurance
 - h. Long term care coverage
 - i. Archer MSA coverage
 - j. Health Savings Account Coverage
 - k. Health Reimbursement Arrangement coverage
 - l. Employee salary reduction amounts contributed to a flexible spending arrangement offered through a cafeteria plan.
4. How is the cost calculated?: For insured plans, the aggregate cost is equivalent to the full premium costs. For self-insured plans, the premium costs are based on the COBRA rate. If an employee's coverage changes during the year, or if rates change mid-year, the changes must be reflected in the reported amounts for each employee. An employer cannot simply look at an employee census and extrapolate or average costs for employees. The employer is required to report the actual cost for each employee.
5. How is COBRA continuation coverage treated?: The employer can elect to either (1) report the aggregate cost of coverage provided up until the final month of employment, or (2) can report the total cost of coverage for the year in which employment terminated, so long as the same method is used for all employees.

Ex: Joe has single coverage under the company's group plan, with a total premium cost of \$400 per month. Joe terminates employment on April 26, 2012 but elects COBRA coverage through the month of October 2012. For the tax year 2012, the employer can either report either:

- The aggregate cost of coverage through April 26 (4 x \$400 = \$1600); OR
- The aggregate cost of coverage through October (10 x \$400 = \$4000)

Note that although Joe's employer is permitted to charge Joe 102% of the total premium for COBRA coverage, the IRS FAQ indicates that the employer's 2% administrative charge is not reported on the W-2. See IRS Interim Guidance Notice 2011-28, Question 6 & Question 26.

6. Must the employer report the aggregate cost of health coverage for retirees who are covered under the employer's group health plan? Generally, no. The employer is only required to report the cost of health coverage provided to employees (or retirees) for whom the employer is required to issue a W-2 form for the calendar year. If a retiree is not issued a W-2 (because no compensation has been provided), then the employer is not required to report the costs of any retiree health coverage.

****Reporting health FSA amounts:** According to the IRS Interim Guidance (Notice 2011-28), the employer must analyze 3 separate amounts to determine whether amounts in a health FSA must be reported. The employer must know:

- (1) the total amount of the employee's qualified (non-taxable) salary deductions paid to the Section 125 cafeteria plan for the plan year;
- (2) the amount of the employee's qualified salary deductions which are applied to the health flexible spending arrangement (Health "FSA"); and

(3) the total amount which is funding the employee's Health FSA for the plan year (including employer contributions, if any)

An employer is only required to report the amount of employer-provided flex credits contributed to the employee's Health FSA when the amount funding the Health FSA for the plan year exceeds the employee's salary deduction for all qualified benefits under the Section 125 cafeteria plan for the plan year. If the total health FSA amount for the plan year exceeds the employee's salary deduction under the cafeteria plan (usually because of an employer flex contribution), then the amount of the employee's health FSA minus the employee's salary contribution to the health FSA must be reported.

Put another way, any non-employee contributions to an employee's health FSA must be reported IF the employee's total funded health FSA amount for the plan year exceeds the employee's salary deduction for all benefits (not just health FSA benefits) under the Section 125 cafeteria plan..

The following examples on reporting Health FSA amounts are in the IRS Interim rules (at Question 19, pp. 11-12):

1) An employee makes a salary reduction election of \$2000 to a Section 125 cafeteria plan for the plan year, of which \$1500 is direct to her health FSA. The plan also offers an employer flex contribution of \$1000. The employee spends all \$3000 of the total available credits. Because the amount of the employee's total salary deduction under the cafeteria plan (\$2000) equals or exceeds the amount in her health FSA (\$1500), the employer reports NOTHING for this employee.

2) An employee makes a salary reduction election of \$700 in a Section 125 plan, and the entire \$700 is for a health FSA. The employer then makes a matching \$700 contribution to the employee's health FSA. The total amount of the employee's health FSA for the plan year is \$1400. Because the employee's total health FSA amount (\$1400) exceeds the employee's total salary deduction under the cafeteria plan (\$700), the difference between the health FSA amount and her salary deduction (\$700) must be reported.