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Large Employers Advised to Prepare Now For Reporting Aggregated Health Benefits

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ALI-ABA Webinar: New W-2 Health Benefits Reporting Requirements

Key Topic: IRS is providing transitional relief from a W-2 reporting requirement created by the 2010 health reform law.

Key Takeaway: Employers can exclude for W-2 reporting purposes, at least for the 2012 plan year, an extensive list of health insurance benefits.

By Florence Olsen

A large employer that offers a variety of health insurance benefits, such as major medical benefits and integrated vision plans, should begin now to identify which 2012 plan year benefits will be subject to Form W-2 reporting in January 2013, attorneys said during a Jan. 17 American Law Institute-American Bar Association webinar.

The list of excluded benefits is extensive, but gathering data on the aggregate cost of reportable benefits will not be easy, said Howard D. Bye-Torre, one of the webinar speakers and of counsel in the employee benefits section at Stoel Rives in Seattle.

"This is not something that can happen overnight," Bye-Torre said. Providing sufficient lead time is necessary "so you don't have a big mess come next January," he said.

Reporting Requirement.

A typical large employer that is subject to W-2 reporting under the Patient Protection and Affordable Care Act soon will be required to report its costs for providing major medical benefits, integrated vision plan coverage, executive physicals, and employee assistance programs if the EAP benefits can be purchased with continuation health coverage premiums under the Consolidated Omnibus Budget Reconciliation Act, Bye-Torre said.

A typical large employer that also offers nonintegrated dental plan coverage, HRA benefits, and health flexible savings accounts with employee-only contributions will not be required to report those benefits under Code DD in Box 12 of the revised Form W-2, Wage and Tax Statement, Bye-Torre said.

Aggregate Costs.

The reported amount on an employee's W-2 should reflect the aggregate cost of all reportable benefits that the employee received under all the group health plans that he or she participated in during all or part of the 2012 plan year, Bye-Torre said.

Under the new reporting requirement, which applies to employers that file 250 or more W-2s, the Internal Revenue Service will accept a good-faith, reasonable interpretation of what constitutes a group health plan and reasonable methods for calculating aggregated costs, provided the methods are consistent for each plan, he said.

Employers can exclude for W-2 reporting purposes, at least for the 2012 plan year, an extensive list of benefits, Bye-Torre said. Some examples of benefits that should not be reported in Box 12 under Code DD are Archer medical savings account contributions and health savings account contributions, he said.

Employers have a separate requirement to report their Archer medical savings account contributions under Code R on the W-2 form, and to report health savings account contributions under Code W on the W-2 form, he said.

Employers also can exclude specified disease coverage and hospital or fixed-indemnity payment coverage from the new reporting requirement if, as employers, they do not make any nontaxable contributions to the coverage and if the employee does not pay premiums on a pretax basis under a cafeteria plan, Bye-Torre said.

Transitional Relief.

IRS is providing a considerable amount of transitional relief from the W-2 reporting requirement because it has not issued guidance on how to calculate employer costs under some of the newer types of employer-sponsored health benefit arrangements, said Cynthia A. Van Bogaert, a partner at Boardman & Clark in Madison, Wis., who also spoke during the webinar.

However, employers should not expect the transitional relief to last forever, Van Bogaert said. The W-2 reporting is for information purposes only—to show employees the monetary value of the benefits they receive, she said. But IRS most likely is setting the stage now for implementing future PPACA provisions, including an excise tax provision on high-cost health insurance plans set to take effect in 2018, Van Bogaert said.

IRS issued substantial guidance on W-2 reporting in Notice 2011-28(see previous article), and amended the interim guidance in Notice 2012-9 (see previous article).

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