



e-Alert

06.30.23

PCORI Fee Due July 31st

Background

The Affordable Care Act requires employers who sponsor self-funded health plans (including certain Health Reimbursement Arrangements or HRAs) to pay the Patient-Centered Outcomes Research Institute (PCORI) fee to the IRS. The fee is based on the average number of covered lives under the plan and must be reported once a year on the second quarter IRS Form 720 and paid annually by July 31st. Although Form 720 is a quarterly form, for PCORI, Form 720 is filed once annually.

The PCORI fee was originally scheduled to expire in late 2019, but federal legislation passed in December 2019 extended the PCORI fee obligation for all plan years ending before October 1, 2029. There was no change to the type of plan subject to the PCORI fee; the government simply extended the original sunset date from 2019 to 2029.

Summary

Which plans are subject to the fee?

The PCORI fee applies to all medical plans and some HRAs. Health insurance carriers pay the fee directly to IRS in the case of fully insured medical plans. For self-funded medical plans (including level-funded plans, such as Aetna's AFA product), the plan sponsor is responsible for filing and paying the fee. Groups that offer a self-insured medical plan and an HRA in the same plan year are required to file PCORI for the self-insured or level-

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funded medical plan. When counting covered lives for a medical plan, employees, spouses, and dependents are included.

An HRA that is bundled with a fully insured medical plan is subject to the fee. Although the insurer pays the PCORI fee for the underlying insured medical plan, the plan sponsor must pay a separate PCORI fee for the self-insured HRA. However, an HRA that is bundled with, and has the same plan year as, a self-funded medical plan is not subject to a separate fee.

How much is the fee and when must it be paid?

The amount of the PCORI fee is equal to the average number of lives covered during the plan year multiplied by the applicable dollar amount as shown below.

When calculating the fee for a self-funded medical plan, employees and dependents are counted as covered lives. When calculating the fee for an HRA, only employees are counted as covered lives. The amount of the fee will depend on when the plan year ends:

Plan Year Ending in 2022	Fee per covered life For July 31, 2023 payment
Plan year ending on or after January 1, 2022, through September 30, 2022, including calendar year plans	\$2.79
Plan year ending on or after October 1, 2022, through December 30, 2022	\$3.00

Is the PCORI fee tax-deductible?

In June 2013 the IRS issued a legal opinion that the PCORI fee is a tax-deductible expense (under Code section 162(a)) for self-insured plan sponsors and for health insurers.

Employer Next Steps

1. **If you had a Health Reimbursement Arrangement (HRA) that ended in 2022 and are an HR Knowledge brokerage client** – please contact our [Benefits Team](#) requesting your average number of lives covered. We will work with your HRA vendor to obtain the number you need to enter for the average participation.

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If you had an HRA that ended in 2022 and are NOT an HR Knowledge brokerage client – please contact your benefits broker or HRA vendor requesting your average number of lives covered.

2. **Complete and file [IRS Form 720](#) by July 31, 2023**

- Regulations do not permit a third party to file and/or pay the fee
- Plan sponsors must pay the fee by filing IRS Form 720 by July 31, 2023, for the average number of participants in the 2022 plan
- You should check the IRS website before filing Form 720 to make sure you have the latest version
- The IRS also provides instructions on its website for completing the form.
- To calculate the fee, multiply the “Average Participation” by the “Fee Per Participant”

If you already filed this form, you will simply be filling out one more section (Page 2, Part II, IRS No. 133) for your 2nd Quarter return. For the 1st, 3rd, and 4th Quarters, leave this section blank.

You can download the form and the instructions from the [IRS website](#). The PCORI Fee section is located on the second page of the form under “Part II Patient-Centered Outcomes Research Fee.” Since HRAs are considered self-insured health plans, complete the section labelled “Applicable self-insured health plans.” If you are filing Form 720 for the purpose of the PCORI Fee, enter the “Quarter Ending” at the top of the form as “6/30/2023,” and check the “2nd Quarter” box on the Payment Voucher, located on page 8. Form 720 is a quarterly tax form but reporting the PCORI Fee is only an annual requirement.

If you have further questions regarding this e-Alert, please contact our [Benefits Team](#).