

EMPLOYEE BENEFITS COMPLIANCE UPDATE

A Parker, Smith & Feek Benefit Alert

MAY 2023

Patient-Centered Outcomes Research Institute Fees Due By July 31, 2023

The Affordable Care Act (ACA) created the Patient-Centered Outcomes Research Institute (PCORI) to help patients, clinicians, payers, and the public make informed health decisions by advancing clinical effectiveness research. The Institute is funded by the PCORI fee which is imposed upon carriers and employers with self-funded medical plans (including HRAs).

The PCORI fee went into effect for plan years ending after September 30, 2012. PCORI is also referred to as the Comparative Effectiveness Research Fees (CERF).

The PCORI fee is indexed annually to a spending amount defined in the law. It started at \$1 and has increased gradually.

- + For plans years that ended between January 1, 2022, and September 30, 2022, the fee is \$2.79 per covered life.
- + For plan years that ended between October 1, 2022 and December 31, 2022, the fee is \$3.00 per covered life.

Which employers have to pay by the deadline of July 31, 2023? Employers that sponsored self-insured medical plans, including HRAs, for plan years that ended from January of 2022 to December of 2022.

Doesn't the insurance company/carrier pay on an employer's behalf? For fully insured medical plans, the carrier is responsible for paying the fees. Employers of fully insured medical plans don't need to take action.

Employers that sponsor self-insured medical plans (including HRAs), are responsible for submitting the PCORI fees to the IRS by July 31 each year.

How does my organization file? Employers that sponsor self-insured group medical plans, including HRAs, must report and pay PCORI fees using the second quarter IRS Form 720, Quarterly Federal Excise Tax Return, which is typically released the first week of June. Please note this is a tax form, and as such, your organization's tax expert may be in the best position to assist. Employers must keep proof of filing and payment for four years.

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How do employers count covered lives for PCORI fees? Plan sponsors may choose from three methods when determining the average number of lives covered by their plans. It is acceptable to choose the lowest of the three counts each year.

Actual Count method: Plan sponsors may calculate the sum of the lives covered for each day in the plan year and then divide that sum by the number of days in the year.

Snapshot method: Plan sponsors may calculate the sum of the lives covered on one date in each quarter of the year (or an equal number of dates in each quarter) and then divide that number by the number of days on which a count was made. The number of lives covered on any one day may be determined by counting the actual number of lives covered on that day or by treating those with self-only coverage as one life and those with coverage other than self-only as 2.35 lives (the “Snapshot Factor method”).

Form 5500 method: Sponsors of plans offering self-only coverage may add the number of employees covered at the beginning of the plan year to the number of employees covered at the end of the plan year, in each case as reported on Form 5500, and divide by 2. For plans that offer more than self-only coverage, sponsors may simply add the number of employees covered at the beginning of the plan year to the number of employees covered at

the end of the plan year, as reported on Form 5500.

Special rules for HRAs: The plan sponsor of an HRA may treat each participant’s HRA as covering a single covered life for counting purposes, and therefore, the plan sponsor is not required to count any spouse, dependent or other beneficiary of the participant. If the plan sponsor maintains another self-insured health plan with the same plan year, participants in the HRA who also participate in the other self-insured health plan only need to be counted once for purposes of determining the fees applicable to the self-insured plans.

PCORI fees are an important aspect of funding research to improve the quality of healthcare in the United States. As a plan sponsor, it’s important to understand your responsibility in paying these fees, as well as the methods for counting covered lives and reporting and paying the fees to the IRS.

Parker, Smith & Feek will continue to monitor regulator guidance and offer meaningful, practical, timely information.

This material should not be considered as a substitute for legal, tax and/or actuarial advice. Contact the appropriate professional counsel for such matters. These materials are not exhaustive and are subject to possible changes in applicable laws, rules, and regulations and their interpretations.

It is our hope that you found this reminder helpful, any questions please ask.

As always, should you have any questions, please contact your [Parker, Smith & Feek Benefits Team](#). While every effort has been taken in compiling this information to ensure that its contents are totally accurate, neither the publisher nor the author can accept liability for any inaccuracies or changed circumstances of any information herein or for the consequences of any reliance placed upon it.