

# PCORI FAQ

## Patient-Centered Outcomes Research Institute (PCORI)

The Affordable Care Act imposes a fee on issuers of specified health insurance policies and plan sponsors of applicable self-insured health plans to help fund the Patient-Centered Outcomes Research Institute. The institute assists, through research, patients, clinicians, purchasers, and policymakers in making informed health decisions by advancing the quality and relevance of evidence-based medicine. The institute compiles and distributes comparative clinical effectiveness research findings.

The fee applies to policy or plan years ending on or after Oct. 1, 2012, and before Oct. 1, 2029. The Patient-Centered Outcomes Research Institute fee is filed using Form 720, Quarterly Federal Excise Tax Return. Although Form 720 is a quarterly return, for PCORI, Form 720 is filed **annually only**, by July 31.

The PCORI fee is calculated using the average number of lives covered under a health insurance policy during the policy year. That means that all parties enrolled will have to be accounted for such as dependents, spouses, retirees, and COBRA beneficiaries.

Employers that fail to pay their PCORI fees, or pay the incorrect amount, could be subject to penalties. PCORI fees are considered an excise tax and are calculated under IRC 6651.

### Fully Insured Health Plans

The insurance company is responsible for paying the PCORI fee, though most employers with fully insured health plans are indirectly paying these fees through slightly higher premiums.

### Calculating the Fee for Applicable Self-Insured Health Plans

Generally, plan sponsors of applicable self-insured health plans must use one of the following three alternative methods to determine the average number of lives covered under a plan for the plan year.

- **Actual Count Method** – A plan sponsor may determine the average number of lives covered under a plan for a plan year by adding the total number of lives covered for each day of the plan year and dividing that total by the total number of days in the plan year.
- **Snapshot Method** – A plan sponsor may determine the average number of lives covered under a plan for a plan year by adding the totals of lives covered on a date during the first, second, or third month of each quarter and dividing by the total number of dates on which the count is made. Dates in each quarter must be within 3 days of the dates for corresponding quarters.
  - **Snapshot Count Method** – Total number of lives covered (employees and their covered family members or only employees if HRA or FSA) on each selected date, divided by the number of dates used.
  - **Snapshot Factor Method** – Number of participants with self-only coverage plus 2.35 times the number of participants with other than self-only coverage. (Do not use this method for HRA or FSA plans.)
- **Form 5500 Method** – An eligible plan sponsor may determine the average number of lives covered under a plan for a plan year based on the number of participants reported on the Form 5500, Annual Return/Report of Employee Benefit Plan, or the Form 5500-SF, Short Form Annual Return/Report of Small Employee Benefit Plan.
  - **Plan with Only Self-Only Coverage** – Add the total number of participants at the beginning and end of the plan year and divide by 2 to get the average for the year.
  - **Plan with Self-Only and Dependent Coverage** – Add the total number of participants at the beginning and end of the plan year. (Do not use this method for HRA or FSA plans.)

### Paying PCORI Fees

Self-insured employers are responsible for submitting the fee and accompanying paperwork to the IRS, as third-party reporting and payment of the fee is not permitted for self-funded plans. Self-insured health plan sponsors should use Form 720 for the second calendar quarter to report and pay the PCORI fee by July 31 using the Electronic Federal Tax Systems (EFTPS).

Although the fee is paid annually, employers should indicate on the Payment Voucher (720-V), located at the end of Form 720, that the tax period for the fee is the second quarter of the year. Failure to properly designate 'second quarter' on the voucher will result in the IRS's software generating a tardy filing notice, with all the incumbent aggravation on the employer to correct the matter with the IRS.

The U.S. Department of Labor believes the fee cannot be paid from plan assets. In other words, for self-insured health plans, the PCORI fee must be paid by the plan sponsor. It is not a permissible expense of a self-funded plan and cannot be paid in whole or part by participant contributions. In addition, PCORI fees should not be included in the plan's cost when computing the plan's COBRA premium. But the IRS has indicated the fee is, however, a tax-deductible business expense for employers with self-funded plans.

### **For More Information:**

[www.irs.gov/newsroom/patient-centered-outcomes-research-institute-fee](http://www.irs.gov/newsroom/patient-centered-outcomes-research-institute-fee)