



Maine Municipal Employees Health Trust

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To: Health Trust Participating Employers
From: Anne Wright, Assistant Director, MMEHT
Date: January 10, 2014
Re: The Affordable Care Act and Health Care Reform -
W-2 Reporting of Health Insurance Coverage

Please note: Copies of these Health Care Reform updates may be found on the Health Trust website, at www.mmeht.org. Click on the link for Health Care Reform. Updates are at the bottom of the page; simply click on the link for the update you wish to read.

One of the provisions of the federal Affordable Care Act (ACA) that will affect some employers this month is the requirement to include the cost of employees' health insurance coverage on their W-2s. In this memo, we will explain exactly which employers this provision affects, what information must be reported and where to report it, and where to find more information from the IRS on this topic.

According to the IRS, the purpose of this reporting is to provide employees with "useful and comparable consumer information on the cost of their health care coverage". The IRS has assured employers that this reporting will not cause employer-provided health insurance coverage (which is currently excludable from employee's incomes) to become taxable.

This requirement was originally slated to take effect for W-2s issued in 2012, for tax year 2011. The implementation of this provision was delayed, so that "large employers" (defined here as those employers issuing 250 or more W-2s in the previous tax year) were required to begin including this information on all W-2s issued in 2013 for tax year 2012. "Small employers" (that is, employers that issued fewer than 250 W-2s in the previous tax year) were not required to include this information on their W-2s issued in 2013, although they could if they wanted to. This was referred to as "transitional relief" for the smaller employers.

The IRS has stated that this transitional relief will continue for tax year 2013 (W-2s issued in 2014). Employers that issued fewer than 250 W-2s in the previous tax year will not be required to include the cost of health insurance in this year's W-2s - although, as before, they may choose to do so if they wish. The transitional relief will continue until such time as the IRS issues further guidance expanding the reporting requirements. The IRS has stated that they will provide at least six (6) months advance notice of any change to these reporting requirements.

Employers that are required to, or choose to, include the cost of employees' health insurance on their W-2s, will include the information in Box 12 of the W-2 form, using code DD. The information does not have to be provided on Form W-3 (Transmittal of Wage and Tax Statements).

For purposes of this reporting, the “cost” of an employee’s health insurance coverage is defined as the aggregate reportable cost of the coverage. This includes both the portion of the premium that is paid by the employer and the portion of the premium that is paid by the employee. So, for example, if the employer pays 90% of the premium cost and the employee contributes 10% via payroll deduction, the reportable amount is the entire premium (100%).

The amount reported must be the actual total premium paid for each individual employee during the tax year. So, for example, if John has single coverage for 12 months and Jane has family coverage for 12 months, the amount reported on John’s W-2 would be the monthly premium for single coverage x 12; the amount reported on Jane’s W-2 would be the monthly premium for family coverage x 12. On the other hand, if Robert has single coverage for six months, then gets married and adds his new spouse for the last six months of the year, the amount reported on Robert’s W-2 would be the monthly premium for single coverage x 6 **plus** the monthly premium for employee + spouse (family) coverage x 6.

The amount reported only needs to include the premiums paid for the employee’s (and covered dependents’, if applicable) health insurance. Since the dental and vision plans offered by the Health Trust are stand-alone plans which can be elected separately from the health insurance, employers should not include any premiums paid for dental or vision plans in this calculation. Similarly, employers are not required to include the amount of any salary reductions made by employees to fund a flexible spending account.

Employers offering a Health Reimbursement Arrangement, or HRA, may choose to include the amount of any employer contribution to the HRA within the reported amount. However, this is optional.

The IRS has compiled a chart showing which coverage types should be included (or not included) in reporting the cost of health insurance coverage on employees’ W-2s. This chart may be found on the IRS website, at www.irs.gov. Click on the links for Affordable Care Act Tax Provisions => Employers => Large Employers => Reporting.

If an employee does not change his or her coverage during the calendar year, calculating the cost of the employee’s health insurance coverage should be fairly straightforward. However, for those employees that add or terminate coverage during the year, the calculation is a bit more complex. We had hoped that the Health Trust would be able to provide participating employers with a report that listed the total premiums paid for each employee throughout the previous calendar year. Unfortunately, we have learned that our system will not allow us to produce such a report. Premiums are, however, listed on the monthly bills sent to each Health Trust participating employer.

Please note that the Maine Municipal Association and the Maine Municipal Employees Health Trust are sharing this information to assist you with your compliance planning. We recommend that you contact your legal counsel with specific questions relating to this law.