



Health Care Reform Includes New Form W-2 Reporting Requirement

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Employers who sponsor health care plans will need to focus quickly on new Form W-2 reporting requirements under health care reform.

Health care reform requires employers to calculate and report the aggregate cost of applicable employer-sponsored health insurance coverage on employees' Form W-2s. Although the new rule applies for employees' tax years beginning after December 31, 2010, payroll systems need to be updated for this change by January of 2011. This deadline is imposed because employees are entitled to request their Form W-2s early if they terminate employment during the year.

As a result of this requirement, most Form W-2s for 2011 will be issued in January 2012. Form W-2s reflecting the new health insurance information must be available no later than February 1, 2011 in the event an employee requests one.

Plans for which coverage costs must be reported under the new requirement include medical, prescription, executive physicals, on-site clinics if they provide more than de minimus care, Medicare supplemental policies, and employee assistance programs. Coverage under dental and vision plans is also included, unless they are "stand-alone" plans. The cost of coverage under health flexible spending accounts, health savings accounts, and specific disease or hospital/fixed indemnity plans is excluded from the reporting requirement.

The aggregate cost of coverage under the plans (including both the employee and employer portions of cost) is determined under rules similar to COBRA—minus the 2 percent administrative charge permitted under COBRA. Government regulations regarding how to value plans for COBRA purposes are reportedly imminent. Presumably, any regulations issued would apply both to COBRA and to the new Form W-2 reporting requirements. One challenge for employers may be that some of the plans covered by the new reporting requirement, such as on-site medical clinics, are not plans that they have



previously valued for COBRA purposes. Now, employers will need to come up with reportable values for coverage provided under these programs.

The new reporting requirement appears to require a monthly calculation of coverage. However, some employees may have less than a month's coverage if their coverage starts or stops during the month. Future regulations may clarify how to report coverage of less than a full month.

Reporting is required for employees, but also seems to apply to former employees who are provided with health coverage, including early retirees, retirees, terminated employees on COBRA and surviving spouses. Many of these individuals would not typically receive a Form W-2 from the employer at all, at least not for taxable years following their termination of employment. Accordingly, if this interpretation is correct, an employer's overall W-2 reporting requirements may increase dramatically. Employers should begin working with their payroll departments immediately to ensure compliance with these new requirements.