



Understanding PCORI Fees: Key Information Before the Deadline

Management of an employer-sponsored health plan requires navigating various taxes and fees. An important yet perhaps lesser-known tax, the PCORI fee, applies to nearly all insureds under both self-funded and fully insured plans. This tax has an interesting origin and plays a surprising and essential role in healthcare research. While relatively straightforward, how the PCORI fee is calculated and paid also deserves a closer look.

PCORI stands for the Patient-Centered Outcomes Research Institute. Established under the Affordable Care Act (ACA) in 2010, PCORI is not a federal agency but a non-profit organization dedicated to funding research that helps patients, caregivers, and healthcare providers make better-informed healthcare decisions. The tax is solely used to help fund the institute.

WHO PAYS THE TAX?

The IRS, as part of its initiative to support the Patient-Centered Outcomes Research Institute, imposes a yearly tax through health care plans. The type of plan, whether self-funded or fully insured, determines who is responsible for calculating and paying the fee:

Self-Funded Plans: Employers with self-funded plans are responsible for not only paying but also calculating the PCORI fee.

Fully Insured Plans: The insurance carrier includes the PCORI fee in the premium rates for fully insured plans. Employers with fully insured plans can skip taking additional steps as the carrier handles the payment on their behalf.

Level-Funded Plans: These plans often incorporate the PCORI fee into their rates. Nevertheless, employers should confirm this with their carrier to ensure compliance.



The PCORI fee has risen from \$1 at 2010 inception to a current amount of \$3.22. The fee is rising at around \$.21 annually. ³

CALCULATING AND PAYMENT

While the PCORI fee might be considered relatively low, at \$3.22 per covered life annually, the cumulative amount can be significant for large employers. Therefore, it's crucial for employers to accurately calculate and pay the fee in a timely manner to avoid potential IRS penalties and overpayments. Even though specific terms for non-payment are not explicitly outlined, it is considered an excise tax, and along with financial penalties, could create unnecessary burdens to rectify with the IRS.

The PCORI fee is based on the average number of lives covered under the plan, which includes both employees and their dependents. In calculating the covered lives, employers must also consider any COBRA coverage offered, as well as retirees and former employees still covered by a plan.

However, policies or plans that only provide limited benefits or assistance, such as vision or dental-only, disease management, wellness programs, and most flexible spending arrangements, are not subject to the PCORI fee. Programs established by the federal government, such as Medicare, Medicaid, and the Children's Health Insurance Program, are also exempt from the tax. Plans and policies designed specifically to cover employees working and residing outside the United States are exempt as well.

The fee applies to policy or plan years ending on or after October 1, 2012, and before October 1, 2029. The PCORI fee is filed using Form 720. Although Form 720 is a quarterly return, for PCORI, Form 720 is filed annually only, by July 31.¹



The IRS offers three approved methods of calculating the payment:

Actual Count Method: Count the total number of covered lives for each day of the plan year and divide by the total number of days in the plan year

Snapshot Method: Count the number of covered lives on a specific date each quarter (or an equal number of dates) and divide by the number of dates used.

Form 5500 Method: Use the number of participants reported for plans that file Form 5500. Larger groups generally use this method.

With a **deadline of July 31st** for the previous plan year, the tax is paid in the second quarter using IRS Form 720, the Quarterly Federal Excise Tax Return. Most self-funded employers rely on their third-party administrators (TPAs) or accountants to assist with the calculation and filing process.

Originally scheduled to sunset in 2019, Congress extended the PCORI fee for ten years and will continue to impose it through 2029. Indexed to inflation, the current rate of \$3.22 per covered individual has grown from the initial \$1 amount at its creation in 2010. It will most likely increase every year, so it's important to check yearly for the current amount.

PCORI – PATIENT-CENTERED OUTCOMES INSTITUTE

PCORI's purpose has a tangible impact on the healthcare landscape, making the fees paid by employers a valuable investment in the future of healthcare. It supports a wide array of research projects aimed at improving patient outcomes and making healthcare more effective and efficient.

PCORI's primary focus is to put the patient at the center of their studies through clinical effectiveness research (CER). This unique research compares different healthcare interventions to understand which works best for specific populations under specific circumstances.

Since its inception in 2010, PCORI has awarded more than \$4.5 billion to fund over 2,400 patient-centered research projects covering various important and timely healthcare issues, including:

Disease Research: Significant portions of PCORI funding are directed toward research on various diseases, including rare diseases that may not receive substantial attention otherwise.

Healthcare Delivery and Disparities Research: PCORI funds projects that aim to understand and address healthcare disparities among different populations to ensure equitable healthcare access and outcomes.

Patient Engagement: PCORI emphasizes involving patients and other stakeholders in the research process to ensure that the studies address real-world concerns and priorities.

Innovative Healthcare Solutions: Funding is also directed towards innovative approaches in healthcare delivery and chronic disease management, aiming to improve the quality and efficiency of healthcare services.

PCORI's funding has sparked a wave of transformative research projects across the United States, leading to significant advancements in healthcare. These advancements, which have been instrumental in improving treatment protocols for chronic diseases, developing better management strategies for mental health conditions, and fostering enhanced methods for patient engagement in their care processes, offer a beacon of hope for both patients and providers.

PCORI, committed to transparency, provides easily accessible information to the general public through a comprehensive library of healthcare topics and conditions. This library is a result of their extensive research and offers the most recent information and studies on a wide range of topics, including Veteran's Health, maternal morbidity, cancer, COVID-19, and diabetes.



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BOTTOM LINE

The PCORI fee has the potential to be perceived as just another administrative task and tax, but in actuality, it plays a crucial role in funding research that drives better health outcomes. Employers, whether they manage self-funded or fully insured plans, contribute to this important initiative. Understanding how to correctly calculate and file the PCORI fee, as well as recognizing its impact, ensures compliance and highlights the value of these contributions in enhancing nationwide healthcare research and delivery.

The PCORI fee is a prime example of some administrative taxes and fees an employer must consider when choosing a plan for their employees. Reach out to your BenefitMall Compliance Team or your BenefitMall Sales Team to ensure you are up to date with the latest news and information regarding the PCORI fee and other taxes impacting employee plans.

CONTRIBUTOR

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END NOTES

1. Tax News Update – Ernst & Young October 2023
<https://taxnews.ey.com/news/2023-1740-new-dollar-amount-for-pcori-fee-calculation-is-322-per-covered-life>
2. About PCORI
<https://www.pcori.org/about/about-pcori>
3. Patient Centered Outcomes Research Institute Fee May 2024
<https://www.irs.gov/newsroom/patient-centered-outcomes-research-institute-fee#:~:text=The%20fee%20applies%20to%20policy,annually%20only%2C%20by%20July%2031.>