As a result of the Affordable Care Act (ACA), health plan sponsors (e.g., self-funded groups) and issuers of individual and group health insurance policies (e.g., Coventry Health Care) are required to pay a new fee to help fund the Patient-Centered Outcomes Research Institute (PCORI). The PCORI was authorized by the U.S. Congress to provide evidence-based research that will help people make informed health care decisions.

Please note: This guide provides a general overview of the PCORI fee. You should not consider this information to be legal or compliance advice. Furthermore, the information contained in this document is subject to change. Please consult legal counsel for complete information and guidance concerning the PCORI fee.

**HOW MUCH IS THE FEE?**
During its first year, the fee will amount to $1 per covered life, per year, or $0.08 per member, per month (PMPM). During its second year, the fee will be $2 per covered life, per year, or $0.17 PMPM. In following years, it will be indexed to national health expenditures until the fee ends in 2019.

**WHAT IS A “COVERED LIFE”?**
A “covered life” is a participant or beneficiary, in other words, a member of a group health plan.

**WHEN WILL THE FEE BEGIN?**
The fee began to be imposed in 2012 and will be phased out in 2019. The table below gives more detail on the fee amounts that will affect different plan years:

<table>
<thead>
<tr>
<th>Policy or plan years ending…</th>
<th>Fee amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>after September 30, 2012, through September 30, 2013</td>
<td>$1 per covered life ($0.08 PMPM)</td>
</tr>
<tr>
<td>October 1, 2013, through September 30, 2014</td>
<td>$2 per covered life ($0.17 PMPM)</td>
</tr>
<tr>
<td>after September 30, 2014</td>
<td>To be adjusted by the U.S. secretary of treasury, based on medical inflation</td>
</tr>
<tr>
<td>after September 30, 2019</td>
<td>$0 (fee will be phased out)</td>
</tr>
</tbody>
</table>

**WHAT IS THE FEE FOR?**
The fee will fund the activities of the nonprofit Patient-Centered Outcomes Research Institute (PCORI). The U.S. Congress authorized the institute to conduct research that will provide evidence-based information regarding the prevention, diagnosis, treatment, monitoring and management of diseases and other health conditions. This information is intended to help clinicians, policymakers, patients and their caregivers make informed health care decisions.

**WHO IS RESPONSIBLE FOR PAYING THE FEE?**
The organization responsible for paying the fee is determined by whether the plan in question is fully insured or self-funded:

- **Fully insured plans** — Coventry Health Care pays the fee.
- **Self-funded plans** — The employer itself pays the fee. The Internal Revenue Service (IRS) does not intend to develop a process to allow third parties to file and pay this fee on behalf of self-funded employer groups.
WHOM DO I PAY?
The IRS will treat this fee as an excise tax. Therefore, you must file a federal excise tax return (form 720).

WHEN IS THE EXCISE TAX FILING DUE?
You must file excise tax return form 720 by July 31 of the year after your self-funded plan year ends. For example, if the last day of your group’s plan year is October 30, 2012, you will have to file form 720 by July 31, 2013.

HOW WILL I CALCULATE HOW MUCH I NEED TO PAY?
You will need to multiply the average number of covered lives in your plan by the applicable fee. (For example, for your plan year that ends after September 30, 2012, but before October 1, 2013, you will multiply the average number of covered lives by $1.)

HOW WILL I DETERMINE THE AVERAGE NUMBER OF COVERED LIVES IN MY PLAN?
The IRS has proposed several ways in which self-funded plans can determine the average number of covered lives. You must use the same method consistently during the plan year, and you also must use the same method for all policies.

- **Actual count:** Count the total number of lives covered each day of your plan year. Then divide by the number of days in the plan year.
- **Snapshot dates:** There are two methods that you can use to calculate the average number of covered lives (participants). For each, your count should differentiate coverage tier (self-only versus employees with spouse/dependent coverage).
  - **Method 1:** Choose a single day each quarter during the policy year to count the number of covered lives. The day of the quarter should be consistent for each quarterly calculation. After you take the last count for the policy year, add up each quarter’s count and divide by four.
  - **Method 2:** You may also take a count on more than one day within each quarter, as long as the days are consistent for each quarterly calculation. Add up the counts you have taken during the policy year and divide the sum by the total number of days you counted.
  - **Snapshot factor:** You can apply the snapshot factor with either of the two quarterly count methods. Count participants with self-only coverage as one (1) participant. For all other coverage tiers, multiply the number of participants by 2.35. See the example below:

<table>
<thead>
<tr>
<th>Count date</th>
<th># of employees with single coverage</th>
<th># of employees with family coverage x 2.35</th>
<th>Daily Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 8</td>
<td>100</td>
<td>30 x 2.35 = 70.5</td>
<td>170.5</td>
</tr>
<tr>
<td>Feb. 8</td>
<td>110</td>
<td>32 x 2.35 = 75.2</td>
<td>185.2</td>
</tr>
<tr>
<td>May 8</td>
<td>108</td>
<td>29 x 2.35 = 68.15</td>
<td>176.15</td>
</tr>
<tr>
<td>Aug. 8</td>
<td>108</td>
<td>30 x 2.35 = 70.5</td>
<td>178.5</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td></td>
<td><strong>710.35</strong></td>
<td></td>
</tr>
</tbody>
</table>

710.35 ÷ 4 days counted = 177.5875 average number of covered lives

- **Form 5500 method:** Add the total number of members at the beginning of the plan year with the total number at the end of the plan year as reported on form 5500. Then divide the sum by 2.
HOW WILL THIS FEE AFFECT FLEXIBLE SPENDING ACCOUNTS (FSAs) AND HEALTH REIMBURSEMENT ARRANGEMENTS (HRAs)?

The IRS has determined that HRAs and FSAs are self-funded group health plans. Below are special rules that apply to FSAs and HRAs:

• If you do not offer a self-funded health insurance plan other than an FSA or HRA, you can treat each employee’s FSA or HRA as covering a single life. You do not have to count spouses or other dependents.

• If you offer an HRA and/or FSA along with a self-funded health plan and both share the same plan year calendar, then each person covered by both plans would be counted only once. However, unlike plans that offer only HRAs or FSAs, you also will need to count covered spouses and dependents. If the HRA or FSA covers anyone who is not also covered by the self-funded health plan, you must pay the fee for those individuals using the one life per participant rule.

• If your group has fully insured health coverage, the employer will need to pay the fee for HRA or FSA participants in addition to the fee Coventry will pay for the medical plan participants.

HRA/FSA plans will be required to report and pay fees annually by filing form 720, which will be due by July 31 following the end of the plan year.

Self-funded customers should consult with their tax advisor about filing excise tax returns. Please visit www.cvty.com for more information on health care reform.