

IRS Will Not Take Action on Premium Reduction Arrangements in regards to Student Health Coverage until 2017

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Very often, colleges and universities provide health coverage to students at a reduced cost or as a complimentary part of a student package. These packages can offer assistance with tuition, living expenses, etc. and may include a premium reduction arrangement, meaning that the package reduces the cost of student health insurance by way of a credit, reimbursement, stipend, or similar agreement.

The Affordable Care Act contains certain market reforms that apply to group health plans. On September 13, 2013, the IRS published Technical Release 2013-54, which addressed the application of the market reforms to health reimbursement arrangements and employer payment plans under the Affordable Care Act.

Typically, students who receive these packages from their college or university perform services for the school such as serving as a research assistant, teaching assistant, lab assistant, etc. Therefore, the question arises as to whether these premium reduction arrangements are employer-sponsored health plans and if so, whether they are employer payment plans that violate the Affordable Care Act.

An employer payment plan is a package where an employer reimburses or pays on a pre or post tax basis for the medical insurance of its employees. An employer payment plan is subject to an annual dollar limit on essential health benefits and cannot be integrated with individual insurance coverage in order to be in compliance with the Affordable Care Act. This may cause some problems for certain institutions.

The IRS understands that many schools may not be in compliance with the Affordable Care Act market reforms and may not be aware of the 2013 guidance that was released. Therefore, many schools may currently offer premium reduction arrangements that are not in compliance with these guidelines. As a result, on February 5, 2016, the Treasury Department and the IRS issued Notice 2016-17 announcing that no enforcement action will be taken and concluding that a premium reduction arrangement offered in connection with student health coverage fails to satisfy the market reforms of the Affordable Care Act for plans or policy years that begin before January 2017.

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Client Tip: *Colleges and universities should review their policies at this time and make any necessary changes needed to comply with IRS guidance in anticipation for January, 2017.*

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