

Cats or dogs? *I have always had at least one dog, and a cat now and then. Currently I have two dogs. We also feed about five feral cats.*

What do you enjoy most about this profession? *Interacting with others at professional meetings.*

Approximately how many cases have you worked on? *At last count, I have worked on 12,759 personal injury, wrongful death, and/or employment cases over the last 53 years. I am still working but now average only five or six new cases a month. I do not have any staff now. I cut back when I was paralyzed, from the waist down, for two years. I continued to work, while paralyzed, but did depositions and court testimony by phone. My clients are now very accommodating and, for the most part, let me do my court testimony by video deposition. I can, and will travel, if absolutely necessary but, since walking is difficult for me, I would rather testify by video.*

What issue in your work do you find most vexing? *It is rather frustrating when I need additional information in order to complete my report which is not forthcoming until just before the report is due.*

Favorite NAFE meeting location?

Reason why? *San Diego is my favorite. The only reason is that I enjoy San Diego.*

How did you first become involved in NAFE? *In the early days there wasn't a professional association such as NAFE although I thought there should be. There was a group out of California whose name suggested it was a professional association. I forget the name. I wrote them and received a response. It was not a professional association but a franchise operation. The local economist would send file data to "headquarters" who would perform the calculations. The local person would then testify. I didn't want to be a part of that, of course. then decided to start an association but before I was able to do that I heard about NAFE so I joined. I forget how I heard about NAFE. We didn't have internet in those days.*

What is your favorite thing about NAFE?

*When I was more able to travel I enjoyed going to meetings. The topics presented in the meetings were, for the most part, interesting and useful but I mostly enjoying meeting and interacting with other attendees.* •

# Code DD on a W-2 Wage and Tax Statement: An Alternative Way to Determine the Cost of Employer Paid Health Benefits

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When assessing an employee's loss of earnings and benefits or loss of earning capacity, the value of employer-provided health benefits is a consideration the forensic economist (FE) should take into account. Using the actual portion of health insurance costs paid by the employer is a common method of assessing the value of employer-provided health benefits, but this information is often not made available and can be difficult to obtain.

An employer's contribution to medical, dental and vision coverage can be found in the employer-paid benefits section of detailed pay stubs, earnings statements or other pay statements. However, many times this level of detail is not provided.

In these instances, the FE may have to resort to using studies of the average cost or average employer contribution to employee medical insurance, rather than using the actual amounts paid by the particular employer. (See *The Forecast* Volume 30, Issue 3, "Average Cost for Employee Medical Insurance: Comparison Among Three Sources," for an overview of such studies.)

## Form W-2 and the Cost of Employer-Sponsored Health Coverage

This article illustrates an alternative method for finding the portion of costs paid by the employer for employer-sponsored health coverage using the employee's W-2 Wage and Tax Statement. Beginning with Form W-2s issued for the year 2012, the Affordable Care Act required employers who issue at least 250 W-2s annually to comply with newly created reporting requirements.

Employers subject to these requirements need to report the total value of certain types of health care coverage provided to an employee in Box 12 of the Form W-2 with the code "DD" (see Illustration 1). Employers are not required to report this value if the employee separates during year (but they may elect to do so).

### Illustration 1: Example Form W-2, Box 12, Code DD

a Employee's social security number 123-45-6789		OMB No. 1545-0008		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.	
b Employer identification number (EIN) 123456789		1 Wages, tips, other compensation 47500	2 Federal income tax withheld 3680		
c Employer's name, address, and ZIP code Example Company 123 Main Street Anywhere, CA 12345		3 Wages, tips, other compensation 50000	4 Social security tax withheld 3100		
		5 Medicare wages and tips 50000	6 Medicare tax withheld 725		
		7 Social security tips	8 Allocated tips		
d Control number		9 Verification code	10 Dependent care benefits		
e Employee's first name and initial Last name Jane Doe 123 Orange Street Anywhere, CA 12345		11 Nonqualified plans		12a See instructions for box 12 DD   15000	
		13 Disability pay <input type="checkbox"/> 14 Other		12b 12c 12d	
f Employee's address and ZIP code					
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement  
Copy C—For EMPLOYEE'S RECORDS (See Notice to Employee on the back of Copy B.)

2017

Department of the Treasury—Internal Revenue Service  
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Note that the dollar amount reported in Code DD is the total amount paid for the healthcare coverage. This includes both the employee and employer contributions for the calendar year. Since the FE needs only to the employer cost as a measure of the value of such benefits, some additional calculation must be performed.

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## Calculating the Employer Portion of the Cost of Health Coverage

Using the Code DD amount found on the employee's Form W-2, along with an end-of-year pay stub or earnings statement, it is possible to calculate the value of health insurance paid by the employer. This calculation will require the FE to first determine the total amount that was deducted from the employee's pay for health coverage during the year.

The year-end pay stub or earnings statement usually includes a deductions section which details all before-tax deductions. The medical deduction category – that is, the portion of health coverage paid by the employee – is listed as one of these deductions if the employee paid for any part of this coverage (see Illustration 2). The year-to-date (YTD) total reflects the total amount paid by the employee through the period-ending date indicated on that pay statement (\$5,200 in the example illustration).

### Illustration 2: Example Employee Deductions Section of Paystub

Before-Tax Deductions		
Description	Current	YTD
Kaiser Medical Coverage	\$200.00	\$5,200.00

The FE may have to research or inquire as to what pay codes or descriptions reflect pre-tax deductions for health care coverage. The codes or descriptions are not always easily recognizable, and there might be multiple potentially relevant descriptions listed.

It also is important to examine the final pay stub or earnings statement for the calendar year in question using the pay date (sometimes called the check date or advice date) as the relevant indicator for the year in question. For example, the last pay period for a company might cover the dates 12/16/2016 through 12/31/2016, but the actual pay date may be one week later, 1/7/2017. In this instance, the year-to-date totals for earnings as well as amounts for Code DD on this pay stub would be included on Form W-2 for year 2017, not 2016.

The year-end pay stub that should be examined in this example would be for the pay period 12/1/2016 – 12/15/2016, which would have a check date of 12/22/2016. The year-to-date totals on this pay stub should match the amounts listed on the employee's Form W-2 for year 2016.

By using the total cost of health care coverage found in Box 12 on Form W-2, and then subtracting the amount contributed or paid by the employee (found in the year-to date amount on the year-end pay stub or earnings statement), the FE can calculate the net amount the employer paid toward health coverage (see Illustration 3).

### Illustration 3: Example Calculation

2016 W-2 Box 12 Code DD Amount:	\$15,000
Employee Deduction Health Insurance YTD	
Total on paystub paid 12/22/2016:	\$ 5,200
Implied Employer Amount Paid for Health Coverage 2016:	\$ 9,800

## What's Covered and Not Covered in Code DD

Before relying solely on these calculations to determine the value of employer-paid benefits, it's important to recognize that the Code DD amount reported in Box 12 on Form W-2 reflects the total value of certain types of health care coverage – but it may or may not include the value of all health-related benefits. In general, the following coverage types are included in the Code DD amount:

- Major medical coverage
- Dental and/or vision plan premiums that are integrated into the medical plan
- The value of a health Flexible Spending Arrangement that exceeds the employee's salary reduction contributions to the FSA
- Pre-tax contributions to a hospital indemnity or specified illness plan
- Domestic partner coverage included in gross income

Other types of coverage are optional to report – that is, they may or may not be included in the Box 12 Code DD amount. These include dental or vision plans that are not integrated into another medical or health plan, as well as dental or vision plans that give employees the choice of declining or electing and paying an additional premium.

In addition, if an employer provides an employee assistance plan under a group health plan, or offers on-site medical clinics or certain other types of wellness programs, determining whether the value of these benefits are reported on the W-2 depends on whether the employer charges a COBRA premium. If the employer does not charge a COBRA premium, reporting the value of these benefits is optional and again, may or may not be included in the Code DD amount.

The IRS provides a detailed chart of the types of payments that employers are required, not required or optional to include in the Code DD amount (see Illustration 4).<sup>2</sup> As a result of these "optional" reporting categories, it is possible that the FE may not be able to determine exactly which employer-provided insurance benefits are included in the Box 12, Code DD dollar amount.

### Illustration 4: Code DD Reporting Requirements (on right-hand page)

## Conclusion

When performing a loss of earnings and benefits or loss of earning capacity calculation, determining the value of employer-provided health benefits can be difficult if pay stubs or earnings statements do not provide sufficient detail, or when actual amounts are not provided by employers in employment records. In some instances, it's possible to calculate the employer's actual cost of health coverage by using the employee's Form W-2 Box 12 Code DD amount, then subtracting the employee's year-to-date deductions for health coverage found on the year-end pay stub or earnings statement.

Even if there is not enough information available to perform this calculation or the inclusion or exclusion of certain benefits cannot be ascertained, the Code DD amount can still provide valuable information. At a minimum, comparing the value of health benefits estimated using average costs studies to the Code DD amounts reported on the employee's Form W-2s, may assist the FE in assessing the reasonableness of the statistical estimates. In addition, it may alert the FE to unusual relationships or correlations that could help guide them to further investigation.

2. For detailed reporting guidelines also see Internal Revenue Service Notice 2012-9, "Interim Guidance on Informational Reporting to Employees of the Cost of Their Group Health Insurance Coverage," Jan. 23, 2012, [https://www.irs.gov/irb/2012-04\\_IRB/ar10.html](https://www.irs.gov/irb/2012-04_IRB/ar10.html)

## Form W-2 Reporting of Employer-Sponsored Health Coverage

Coverage Type	Form W-2, Box 12, Code DD		
	Report	Do Not Report	Optional
Major medical	X		
Dental or vision plan not integrated into another medical or health plan			X
Dental or vision plan which gives the choice of declining or electing and paying an additional premium			X
Health Flexible Spending Arrangement (FSA) funded solely by salary-reduction amounts		X	
Health FSA value for the plan year in excess of employee's cafeteria plan salary reductions for all qualified benefits	X		
Health Reimbursement Arrangement (HRA) contributions			X
Health Savings Arrangement (HSA) contributions (employer or employee)		X	
Archer Medical Savings Account (Archer MSA) contributions (employer or employee)		X	
Hospital indemnity or specified illness (insured or self-funded), paid on after-tax basis		X	
Hospital indemnity or specified illness (insured or self-funded), paid through salary reduction (pre-tax) or by employer	X		
Employee Assistance Plan (EAP) providing applicable employer-sponsored healthcare coverage	Required if employer charges a COBRA premium		Optional if employer does not charge a COBRA premium
On-site medical clinics providing applicable employer-sponsored healthcare coverage	Required if employer charges a COBRA premium		Optional if employer does not charge a COBRA premium
Wellness programs providing applicable employer-sponsored healthcare coverage	Required if employer charges a COBRA premium		Optional if employer does not charge a COBRA premium
Multi-employer plans			X
Domestic partner coverage included in gross income	X		
Governmental plans providing coverage primarily for members of the military and their families		X	
Federally recognized Indian tribal government plans and plans of tribally chartered corporations wholly owned by a federally recognized Indian tribal government		X	
Self-funded plans not subject to Federal COBRA			X
Accident or disability income		X	
Long-term care		X	
Liability insurance		X	
Supplemental liability insurance		X	
Workers' compensation		X	
Automobile medical payment insurance		X	
Credit-only insurance		X	
Excess reimbursement to highly compensated individual, included in gross income		X	
Payment/reimbursement of health insurance premiums for 2% shareholder-employee, included in gross income		X	
<b>Other Situations</b>	<b>Report</b>	<b>Do Not Report</b>	<b>Optional</b>
Employers required to file fewer than 250 Forms W-2 for the preceding calendar year (determined without application of any entity aggregation rules for related employers)			X
Forms W-2 furnished to employees who terminate before the end of a calendar year and request, in writing, a Form W-2 before the end of that year			X
Forms W-2 provided by third-party sick-pay provider to employees of other employers			X

Source: <https://www.irs.gov/affordable-care-act/form-w-2-reporting-of-employer-sponsored-health-coverage>

## References

"Form W-2 Reporting of Employer-Sponsored Health Coverage," Internal Revenue Service online publication, revised Nov. 2, 2016,

<https://www.irs.gov/affordable-care-act/form-w-2-reporting-of-employer-sponsored-health-coverage>

Internal Revenue Service Notice 2012-9, "Interim Guidance on Informational Reporting to Employees of the Cost of Their Group Health Insurance Coverage," Jan. 23, 2012, [https://www.irs.gov/irb/2012-04\\_IRB/ar10.html](https://www.irs.gov/irb/2012-04_IRB/ar10.html) •