Schedules A & C: A Closer Look

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Introduction

Schedules A & C are attached to Form 5500 and used to report insurance and service provider information, respectively. In this issue brief, we will briefly discuss the basics of each schedule, clear up some common misconceptions surrounding the schedules, and provide a few tips for Form 5500 preparers. Finally, we will preview proposed 5500 reporting changes.

Background

Form 5500 Reporting Requirement
Employers often sponsor one or more ERISA benefit plans that may require a Form 5500 filing. Each separate ERISA plan with 100 or more participants at the beginning of the plan year is required to file a Form 5500. Smaller ERISA plans (fewer than 100 participants) are not subject to Form 5500 filing requirements unless the plan is "funded."

Funded Plans
"Funded" means the plan funds are segregated from the employer's general assets, generally via trust or VEBA, or other separate account. "Funded" is not the same as self-funded or self-insured. Both fully insured and self-insured plans may be considered "funded."

Schedule A

The Basics
Schedule As are used to report insurance information on Form 5500. All commissions and fees paid by an insurance company that are attributable to a contract or policy between a plan and an insurance company, insurance service, or similar organization, are required to be reported on Schedule A. However, fees paid directly from an employer to a broker are not reported on Schedule A.

Tip: It is common for insurance carriers to forego providing Schedule A information for lines of coverage with fewer than 100 participants covered as of the first day of the plan year. However, the 100 lives filing exemption applies to the ERISA plan as a whole; not to individual lines of coverage included under the ERISA plan. Employers should ask insurance carriers for missing Schedule A information when an ERISA plan is required to report on Form 5500 even if the specific line of coverage has fewer than 100 participants.

Stop-Loss Contracts
Further, in most cases, a Schedule A will not be required to report a stop-loss policy that a plan sponsor of a self-insured plan has purchased. This is because in most cases the stop-loss policy is owned by and protects the employer as opposed to the employees. However, there are certain scenarios in which a Schedule A would be required for a stop-loss contract. Specifically, if the policy is issued to the *plan* rather than to the *employer*; if payments under the policy are made to the *plan* rather than to the *employer*; or if policy premiums are not paid exclusively out of employer general assets (e.g., if premiums are paid through a trust or with participant contributions), then a Schedule A to report the stop-loss contract would be required.

Schedule C

<u>The Basics</u>

Schedule Cs are mainly used to report information about service provider fees and other compensation. Schedule Cs are not required for plans that are not funded if participant contributions are obtained through a Section 125 cafeteria plan (i.e., a pre-tax plan). Again, “funded” means the plan funds are segregated from the employer's general assets, generally via trust or VEBA, or other separate account. In addition, Schedule Cs are not required for small ERISA plans (fewer than 100 participants), even if the plan is required to file a Form 5500 because it is funded. Therefore, Schedule Cs are rarely required for most employee welfare benefit plan Form 5500 filings.

Tip: Service providers are only required to be reported on Schedule C if they received at least $5,000 in reportable commission.

<u>Level-Funded Plans</u>

Even in the case of level-funded plans, most will not be required to report information using Schedule C due to the fact that most level-funded plans are not considered “funded” for these purposes and receive participant contributions through the use of a Section 125 cafeteria plan (pre-tax plan). In addition, there may be instances where a Schedule A is the more appropriate schedule to report level-funded plan information. In review, Schedule As report information from insurance carriers, whereas Schedule Cs report information from service providers who do not qualify to have a code under the National Association of Insurance Commissioners (NAIC). Therefore, as it relates to level-funded medical benefits, if the information is provided by an insurance carrier, it should appear on the Schedule A as opposed to the Schedule C.

Proposed Changes

In 2016, the Department of Labor (DOL), Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC) released proposed Form 5500 updates. These have yet to be formally adopted, and there is no clear indication as to when, or even whether, this will occur. If adopted, all ERISA group health plans would be required to file, including those now covered by the filing exemptions for small unfunded welfare plans. Among the other significant changes to the Form 5500 reporting process, service provider information reported on Schedule Cs would be required for small, funded plans, which are currently exempt from Schedule C requirements.

Conclusion

Form 5500 reporting requirements, and whether a Schedule A or C is required, depends on the size of the plan and whether the plan is funded. In most cases, a Schedule A is not required for stop-loss contracts. In addition, Schedule As do not include amounts paid directly to a broker from an employer. Schedule Cs will not be required for most plans and are still rarely required for level-funded plans.