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The Benefits Brief...

FSAs Are The New HRAs

In the past I have repeatedly beaten the drum for health reimbursement arrangements (HRAs) as the tool employers can use to fight health care expense inflation, save health care dollars, and offer instead of health savings accounts (HSAs). However, in light of the new federal requirements, HRAs may be a little more complex to pull off.

The scope of this article cannot detail all the changes that HRAs will experience in the next two years, but here are the big three.

1. Comparative Effectiveness Research (CER) Fees. Generally, HRAs associated with a fully insured health insurance plan or an HRA established with no underlying health insurance will be required to pay a fee to help fund clinical effectiveness research. The fee is \$1.00 per participant. This fee is effective for HRAs with a plan year that ends on or after October 1, 2012.

2. Summary of Benefits and Coverage (SBC). For HRAs that are not "excepted benefits," a standardized eight-page summary of the benefits tendered through the plan needs to be presented to each eligible employee covered by the HRA. The effective date in this obligation is for enrollment periods beginning on or after September 23, 2012.

3. Prohibition on annual and lifetime limits. HRAs are forced to contain no annual or lifetime limits after January 1,

2014, if they are not integrated with an underlying health plan that meets the Affordable Care Act (ACA) prohibition.

Truthfully, we are in a "wait and see" time frame to understand just which rules will apply to HRAs in the future and how they are to be implemented. HRAs may be exempt from one or more of these changes. However, let's take a proactive view of how a cafeteria plan can compensate for a future when HRAs may be restricted by reporting complexity, design or lifetime and annual funding limits.

The annual and lifetime limits the ACA places on HRAs may well make cafeteria plan health flexible spending accounts (health FSAs) a very tasty tidbit on employers' "menu" of benefits.

Switch Employer Health Care Funding from an HRA to an FSA

Let's be right up front, the one big difference between an HRA and a health FSA is the availability of the money. Health FSAs must make the annual election amount available on the first day of the plan year, regardless of the contributions made to date. This may dissuade a few employers, but the gains outweigh the obstacles of an employer prefunded account.

In fact, it's best to remind employers about prefunded health FSAs and then remind them of their tax savings with some dynamic facts. One example might be how a

small employer with 100 employees would still realize a tax savings if they switched from providing \$1,500 to participants in an HRA to making the same amount of flex credits available through a cafeteria plan.

This extreme example assumes a turnover rate of 50 percent that occurs within six months of the beginning of the plan year with the entire annual election reimbursed to those in the health FSA at time of termination. The employer still realizes a savings of almost \$25,000 (see Table 1).

If employers are willing to expend dollars for health care expenses through a health reimbursement arrangement, wouldn't they agree to put those same dollars to work in a health FSA? The money can still be isolated for certain expenses like copayments and deductibles.

Health FSA funds can match employee contributions up to a specified amount. This technique means employers make money available only to those who contribute to the cafeteria plan. Match plans may also encourage participation. Greater employee contributions translate into more tax savings for employers. 🌐

**Table 1
Tax Savings Example**

	Estimated Number of Participants	Average Annual Enrollment Amount	Employee Contributions As Of 12/31	Reimbursements Distributed As Of 12/31	Estimated Annual Employer Savings (7.65%)	Total Employer Savings
Premium Only Plan	80 (20 terms)	\$4,061	\$284,270	\$284,270	\$21,747	
Health FSA	40 (20 terms)	1,500	45,000	60,000	3,443	
Dependent Care	6 (1 term)	3,500	19,250	19,250	1,473	
Transit and Vanpooling	35	1,200	42,000	42,000	3,213	
Parking	60 (10 terms)	2,400	132,000	132,000	10,098	
				(\$15,000) Excess	39,974	\$24,974

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