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Real Choice For Consumer-Directed Health Plans

Part Two

Employers have their own reasons for moving to a high-deductible health plan (HDHP), and agents and brokers have their reasons for suggesting an HDHP platform. But decisions need to be made that go beyond the health plan. *How do you fill the gap that has been created by a higher-deductible product and how are employees kept from feeling neglected and besieged?*

Giving employees choices is one way to make them feel more in control of their benefit dollars. By offering a variety of side accounts along with the HDHP the employer is presenting real choice for consumer-directed health plans (CDHPs).

In my September column I began the discussion about consumer-directed health plans and employer choices. What questions to ask when guiding the employer to select the best side accounts for their employees and the advantage of health reimbursement arrangements (HRAs).

This month I am going to focus on the need for flexible spending accounts (FSAs), answer some commonly asked questions posed by employers, and discuss demographics that drive an employee's choice of side accounts.

Flexible Spending Accounts

Although employers may think that FSAs are trite or old-fashioned, they are still a very strong employee benefit that will save employees and the employer a significant amount of tax dollars. FSAs are true cafeteria plans in which participants choose among a "buffet" of benefits. The participant chooses the level of coverage and the benefits to fit their family demographics.

You might say FSAs are like a comfortable pair of jeans—they go with everything. Including FSAs with a health savings account (HSA) or HRA complements the rest of the benefits package, while providing a diverse workforce with genuine options that fit each individual's requirements.

FSAs with HSAs. Moving to an HDHP does not necessarily mean establishing an HSA. Some participants do not want the responsibility of reimbursing themselves from an HSA. Others realize, sometimes too late, that their annual election amount is not available on the first day of the plan year; and still others realize the advantage of having an HSA and participating in an FSA.

Participants may contribute to both an HSA and a limited FSA. A limited FSA can reimburse participants for vision, dental, preventive care, and post-deductible health care expenses.

With IRS-regulated limits on the amount of money that may be contributed for the year, some participants may require more coverage than can be provided with an HSA. Maximum HSA contributions for 2008 will be $5,800 for family and $2,900 for single coverage. That doesn't go very far when exploring braces or LASIK surgery. A

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limited FSA gives the participant the option of tax savings for expenses that exceed an HSA's maximum contribution amount.

Some employees may choose not to enroll in an HDHP. FSAs are a great way for them to save on expenses not covered by their health insurance plan.

Also keep in mind that FSAs aren't just for health care expenses. They may include options for daycare and adoption expenses, individually owned and employer-sponsored health insurance premiums, and certain other voluntary products the employer might offer.

FSAs with HRAs. HRAs provided by the employer can be available just for employees who choose the HDHP or to all employees. They may reimburse all health care expenses or just items such as a limited FSA.

With an HRA, the employer limits the amount of dollars available for medical expenses. As with the HSA limitations, some participants may require more coverage than is provided through the HRA. An FSA boosts the participant's tax savings for expenses that exceed the HRA maximum reimbursement amounts.

FSAs are a win/win for both employers and their employees. While employees save 25 to 40 percent on qualified expenses, employers do not pay the matching FICA taxes on employee contributions to the plan.

Questions from Employers

1. If an employee selects coverage under an HSA-eligible HDHP, do they have to set up an HSA? No, the participant may take part in the employer's general health FSA or HRA, or a combination of both. The member may also contribute to an HSA and participate in a limited health FSA or HRA.

2. What happens if an employee has a lot of medical expenses early in the plan year? Recent clarification issued from the IRS would allow an employer to fund the HSA to a greater extent for a participant that incurs a large expense. With a health FSA, the annual election amount is available to the participant at any time, and the HRA document can be written to allow access to the funds at the beginning of the plan year or periodically throughout the year.

3. Does the employer have to put the HRA money into a bank account? No, funds must be available to pay eligible claims as they are submitted. HRA claims are paid from the general assets of an employer and not retained in a separate bank account.

4. Are HRA funds available as cash to participants? No, the HRA account funds allocated to an employee may never be available in cash to the participant, their spouse or dependents. HRAs are created to pay for eligible medical expenses only.

5. Can HRAs pay the medical expenses for terminated and/or retired employees? Yes, the HRA can continue to pay the medical expenses for employees who have terminated employment or retired. The plan document must specify these terms and explain how account balances are calculated. For instance, an individual's account at retirement may be capped at the current balance with no more employer credits being added to the balance.

Spenders, Savers and Investors

CDHP participants come in all shapes and sizes. Their financial needs and philosophies differ, too. They can be loosely categorized into three distinct groups: spenders, savers and investors. So, how would these different groups react to a CDHP?

Spenders are participants who require a high level of coverage for medical expenses and cannot financially afford to pay those expenses out-of-pocket. Budgeting is important to spenders and they would be more comfortable with an FSA that pays expenses as they are incurred.

HSAs aren't for everyone. If cash is tight and an employee needs money to pay expenses before the insurance kicks in, then an FSA is usually the best choice. There are no extra IRS forms to file when participating in an FSA.

Savers include those participants electing an HSA option. They think of their HSA as a "medical IRA." They save for future medical expenses, but may dip into the account for medical emergencies.

These employees should choose an HSA and invest for the future if they can afford to pay medical expenses without regularly dipping into the HSA. Some employees can save even more by participating in an HSA and a limited FSA.

Investors of the world would prefer an HSA that is left to grow for future health care expenses. They would also participate in a limited health FSA or HRA to leverage their tax savings and the growth potential of their HSA.

HSAs are a great new way to save on taxes and sock money away for retirement. If employees' 401(k)s or IRAs are "maxed out" (or even if they're not), they can drop about $6,000 every year into an HSA.

Real choices for consumer-directed health plans start with smart decisions by employers and employee education.

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