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Real Choice For Consumer-Directed Health Plans

Many agents and brokers who make an appointment with an employer to talk about health savings accounts (HSAs) wind up talking about flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs). *Why?* Ease of installation, enhanced employee comprehension, and better control over employer dollars expended for health care.

Here's a typical scenario. It's renewal time and the employer may express some concerns about the rising cost of health insurance. Maybe he cannot afford to pay the usual portion of the premiums as he has done in the past. He wants to move to a high-deductible insurance product and establish HSAs for his employees. In addition, he wants to talk about a consumer-directed health plan (CDHP)—*whatever that is.*

The fact is, a CDHP is a broad category for many different plans—both health insurance and so-called side accounts. In the July issue of *Broker World* I talked about the different side accounts that allow employees to save 25 to 40 percent on qualified expenses when they elect to pay those expenses with voluntary payroll deductions on a pretax basis.

But with all these choices, how is an employer supposed to decide what is best for his employees? The option that is right for employers and their employees depends on several factors. Ask your client the following questions to determine which CDHP side account is appropriate for his company's goals and objectives:

1. Do you want to allocate a portion of the premiums you save by moving to a high-deductible health plan into an account for each employee?

Yes means the client is ready to talk about an HSA, HRA or FSA. Employers may contribute dollars to any of these accounts.

No indicates that the employer would prefer to institute an HSA or FSA. The HRA utilizes only employer dollars, whereas the HSA and FSA plans can be funded through employee pretax salary redirection.

2. If you are contributing to a plan, do you want the money you contribute to the side account to be used for qualified medical expenses only?

Yes puts the HSA out of play. Contributions to an HSA can be withdrawn by the participant for any purpose. They would also pay taxes and a 10 percent penalty on funds withdrawn for nonmedical reasons. And some employers simply do not want their employer dollars to be used for anything other than eligible medical expenses.

Claims paid from an HRA or an FSA are adjudicated. That means that someone is looking at every claim to ensure that reimbursements from the plan are for qualified medical expenses. This gives the employer the satisfaction of knowing that his dollars are actually being used for the intended purpose.

No keeps the door open for a discussion of setting up HSAs for participants, in addition to an HRA and an FSA.

3. Do you want your employees to be

able to roll over unused dollars from year to year?

Yes signifies a willingness to allow participants to build wealth in an account that may be used in the future. And, to different extents, all three accounts can have a rollover feature.

The HSA, of course, belongs to the participant and accumulated funds roll forward from year to year.

The HRA may allow participants to roll funds forward from one plan year to the next, and the employer may cap the amount that can accumulate in any participant's account. Or, the employer does not have to allow for a rollover of unused funds.

The FSA may permit participants a 2 1/2 month grace period in which to spend leftover funds from the previous plan year.

No illustrates that this employer would prefer an HRA plan design that does not accumulate funds for participants, or an FSA in which leftover funds are forfeited at the end of the plan year or grace days.

4. Do you want the annual limit of this account to be available to participants on the first day of the plan year?

Yes denotes a preference toward an FSA or an HRA. The HSA will pay out only what has been contributed to date. For participants who live on a tight budget, the HSA just isn't the plan for them.

The HRA may be designed to make the annual election available to participants on the first day of the plan year, or at different intervals—such as monthly or quarterly.

FSAs pay the entire amount of a medical claim up to the annual election amount, regardless of the amount of contributions to date. For the budget-minded participant, this plan lets them pay their medical expenses while contributing a set amount per pay period.

No implies that this employer would prefer his employees to have an HSA or an employer-funded HRA that would make the annual election available on a periodic basis.

If the employer answered *yes* to most of these questions, then an HRA with an FSA would fit seamlessly beside a high-deductible health plan. This type of consumer-directed health plan agenda combines the most sought-after CDHP attributions for employers and their employees.

The HRA Edge

Why do many employers favor an HRA?

- ✔ Both the employee and the employer can share in the financial responsibility of the high-deductible health plan.
- ✔ Employers can make a portion of the funds available on the first day of the plan year and retain control of employer dollars.
- ✔ An HRA eliminates the possibility of funds being used for nonmedical expenses.
- ✔ Employee education is less daunting because HRAs are less complicated than HSAs.
- ✔ No extra IRS forms need to be filled out by participants when filing their tax returns.

Stay Tuned

Next month I will continue my discussion of consumer-directed health plans by explaining why FSAs should always be included in an employer's benefit package, answer common questions posed by employers, and discuss demographics that drive an employee's choice of side account.

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