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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 get employees more engaged in health care purchasing decisions. In light of new requirements set by the Affordable Care Act (ACA), however, HRAs may be a little more complex to pull off.

In September of 2012 I first wrote about this subject. Since that time, both HRAs and health care flexible spending accounts (health FSAs) have been impacted by the ACA.

This article doesn't have space to detail all the changes that HRAs experienced in the last couple of years, but here are the "big three."

1. Comparative Effectiveness Research (CER) Fees. Generally, all HRAs are required to pay the CER fees unless they consist solely of excepted benefits such as vision and dental expenses. 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. For the following plan year the rate will be $2.00 per average covered life with fees indexed each year thereafter. These fees are paid by the employer—the plan sponsor.

2. Because of health insurance prohibition on annual and lifetime limits that started January 1, 2014, and other regulations such as Notice 2013-54 enacted since 2012, HRAs must be integrated with an underlying health plan that is an ACA-compliant employer-sponsored group health plan. "Stand-alone" HRAs are no longer allowed.

3. 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 each year to every eligible employee covered by the HRA. The employer is required to fulfill this requirement. SBCs provided by health plans integrated with HRAs should include HRA language. If this is not the case, then the HRA would need to provide a separate SBC.

This article provides insight into using cafeteria plans to compensate for HRAs' future burden of reporting complexity, cost or design limitations. All these factors may well make cafeteria plan health FSAs a very tasty alternative choice on employers' "menus" of benefits.

Health FSA Bonus

Effective for 2014 health FSA plan years, employers have the option of allowing participants to carry over up to $500 of unused funds from one plan year to the next. The carried-over amount does not affect the maximum amount ($2,500 adjusted for inflation after 2012) of participant salary reduction contributions for the next plan year.

Switch Employer Health Care Funding from an HRA to an FSA

Let's be right up front—the one big difference between HRAs and health FSAs is the availability of the money. Health

Health FSA Employer Savings						
	Estimated Number of Participants	Average Annual Enrollment Amount	Employee Contributed to Date at 12/31	Disbursed to Date at 12/31	Estimated Annual Employer Savings of 7.65%	
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 Reimbursement	39,974	$24,974 Total Employer Savings

FSAs must make annual election amounts available on the first day of the plan year, regardless of contributions made to date. This may dissuade a few employers, but the gains outweigh the obstacles of employer pre-funded accounts.

In fact, it's best to remind employers about pre-funded 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 realizes big tax savings with 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 realizes a savings of almost $25,000 through the cafeteria plan.

If employers are willing to expend dollars for health care expenses through an HRA, surely they'd agree to put those same dollars to work in a health FSA…The money can still be isolated for certain expenses such as copayments and deductibles. And, with the incentive of contributing a match for every dollar a participant contributes, participation in the health FSA could mean even greater tax savings for the employer.

Employer matching contributions means employers make money available only to those contributing to the cafeteria plan. If employers want to contribute lump sums to the health FSA, it would have to be done in a nondiscriminatory manner and could not be greater than $500 of employee elections. For those not making an election to the health FSA this means only $500 may be placed into their accounts. For those making elections, an additional $500 would be placed into participants' accounts.

Special rules apply to employer contributions. Please consult with an advisor prior to establishing employer contributions for cafeteria plans.

Want to learn more about changes to HRAs and health FSAs? Check out our compliance website at *www.wageworks.com/employers/employer-resources/compliance-briefing-center/legislation-and-reform.aspx*

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