

# How and When to Use FSAs, HRAs & HSAs

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# Welcome

- Mike Gendreau, Director, Outreach, Education and Communications, Community Health Options

Health insurance company -  
Licensed in Maine and NH

Qualified Health Plan  
(Marketplace certification)

Consumer Operated & Oriented  
Plan (CO-OP)

Non-profit (501(c)29)



# Introductions

- Susan Dublin, Vice President – Senior Territory Manager at Group Dynamic, Inc.
- GDI is a third-party administrator (TPA) based in Falmouth, ME
- GDI specializes in Flexible Benefits, Health Reimbursement Arrangements (HRAs), Health Savings Account (HSA) Administration, Qualified Transportation Accounts & COBRA Administration services

# GDI's Service Profile

Celebrating our 25th year as an industry leader in administering pre-tax employee benefits, GDI has spent years creating and refining solutions for our clients based on the changing needs of the industry and of our clients.

## TAX ADVANTAGED ACCOUNTS

FSA Administration • HSA Administration • QTA

## BENEFIT ENRICHMENT

HRA Cost Savings • Wellness Credits

## RETIREE SOLUTIONS

HRA Administration • Retiree Billing

## OTHER HR SUPPORT SERVICES

Enrollment • COBRA

## PAYMENT OUTSOURCING

Workers' Compensation Claims

# ACRONYM REVIEW

Acronym	Means	What it Does
HRA	Health Reimbursement Arrangement	Employer-funded account to reimburse employees for qualified medical expenses. IRS Code Section 105.
HSA	Health Savings Account	Tax-exempt trust or custodial account to pay for qualified medical expenses. Must have <u>qualified high deductible health plan</u> . IRS Code Section 223.
FSA	Flexible Spending Account	Cafeteria plan to reimburse qualified medical (or dependent care) expenses. IRS Code Section 125.
LPFSA	Limited Purpose	Limited Med FSA permitted with HSA
CDH(P)	Consumer Driven Health (Plan)	A generic term but used specifically in certain contexts.
QHDHP & HDHP	Qualified High Deductible Health Plan	“Qualified” specifically means HSA-Qualified. An HDHP isn’t necessarily a QHDHP.

# Getting to Designs that Work:

## Compliance

- Knowledge of regulations is key when combining tools!

## Decisions About Design

- How many choices to offer?
- Which tools make the most sense?

## Employee Education

- Complexity increases the need for time & resources.
- Choice means the need for decision tools.

# Riverside Design, LLC

## Three-Year Journey in Consumer Driven Health



# Riverside Design, Inc.

## A Journey in Consumer Driven Health

### Year 1

- Older HMO plan too \$\$\$
- Replaces with HDHP/HRA

### Year 2

- Increase Deductible
- Add FSAs

### Year 3

- Add QHDHP/HSA Option
- Introduce limited purposed FSA
- Add Wellness Incentives



# Riverside Design, LLC

- **Company Specs:**

- 20 employees in Year One of our example
- 10 year old company with consistent growth
- Design, fabricate & market high end home and garden furniture/accessories
- Multi-age population, healthy group, low turnover
- Excellent work ethic – no drama!

- **Current Health Plan to be Replaced:**

\$500 Single / \$1,000 Family Deductible applies only to in-patient care

Out-patient diagnostic covered at 100%

Office visits/pharmacy have low co-payments

# Year 1

## New Plan with HRA

Deductible	Employee Pays First	HRA Pays
\$2,500	\$500	\$2,000
\$5,000	\$1000	\$4,000

### The HRA Solution:

- Design Decision – Simple movement to a higher deductible using one new “tool” in the first year of change.
- Premium savings merits HRA risk factor.
- Employee Education – Small group in-person meeting with printed materials for health plan & HRA.

# A Few Facts about HRAs

- Driven by IRS Code Section 105
- Employer funded only – benefit is NOT taxable to the employee
- Constitute a self-funded health plan that must meet 105(h) non-discrimination requirements
- Affordable Care Act regs has limited their use
- Must have a legal document and summary plan description
- Subject to COBRA
- Very flexible design tool for employers

# Year 2

- Increase Deductible
- Add Employee Liability

## Year 1

### HRA

Deductible	Employee Pays First	HRA Pays
\$2,500	\$500	\$2,000
\$5,000	\$1000	\$4,000

## Year 2

### HRA

Deductible	Employee Pays First	HRA Pays Second	Employee Pays Last
\$3,000	\$500	\$2,000	\$500
\$6,000	\$1,000	\$4,000	\$1,000

### HRA Analysis Year 2:

- HRA function & liability remains the same.
- Employee liability increased at the back end – could have gone to the front end.

# Year 2

- Increase Deductible
- Add FSAs!!

Deductible	Employee Pays First	HRA Pays Second	Employee Pays Last
\$3,000	\$500	\$2,000	\$500
\$6,000	\$1,000	\$4,000	\$1,000

- **Employee has more deductible to pay**
- **Employees & dependents may have other medical, vision, dental or dependent care expenses**
- **FSAs teach savings, cost evaluation & provide tax savings.**

# Some Facts about Medical FSAs

- Allows employees to save **pre-tax** if they anticipate meeting the full deductible or anticipate other expenses
- All Code Section 213(d) eligible expenses
- Employee risk: “Use it or lose it”** except for \$500 Carryover provision
- Employer risk: “Uniform coverage rule”**
- Overall – employees may set aside up to \$2,550
- HRAs and FSAs can coexist - care needs to be taken in education to avoid duplication of reimbursements.

# Year 2

## Double Dipping Caution! FSAs and HRAs

Deductible	Employee Pays First	HRA Pays Second	Employee Pays Last
\$3,000	\$500	\$2,000	\$500
\$6,000	\$1,000	\$4,000	\$1,000

**Use Medical FSA funds for deductible that YOU have to pay!**

**Do NOT use Medical FSA funds when the HRA will pay!**

# Decision Tool: Medical FSAs

Employee understanding:

- Tax Savings
- Use it or lose it (unless \$500 carryover is adopted)
- Use Estimator Tools

## Expense Questions

### Deductible:

Will you meet the first \$500? Y N

Will you meet the last \$500? Y N

Will you meet additional family deductible? Y N

### Other:

Total of all Rx Co-payments

Total of all office visit co-payments

Total Vision & Dental expenses

## Dollars in FSA

\$ \_\_\_\_\_

\$ \_\_\_\_\_

\$ \_\_\_\_\_

\$ \_\_\_\_\_

\$ \_\_\_\_\_

\$ \_\_\_\_\_



# Debit Card used with Medical FSAs

- **Allows direct payment from the FSA to the provider.**
- **Great cash-flow protection for the employee.**
- **Expenses are covered without the need to submit manual claims.**
- **Rules apply about substantiation of charges.**





# Debit Card Substantiation

## IRS Rev. Rul. 2003-43

Type of Charge on Debit Card	Substantiation Required	No Follow-Up Required
Matched Co-pays		●
Transactions at merchants who can electronically validate the expense at the point of sale		●
Recurring Expenses	1 time only	No further substantiation required if subsequent transactions are at the same merchant for the same dollar amount
Dental Care	●	
Vision Care	●	
Medical Care	●	

# Year 3

## Add 2<sup>nd</sup> Health Option: QHDHP + HSA

### Riverside Design changes:

- Growth from 20 employees in Year 1, to 50 employees in Year 3 (13<sup>th</sup> year of business)
- Age is shifting to younger employees who need additional cost & coverage options
- Education, “packaging” and decision-making tools now become very important!**

**Year 3**

# TRADITIONAL HEALTH PACKAGE

**Richer  
Health Plan  
+ HRA**

Deductible	Employee Pays First	HRA Pays Second	Employee Pays Last
\$3,000	\$500	\$2,000	\$500
\$6,000	\$1,000	\$4,000	\$1,000

**Pre-tax  
Account  
Option**

Medical Flex Account

- \$2,500 Pre-Tax Fund
- Use or Lose except for \$500 Carryover
- Covers All Code 213(d) Medical, Vision or Dental Expenses

Year 3

## HSA-Qualified Plan Package

Lean  
Health  
Plan



### Q-HDHP

- \$5,000/\$10,000 Deductible
- All Services except Preventive Care subject to deductible
- HRA provides assistance with deductible

Two  
Account  
Options



### Health Savings Account

\$ 3,350 Single  
\$ 6,650 Family (2015 Indexed Maximums)  
\$1000 catch-up permitted annually 55 or older  
Long term Savings – Investment Growth  
Retirement income

### Limited Purpose Medical FSA

\$2,500 Maximum  
Vision & Dental Only  
Post-Deductible Medical Coverage

# How the HRA works with an HSA plan

COVERAGE LEVEL	PLAN DEDUCTIBLE	EMPLOYEE PAYS FIRST FROM THE HSA OR OUT-OF-POCKET	HRA PAYS
SINGLE	\$5,000	\$1,300	\$3,700
FAMILY	\$10,000	\$2,600	\$7,400

When an HRA is used together with HSAs, the HRA plan design needs to include an employee “front-end” out-of-pocket of at least the **minimum deductible** required for a qualified high deductible plan. (Effective January 1, 2015 the minimum is \$1300 single/\$2600 family.)

# Riverside Design Actual HRA Structure

COVERAGE LEVEL	PLAN DEDUCTIBLE	EMPLOYEE PAYS FIRST FROM THE HSA OR OUT-OF-POCKET	HRA PAYS*
SINGLE	\$5,000	\$2,600	\$2,400
FAMILY	\$10,000	\$5,200	\$4,800

Riverside opts for a more “shared” cost design for this HRA, with the idea that when employees have a bigger stake in the risk, they will take a greater interest in researching cost of health care and in wellness\*.

# Two Pre-Tax Account Options!

## Health Savings Account (HSA)

- Employee-owned bank account
- Rolls over year to year for life
- Pre-Tax contributions from employee + tax-exempt contributions from employer allowed
- Disbursements always tax-free for health expenses
- Disbursements for any reason taxed as income at age 65
- Growth in mutual funds over the cash account level is tax-free
- Under age 65 penalty for use of funds for non-healthcare expense

## Limited Purpose Medical FSA

- Allows up to \$2,550 for Vision and Dental only
- Provides additional tax-savings over the HSA
- Protects the growth of the HSA when you have predictable vision/dental expenses
- Has “use it or lose it” feature + uniform coverage rule
- Post-deductible feature



Year 3

# Decision Tools for Employees

## HSA-Qualified Plan offers:

- Reduced premium expense
- Health Savings Account with pre-tax savings & long-term tax-exempt growth!
- Used with Limited Purpose Medical for annual vision/dental the tax savings & investment growth increases!

## But....it may not be right for you if....

- You have pre-existing medical conditions with high expected cost
- You have high-cost pharmacy expenses
- You are not able to budget the funds to cover costs and contribute to the health savings account.

# Wellness:

- Quick update on regulations
- Incentives in HRAs or other accounts

A wellness plan will be considered a group health plan if it provides or pays for medical or health benefits. When deemed a group health plan, a myriad of regulations apply.

Examples of “pays for medical or health benefits”:

- Health risk assessments that deliver diagnostic information
- Wellness plan activity goal is completion of age-based preventive care services, covered by the plan
- Incentive to employees is non-taxable cash contributed to a Medical FSA, HSA or HRA.

# The Compliance Monster & Wellness Plans



Federal income tax

Cafeteria Plan Issues

HSA eligibility and discrimination issues

HRA benefits discrimination issues

HIPAA compliance issues

COBRA compliance issues

ERISA compliance issues

GINA compliance issues

ADA compliance issues

ADEA compliance issues

Health care reform compliance issues

# Simple wellness approaches to avoid The Compliance Monster



- Host monthly health informational lunches & serve health foods
- Encourage an employee weight-loss club by providing a space company mugs or water bottles
- Add a nurse-line to your health plan or provide flu shots
- Sponsor a health fair where no medical tests or screenings are done

Thank you!

Questions?

