



## Flexible Spending Accounts Complete the Benefits Package

**“You complete me.”** Yes, it’s a sappy line from a movie; but it couldn’t be more accurate when talking about flexible spending accounts (FSAs). An employer’s benefits package just isn’t complete without one.

*Giving employees choices is one way to make them feel more in control of their benefit dollars. By offering FSAs, the employer is presenting real choice for their employees.*

We’re going to focus on the need for FSAs, answer some commonly asked questions posed by employers, and discuss demographics that drive an employee’s choice of flexible benefits plans.

### Include 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 where participants choose among a “buffet” of benefits. The participant chooses the level of coverage, and the benefits to fit their family demographics.

And, FSAs are like a comfortable pair of jeans – they go with everything. Including FSAs with a Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA) completes and compliments the rest of the benefit package, while providing a diverse workforce with genuine options that fit each individual’s personal situation.

### FSAs with HSAs

Moving to a high-deductible health plan (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 healthcare 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 2010 are \$6,150 for family and \$3,050 for single coverage. That doesn’t go very far when paying out-of-pocket for braces and LASIK surgery. A limited FSA gives the participant a way to enjoy tax savings for expenses that exceed the HSA maximum contribution amounts.

Some employees, when given an option, may not enroll in the high-deductible health plan. 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 healthcare 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

Health reimbursement arrangements (HRAs) provided by the employer can be available just for employees who choose the HDHP or to all employees. They may reimburse all healthcare expenses or just those items like a limited FSA.

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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 can be 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 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 high-deductible health insurance plan, 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 employee 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 the 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 can only pay for eligible medical expenses and may be limited by the employer.
5. Can HRAs pay the medical expenses for terminated 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

However, HDHP 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 an HDHP?

“**Spenders**” are participants that require a high level of coverage for medical expenses and cannot financially afford to pay those expenses out-of-pocket and maintain an HSA. Budgeting is important to spenders and they may 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 can be their best choice. And, there are no extra IRS forms to file when participating in an FSA.

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The category of “**Savers**” includes those participants electing the 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 healthcare expenses. They would also participant in a limited Health FSA or HRA to leverage their tax savings and growth potential of their HSA.

HSAs are a great way to save on taxes and sock money away for medical-related expenses in retirement.

With all the recent focus on HSAs and HRAs, don’t forget to incorporate the tried and true FSA into your benefits package.

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