



Real Choice for Consumer Directed Health Plans

It's renewal time and an employer expresses concern about the rising cost of its health insurance; maybe it can't afford to pay the usual portion of its premiums as it has done in the past. The employer wants to move to a high-deductible insurance product and establish a "side account" – a Health Savings Account (HSA) – for their employees; they want to talk about "Consumer Directed Health Plans" (CDHP).

We've consulted with many agents and brokers who have met with employers to talk about high-deductible insurance plans paired with a Health Savings Account (HSA). Inevitably, they wind up talking about Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs).

Why? Ease of implementation, enhanced employee comprehension, and better control over employer dollars spent for healthcare – with an HRA and/or FSA.

There is a broad misconception in the market place that an HSA is the only option an employer has to offer alongside a qualified high-deductible insurance plan. Not so.

When we talk about CDHP, we're referring to a broad category of plans – both health insurance and so-called "side accounts." Side accounts – FSAs, HRAs, and HSAs – allow employees to pay for healthcare expenses with tax-free dollars.

With multiple "side account" options available, how is an employer to decide what is best for its employees? The option that is right for employers and their employees depends on several factors.

To help employers through the decision process, ask them the following questions to determine which CDHP side account is most appropriate for their goals and objectives:

1 *By moving to a qualified high-deductible health plan, do you want to allocate a portion of the premiums you will be saving into a "side account" for each employee?*

"**YES**" means they are ready to talk about an HSA, HRA, or FSA. Employers may allocate dollars to any of these "side accounts."

"**NO**" eliminates the HRA option because only the employer can fund an HRA. However, an FSA or HSA could be made available for employees that want to voluntarily contribute pre-tax dollars to pay for expenses not covered by their health plan.

2 *If you contribute money to an account for your employees, do you want to designate how the funds are spent?*

"**YES**" means an HRA is the only choice. For example, let's say you offer a qualified High Deductible Health Plan. To soften the impact of the higher deductible, you also provide an HRA to pay the first \$750 of prescriptions and other covered expenses that fall below the deductible.

"**NO**" means an employer is not concerned about restricting which healthcare expenses an employee pays with the side-account. This leaves the door open to an HSA. For example, an employee is free to use the HSA for over-the-counter medicines or big ticket items like Lasik eye-surgery and orthodontia. Also, subject to IRS penalties and interest, contributions to an HSA may be withdrawn and used to purchase "non-healthcare" items. Unlike payments from an HRA or FSA, which require third-party verification, payments from an HSA are not subject to third-party approval.

3 *Do you want your employees to be able to roll over unused dollars from year to year?*

"**YES**" signifies the desire to give employees the choice to use unused account dollars in the future. And, to different extents, all three accounts can or do have a rollover feature.

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

With an HRA, the employer decides how much, if any, of the participant's account balance will roll forward from one plan year to the next.

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The FSA may permit participants a 2-½ 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 where leftover funds are forfeited at the end of the plan year.

4 Do you want the annual limit of this account to be available to participants when they need it?

“YES” denotes a preference towards an FSA and/or an HRA.

The employer can design the HRA to make the annual election available to participants on the first day of the plan year, or at different intervals – like monthly or quarterly.

FSAs give the participant access to the entire amount of their annual election (anytime during the year) to pay a medical claim, regardless of the amount of contributions made to date. For the budget-minded participant, the FSA allows them to pay medical expenses (early in the year when they need it most) while contributing a set amount to their FSA each pay period, over a 12-month period. And remember, employers can also contribute to an FSA.

“NO” implies that this employer would prefer an employer-funded HRA that would make the annual election available only as funds are deposited into the participant’s account. An HSA would also work for this employer.

The HSA only pays out what has been contributed to date. For participants who live on a tight budget, or need immediate access to their side account, the HSA isn’t the plan for them.

If the employer answered “YES” to most of these questions, then an HRA and/or an FSA would fit seamlessly alongside a qualified high deductible health plan (HDHP). This type of consumer directed health plan combines the most sought-after CDHP attributes for employers and their employees.

Why employers favor HRAs and FSAs

- Both the employee and the employer can share in the financial responsibility of the HDHP.
- With an HRA, employers decide if the funds, or a portion of the funds, will be available when the employee needs them the most, e.g., early in the plan year when it is needed to cover deductibles. Of course, FSA dollars are always available on the first day of the plan year.
- Both the FSA and HRA eliminate the possibility of funds being used for non-medical expenses, because all payments must be verified by a third party. In contrast, third-party verification is not required with an HSA.
- FSAs and HRAs are easier to set up because a separate custodial bank account is not required for each participant.
- With an HRA, the employee can also have a full FSA without the hassle of using a “limited FSA” to cover dental and vision expenses, as is required with an HSA account.
- With an HRA or FSA, there are no extra IRS forms to be filled out by participants when filing their tax return.

So, when you’re helping your employers work through the dilemma of how best to deal with the rising costs of healthcare, remember FSAs and HRAs can be paired as a “side account” with any health plan, including an IRS qualified HDHP, and might just be a better option, for everyone. ◊

When you’re helping your employers work through the dilemma of how best to deal with the rising costs of health care, remember FSAs and HRAs can also be paired as a “side account” with any health plan, including an IRS qualified HDHP, and might just be a better option, for everyone.

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Which "side-account" is best to pair with your qualified HDHP?

	<i>Option 1 - HRA and/or FSA</i>	<i>Option 2 - HSA</i>
1	Can be paired with any health plan including an IRS qualified HDHP.	Can be paired only with an IRS qualified HDHP.
2	Employer determines contribution maximums.	The IRS sets contribution maximums ¹ .
3	Employer and employee dollar allocations ² may be separated.	Employer and employee contributions are co-mingled.
4	May cover all qualified §213(d) medical, dental, and vision related expenses. However, HRAs can also be limited to cover only certain expenses. For example, a common HRA plan design only covers prescriptions and patient responsibility for medical deductibles.	Must cover all qualified §213(d) medical, dental, and vision related expenses.
5	All money ³ is available to pay expenses on day one of the plan year, when employees need it the most.	Money is available only after contributions are deposited into the account.
6	Money can only be used for qualified healthcare products and services. The IRS REQUIRES employers or third party administrators to approve expenses before reimbursement and to verify that flex benefit card swipes were for qualified benefits.	Money can ALSO be used for NON-healthcare related products and services. The IRS does not allow employers or third-party administrators to approve expenses before reimbursement, nor to verify that card swipes were for qualified expenses.
7	Any employer or employee elections that are not used for expenses incurred during the plan year, will revert back to the employer ⁴ .	Any employer or employee contributions that are not used for expenses incurred during the plan year, will remain in the employee's HSA account. The HSA is a custodial account that is owned by the employee.

¹ 2009 contribution limits to an HSA are \$3,000 for an individual and \$5,950 for a family.

² Only the employer can make contributions to the HRA. Both employers and employees can contribute to the FSA and/or HSA.

³ The employer determines how much, and when, the money is available for the HRA. FSA dollars are always available on day one of the plan year.

⁴ The employer determines what portion of HRA dollars, if any, roll from year to year. FSA dollars are allowed to rollover up to 2-1/2 months after the plan year ends.

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