Putting HRAs and HSAs to Work for You
What Employers Need To Know
But first…

American Fidelity Administrative Services, LLC does not provide tax or legal advice. While we’re happy to provide you with this general information, given the complexity of these rules, we encourage you to contact your tax or legal counsel about how the requirements apply to your specific plans or situation.
Employers are operating in a rising cost environment

The future will likely bring upward pressure on premium, as well as out-of-pocket expenses such as deductibles, co-payments and coinsurance

Employers seek ways to bridge rising costs and increase employee involvement in healthcare decision making

**HRAs and HSAs are two options**

Are they the right tool for you?
Health Reimbursement Arrangements
Why a Health Reimbursement Arrangement (HRA)?

• More control – employer defines what expenses the HRA will reimburse

• Greater flexibility – employer chooses plan design options

• Assist with out-of-pocket expenses without changing cost sharing under the plan
Why An HRA?

• Move toward a “defined” contribution model – employer controls the total cost of offering the HRA, vs trying to chase rate hikes with ever-increasing caps

• Valuable in budget-sensitive situations, as HRAs can address rising costs while easing the move toward higher deductibles

• Can also assist in employee retention
HRA Highlights

• May be offered with a higher deductible health plan (but not required)
• Grace periods for terminated employees allowed (but not required)
• Carryovers from year-to-year allowed (but not required)
HRAs - Keeping it “Old School”? 

One minute history lesson

- Health Reimbursement Arrangement (HRA)
- Date back to 1970s; tax treatment clarified by IRS in 2002
- Employer funded arrangement used to reimburse employees for qualifying medical expenses on a tax-advantaged basis
ACA Limits the Utility of HRAs

• Passage of the Affordable Care Act restricted use of HRAs

• No longer possible to reimburse employees for purchasing their own major medical coverage

• Only fully integrated group coverage HRAs paired with a group health plan allowed after passage of the ACA, with a couple of minor exceptions
HRAs Enjoy a New Renaissance

- Regulatory space created to allow new HRA designs
- These federal regulations take effect for plan years beginning on or after January 1, 2020
- Authorize two new types of HRA
New HRA Options

• The “Individual Coverage” HRA, or ICHRA – for employees not eligible for the employer sponsored plan; can reimburse qualifying individual insurance premiums
Individual Coverage HRA (ICHRA)

- For employees not eligible for employer-sponsored group health plan
- 11 different employee classes can be used to define eligibility
- Offered to each employee in the same class on the same terms
- Unlimited employer contributions
- Can reimburse employees for the cost of individual health insurance policies
- Can payroll deduct balance of premiums pre-tax
- Can structure to be QHDHP/HSA compatible
- Can structure to satisfy ACA Employer Mandate requirements
New HRA Options

The “Excepted Benefit” HRA, or EBHRA – for employees eligible for the employer sponsored plan; can reimburse up to $1,800 per year for qualifying out-of-pocket medical expenses and excepted benefits
Excepted Benefit Health Reimbursement Arrangement (EBHRA)

- Available to all employees eligible for employer-sponsored plan
- Reimburses only excepted benefits such as dental, vision, short-term limited duration insurance, and COBRA
- Can be used by employees who decline coverage under the employer-sponsored plan
- Employer funds up to $1,800 per employee, per year for qualifying excepted benefits
- No reimbursement of Medicare or individual health insurance premiums
Everything Old Is New Again

• Still on the table: the “Group Coverage” or “Integrated” HRA

• This type of HRA is designed to be paired with an employer sponsored traditional group health plan

• Must meet IRS integration rules
Compliance Requirements - HRA

• Must have a written plan document
• No cafeteria plan funding or cash out allowed
• Only employer contributions; funding rules are complex
• As a self-insured plan, must perform Section 105(h) nondiscrimination testing
• May have to include in FLSA regular rate-of-pay overtime calculation
• Claims must be substantiated and adjudicated; employer must review appeals
Compliance Requirements - HRA

An HRA is a group health plan, which means the following laws apply:

- HIPAA special enrollment, administrative simplification and privacy rules
- Medicare Part D coordination and disclosure
- Medicare Secondary Payer rules
- COBRA
- ACA requirements, including Summary of Benefits and Coverage, notice of grandfathered plan status, and appeals and external review
- ERISA, for non exempt employers
Compliance Requirements - HRA

And, HRAs are subject to other federal mandates for group health plans, including:

- Newborns' and Mothers' Health Protection Act (NMHPA)
- Michelle's Law
- Mental Health Parity Act (MHPA), as amended by the Mental Health Parity Addiction Equity Act (MHPAEA)
- Women's Health and Cancer Rights Act (WHCRA)
- Family Medical Leave Act (FMLA)
- Uniformed Services Employment and Reemployment Rights Act (USERRA)
Compliance Requirements - HRA

As well as various federal laws that prohibit employment discrimination, such as the

• Age Discrimination in Employment Act (ADEA)
• Americans with Disabilities Act (ADA)
• Genetic Information Nondiscrimination Act (GINA)
• Title VII of the Civil Rights Act
Pros and Cons of HRAs

Pros

• Employer decides plan design options (within IRC rules)
• Employer controls cost by defining the contribution
• Can be designed to allow for carryovers, grace periods, and spend down after termination

Cons

• Significant compliance requirements, including non-discrimination testing
• Self-administration may be impractical
• Health plan/TPA may limit design options
• Employee contributions not allowed
• Generally not portable
Health Savings Accounts
Health Savings Accounts (HSAs) allow employees to set aside money pre-tax (for federal income tax purposes) to pay for eligible medical expenses and to save for retirement.
Account Ownership

Triple Tax Advantage

Growth Potential
To-Do

- Re-position HSA as a financial tool

- Present in nonmedical financial discussions
  - Tax planning
  - Retirement planning
  - Estate planning
**HRA/HSA Differences**

**HSAs are employee-owned accounts**
- Employees can withdraw funds for any purpose (only Section 213(d) medical expenses are reimbursed tax-free)
- HSAs are completely portable
- HSAs can be funded by employer or employee contributions, either pre- or post- tax

**HRAs are employer-funded reimbursement arrangements**
- HRAs reimburse only those Section 213(d) medical expenses included in the plan design
- HRAs remain with the employer when an employee separates (in some cases, employees can still access funds for a period of time)
- No cafeteria plan funding or cash out
Compliance Requirements - HSA

Employees can only establish and contribute to an HSA if

• Covered by a qualified High Deductible Health Plan (HDHP) and no other non-qualified health plan
• Not participating in a general purpose Healthcare FSA or HRA
• Not participating in Medicare or Tricare
• Not being claimed as a dependent on another person’s tax return

Annual Contribution Limits Apply

• If a single employee is covered by the HDHP, the employee may contribute the self-only coverage maximum.
• If the spouse and/or any tax-dependent children are covered by the HDHP, the employee may contribute the family coverage maximum
# HSA Contribution Limits

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<th>Status</th>
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<th>55+ Catch Up</th>
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Setting the Scene

Let’s talk about your employees’ healthcare concerns

- Out-of-pocket costs
- Personal/family annual healthcare spend
- Fear of large expenses
- Long-term savings needs (into retirement)
Name: “Part-Time” Olivia

- Position: Teacher
- Status: 50% FTE
- Benefits Eligible: Yes
- Elects Medical: No
- Dependents: Spouse and kids
Name: “Part-Time” Olivia

Benefits Needs:
- Receives a pro-rated contribution to benefits based on FTE
- Finds employer offerings too expensive at family coverage level
- Eligible, but chooses not to enroll in employer’s group health plan coverage

Solution:
- Excepted Benefit HRA
- $1800
  - Out-of-pocket medical expenses
  - Premiums for coverage consisting wholly of excepted benefits, such as dental and vision coverage
Name: “No Benefits” Tracey

• Position: Substitute
• Status: Variable hour
• Benefits Eligible: No
• Dependents: None
Name: “No Benefits” Tracey

Benefits Needs:
- In this district, substitutes are not collectively bargained and are the only non-bargained employees
- The district is also facing a sub shortage, and can’t effectively control hours
- At this point, there is no budget to extend the employer sponsored group health plan to include subs

Solution:
- Individual Coverage HRA
- District defines class and selects amount to offer
- Must offer to all employees in defined class on same terms and conditions
Name: “Cautious” Barry

- Occupation: Bus Driver, Assistant Coach
- Age: 58
- Marital Status: Married
- Children: Three (out of home)
- Grandchildren: Two
- Income: <$50,000
- Hobbies:
  - Taking grandkids to sporting events
  - Gardening
  - Playing cards with buddies
Name: “Cautious” Barry

Comfort with Benefits Decisions:
- Wants to save money and ensure he’s ready for retirement
- Isn’t too concerned with additional benefits, due to upcoming retirement
- Appreciates guidance

Sample Benefits Needs:
- High Deductible Health Plan
- Health Savings Account
- Disability Insurance
- Life Insurance
- Annuity
What is the Next Step?

Next steps

✓ Choose the strategy that makes sense for you
✓ Analyze plan design options
✓ Find an administrator
✓ Don’t forget compliance concerns
Questions?

Thank you!

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