

Compliance Challenges

Potential Danger Zones for Reimbursement Accounts

**Presented by
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Before We Get Started

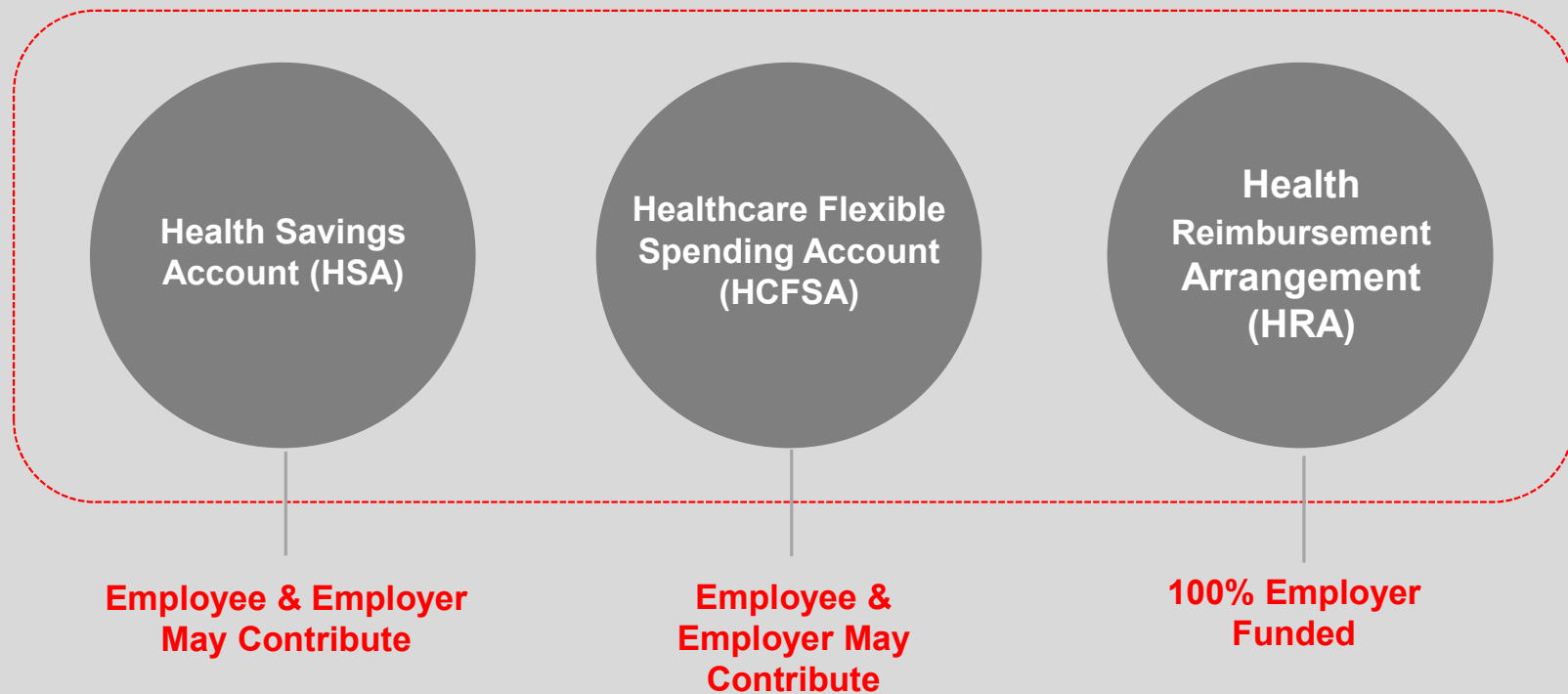
Let's talk about your employees' healthcare finances

Potential Healthcare Concerns & Confusion:

- Out-of-pocket costs
- Personal/family annual healthcare spend
- Fear of large expense
- Long-term savings needs (i.e. into retirement)



Reimbursement Account Options



HCFSA: Employee Savings

Lower taxable income:

- HCFSA contributions are made pre-tax - before federal, social security, and most state taxes, meaning:
 - Employees can reduce their taxable income and maximize their take-home pay

Savings on eligible healthcare expenses:

- Reimbursement contributions allow employees to save when spending pre-tax dollars they otherwise wouldn't have

Federal Tax Rate	Annual FSA Contribution	Estimated Annual Employee Savings
15%	\$1,500	\$415
15%	\$2,600	\$719
25%	\$1,500	\$565
25%	\$2,600	\$979
33%	\$1,500	\$685
33%	\$2,600	\$1,187

For illustrative purposes only. Based on 7.65% FICA and 5% State Income Tax. Individual tax situations may vary. Please consult a tax advisor.

FSA: Employer Savings

Employer Savings:

- FICA tax savings
- Pre-tax employee FSA contributions lower your payroll & FICA tax responsibilities

Other Potential Tax Savings:

- Federal Unemployment Taxes (FUTA)
- State Unemployment Taxes (SUTA)
- Workers compensation taxes

Total # of HCFSA participants	200
Average annual employee election	\$1,500
Estimated annual employer tax savings	\$22,950

For illustrative purposes only. Based on 7.65% FICA. Individual tax situations may vary. Please consult a tax advisor.

Tax Savings Tools Under a Section 125 Plan

FSA's & HSAs

What is Section 125?

How a Section 125 Plan Benefits Your Employees

With a Section 125 Plan, your employees can have their money taken from their paycheck pre-taxed and used for eligible costs.

And since the money is taken out pre-tax, it reduces their taxable income, and allows your employees to take home more money in each paycheck.



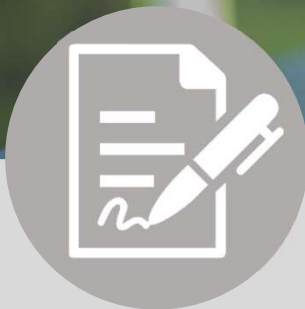
Section 125 Plan Legal Requirements

Section 125 Plan Requirements

- Board Resolution on File
- Written Plan
- Election Changes
- Salary Reduction Agreements
- Non-discrimination Testing



Compliance Requirements to Consider



Plan Documents



Election Forms/Salary Reduction Agreements



Non-discrimination testing



DIG INTO FLEXIBLE SPENDING ACCOUNTS

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Healthcare Flexible Spending Accounts (HCFSA)

What is it?

A Healthcare FSA is a tax-advantaged reimbursement account that allows you to save for eligible healthcare costs **for this plan year.**

	2022
Max Election	\$2,850

What You Need to Know About Healthcare HCFSAs

- **HCFSA contributions lower employees' taxable** income, making each dollar stretch further, depending on the tax bracket of the employee
- Full election amount is available **first day** of the plan year
- Election changes require a **qualifying event** per employer's plan design

FSA Compliance Considerations

- Employer Funded Healthcare
FSA Maximum



If employee has made an HCFSA election:

Option 1:

Employee Contribution	Employer Contribution	Total Available Balance
\$2,850	\$2,850	\$5,700
\$1,000	\$1,000	\$2,000

Employer contributions to the HCFSA do not count toward the statutory maximum.

Option 2:

Employee Contribution	Employer Contribution	Total Available Balance
\$2,850	\$500	\$3,350
\$1,000	\$500	\$1,500

If employee has not made an HCFSA election:

Employee Contribution	Employer Contribution	Total Available Balance
\$0	\$500	\$500

FSA Compliance Considerations



Claims Substantiation



Spouse FSA Rules



Multiple Employers



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Health Savings Accounts

What is it?

An HSA is an individually owned, tax-advantaged account that allows employees to save for eligible healthcare costs now, **and into the future.**



What makes an HSA different than other reimbursement accounts?

- Individually Owned
- Triple Tax Advantage
- Funds Rollover
- Investment Opportunities
- Individuals Responsible for Substantiation



HSA Contribution Limits and HDHP Requirement

HSA Limits	Individual Coverage	Family Coverage
2022	\$3,650	\$7,300

2022 HDHP Limits	Individual Coverage	Family Coverage
Annual Minimum Deductible	\$1,400	\$2,800
Maximum Out of Pocket	\$7,050	\$14,100

HSA Eligibility

- Qualified HDHP
- General Purpose HCFSA or HRA
- Dependent Status
- Medicare or TRICARE



What if Employee Enrolls in Medicare Mid-Year?

If enroll in Medicare mid-year:

- HSA contribution limit is pro-rated.
- Medicare can make coverage retroactive 6 months, but no earlier than the first month became eligible.



Can Someone Have an HSA *and* an FSA or HRA?

Employees may **NOT** contribute to an HSA if they are:

- Participating in a general-purpose Healthcare FSA or HRA
- They can have a Limited Purpose FSA or HRA.
- Transitioning from general-purpose Healthcare FSA to HSA

Transitioning from HCFSA/HRA to HSA

Before an employee can contribute to their new HSA, the employee must

- Reach the end of the plan year for the HCFSA, and
- Fully exhaust the funds in the HCFSA
- Understand employer contribution changes



Other Important Rules

- Spouses with Other Coverage
- Spouses at Same Employer
- Tax Dependents
- Children of Divorced Parents
- Become ineligible





DIG INTO HEALTH REIMBURSEMENT ARRANGEMENTS

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Health Reimbursement Arrangements

What is it?

An HRA is a tax-advantaged reimbursement account that is funded by the employer and is generally used to help employees pay for healthcare expenses not covered by the employee's major medical plan.

It may not be offered in a Section 125 Plan as it must be employer-only funded.



What You Need to Know About HRAs

- **Fully funded by employer-money** to help offset eligible healthcare costs
- Contributions are **non-taxable to employees**
- Generally subject to continuation of coverage provided by **COBRA**
- May have a **Rollover** and/or **Run off** period

Flexibility of an HRA

- Offers greater flexibility because **it's an employer designed** plan.
- Does not have to be paired with a ***qualified*** HDHP.
- Is typically paired with a ***higher*** deductible health plan.
- Only employer may contribute.
- Offers a multitude of plan design options, allowing you to control the total cost of offering the HRA.
- Since HRAs are not required to be pre-funded, you decide if you want to pre-fund or to pay only when an employee files a claim.

Funding Options

1

Upfront

2

Claims are reimbursed up to the allocated amount and the employer is billed for those reimbursements.

Common Types of HRAs

- General Purpose HRA
- Deductible HRA
- Retiree HRA
- And newly available.....



The ICHRA

Individual Coverage Health Reimbursement Arrangement

American Fidelity Can Help

American Fidelity Can Help

- Sample Plan Document
- Sample Board Resolution Language
- Non-Discrimination Testing Worksheets
- Updates Regarding the Laws and Regulations
- Section 125 Benefit Election Forms
- Section 125 Administration Guide
- Compliance Support
- 403(b) Compliance
- Employer Paid FSA
- Employer Mandate

Questions?

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