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Help employees take advantage of changes to FSAs, HRAs and HSAs

Key facts for employers with flexible spending arrangements, health reimbursement accounts and health savings accounts.

Does your company offer employees a health savings account (HSA), a flexible spending arrangement (FSA) or health reimbursement account (HRA)? These plans can help employees enjoy tax-free savings for health expenses they incur. Still, there are a few changes that you'll want to pay attention to, in order to help employees take full advantage of the plans and their perks in the years ahead.

Two key changes to flexible spending arrangements:

» Limit of pretax deduction

Announced June 25, 2012

Starting in 2014, the amount an employee can withhold before taxes for a flexible spending arrangement is reduced to $2,500. The limit is per employee, so a family with two working spouses can both choose to contribute up to $2,500 to his or her FSA.[1]

» New rollover policy

Announced Oct. 1, 2013

FSAs are known for being a "use it or lose it" plan, but employers can now elect to allow $500 of unused FSA contributions to rollover to the immediately following year, while still allowing employees to contribute the pre-tax maximum of $2,500 for each plan year. The only catch is that employers must choose whether they will offer the $500 rollover or if they will offer employees a grace period to spend the funds. The employer can only offer one or the other.[2]

Mandatory health reimbursement account integration:

Announced Jan. 24, 2013

Starting Jan. 1, 2014, HRAs must be integrated with a non-HRA group health plan. This means employers can no longer offer active employees a stand-alone HRA or an HRA tied to an individual health plan that is not considered group coverage. Additionally, employees and former employees participating in the HRA may not be eligible for premium tax credits while enrolled in the plan, so they must be able to permanently opt-out of future HRA reimbursements at least annually. The only exception to these rules are retiree-only HRAs, which are exempt from the Affordable Care Act market reforms.[3]

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Limit on pretax deduction for health savings accounts:

Announced May 2, 2013

Each year HSA contribution limits are announced by the IRS. For 2014, the annual limit for an individual with self-only coverage under a high deductible health plan is $3,300 and for an individual with family coverage it is $6,550. For the year, a high deductible health plan is defined as having not less than $1,250 for individual coverage or $2,500 for family coverage and with annual out-of-pocket expenses (deductibles, copayments, and other amounts, but not premiums) not exceeding $6,350 for individual coverage or $12,700 for family coverage.[4]

Know the difference

There are a few unique differences between tax-free health accounts. Here are the basics:

Health savings account: An HSA can only be offered to individuals covered by a high deductible health plan (and with no other "first dollar" coverage). Contributions can be made by the employee and/or the employer, and unused funds can be rolled over each year. The funds belong to the employee – even if they are terminated or leave their employer.

26 percent of employees are not very or not at all knowledgeable about HSAs.[5]

Flexible spending arrangement: These accounts allow employees to be reimbursed for certain medical expenses. They are employee-paid, generally through voluntary salary reduction agreements. The funds can rollover, but with limitations.

22 percent of employees are not very or not at all knowledgeable about FSAs.[5]

Health reimbursement account: These accounts also reimburse employees tax free for qualified medical expenses, but unlike an FSA, HRAs must be funded solely by an employer. The dollars can rollover, but they can never be credited directly to the employee and belong to the employer if the employee is terminated or leaves their employer.

43 percent of employees are not very or not at all knowledgeable about HRAs. [5]

Sources:

[1] Internal Revenue Service (2012). Internal Revenue Bulletin: 2012-26. Accessed on Feb. 11, 2014, from http://www.irs.gov/irb/2012-26_IRB/ar09.html.

[2] United States Treasury Department (2013). Treasury modifies "use-or-lose" rule for health flexible spending arrangements. Accessed on Feb. 11, 2014, from http://www.treasury.gov/press-center/press-releases/Documents/103113FSA%20Fact%20Sheet.pdf.

[3] Internal Revenue Service (2013). Internal Revenue Bulletin: 2013-40. Accessed on Feb. 11, 2014, from http://www.irs.gov/irb/2013-40_IRB/ar11.html.

[4] Internal Revenue Service (2013). 26 CFR 601.602: Tax forms and instructions. Accessed on Feb. 11, 2014, from http://www.irs.gov/pub/irs-drop/rp-13-25.pdf.

[5] 2014 Aflac WorkForces Report conducted by Research Now on behalf of Aflac during January 2014.

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