



# Bringing Clarity to Reimbursement Accounts

Understanding FSAs, HSAs, HRAs, and DCAs

# Before We Get Into It...

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)

# Understanding Out-of-Pocket Costs

Every health plan has out-of-pocket responsibilities, the degree of coverage varies by plan option

## Costs Covered By Your Health Plan

Preventative & well-visits

Co-insurance (plan share)

Post-deductible expenses

## Costs YOU Must Pay Out-of-Pocket

Deductibles

Prescriptions

Co-payments

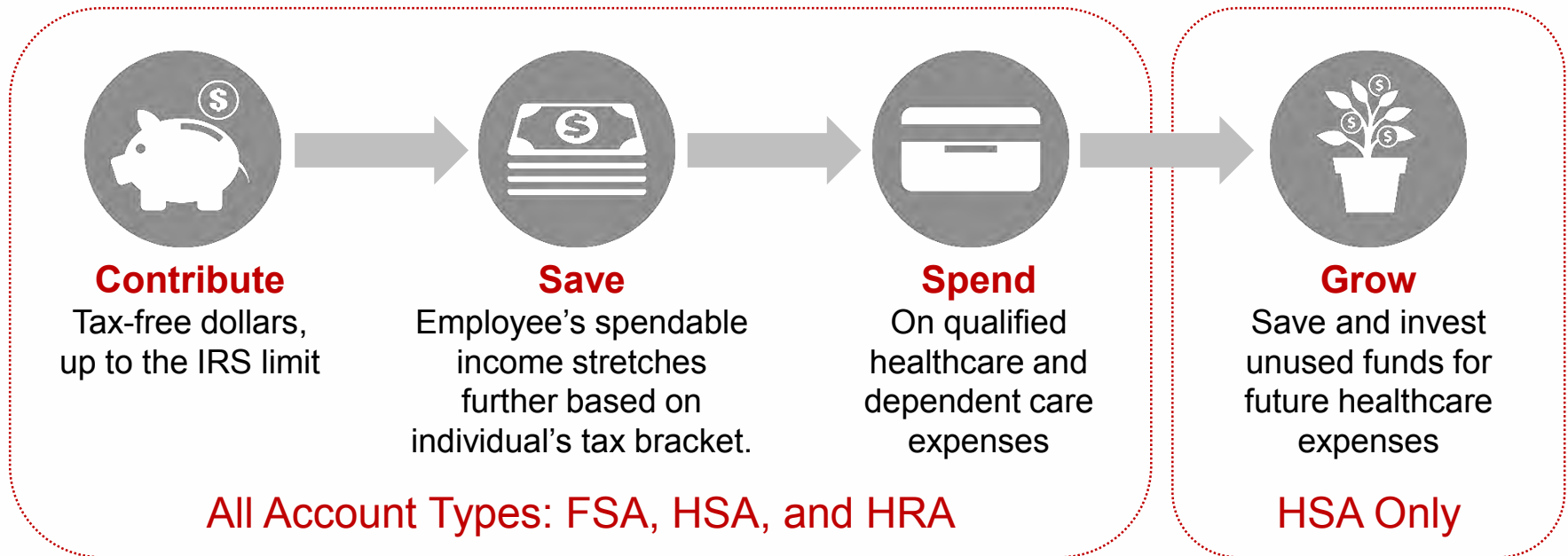
Dental & vision expenses

Co-insurance (your share)

Reimbursement accounts help you minimize cost and maximize value for out-of-pocket spending

# How Reimbursement Accounts Work

An opportunity for employees and employers to save on taxes!







# Account Options

Understanding the options and what makes the most sense for you

**Health Savings  
Account (HSA)**

**Flexible Spending  
Account (FSA)**

**Health  
Reimbursement  
Arrangement  
(HRA)**

## Health Savings Account (HSA)

### **Employee & Employer May Contribute**

Employee Owns the Account  
and can only access up to the  
amount contributed

## Flexible Spending Account (FSA)

### **Employee & Employer May Contribute**

“Use or Lose applies”

## Health Reimbursement Arrangement (HRA)

### **100% Employer Funded**

May have out-of-pocket  
requirements



# Benefits of Offering Reimbursement Accounts



# Employer and Employee Tax Savings

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# 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

## Sample Employer Savings

Total # of FSA participants	200
<hr/>	
Avg. annual employee election	\$1,500
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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.*

# Employee Savings

## Lower taxable income:

- FSA 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 qualified healthcare expenses:

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

### Sample Employee Savings\*

Federal Tax Rate	Annual FSA Contribution	Estimated Annual Employee Savings
15%	\$1,500	\$475
15%	\$2,600	\$813
25%	\$1,500	\$625
25%	\$2,600	\$1067
33%	\$1,500	\$745
33%	\$2,600	\$1,270

*\*For illustrative purposes only. Based on 7.65% FICA and 9% State Income Tax. Individual tax situations may vary. Please consult a tax advisor.*



# A Dig into HSAs

# Health Savings Account

Save for today, save for tomorrow

## 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 You Need to Know About HSAs

- **Triple tax advantage:**
  - Money goes in tax-free
  - Savings grows tax-free
  - Withdrawals are tax-free if used for eligible items
- Account **stays with employee**, even if they change jobs
- **Adjust** contribution amount at **any time** (subject to employer's plan)
- No “use or lose” rule, **save what's not spent**
- Generally, **invest** savings for growth, just like a 401k

# How Do HSAs Work?

## Annual Election Amount:

1. Employee determines at open enrollment
2. Evenly deducted from each pay check – on a pre-tax basis (if employer permits under their plan) – and placed in employee's account
3. Funds are available as they are deposited instead of upfront, like an FSA.

# Using an HSA as an Investment Account

- An HSA also generally provides **investment opportunities**.
- Account holders with an American Fidelity HSA can choose to invest **any balance over \$2,500** into a variety of investment options.
- This is a great way to potentially grow savings for **future healthcare costs or retirement**.

# Who May Contribute?

## **You may contribute to an HSA if you are:**

- 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

# Contribution Limits

Annual contribution limits are based on who is covered by the HDHP.

- 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.

*As the account holder, you may use your HSA funds for your spouse and any tax-dependent children, regardless if they are on your HDHP or not.*



Status	2018 Limit	55+
Single	\$3,450	\$1,000
Family	\$6,900	\$1,000

# Using HSA Funds

You can use your HSA funds to pay for any eligible medical expenses.

- This includes expenses for major medical, dental and vision care, prescriptions, and more.
- Additionally, you can use your HSA funds to pay for certain premiums, including:
  - Long-term care insurance
  - Healthcare continuation coverage (such as coverage under COBRA)
  - Healthcare coverage while receiving unemployment compensation under federal or state law
  - Medicare and other healthcare coverage if you are 65 or older (does not include premiums for Medicare supplemental policies such as Medigap)

# Eligible Expenses

- Medical expenses, including medical bills to cover deductibles and copayments
- Prescription drugs and over-the-counter medications prescribed by your doctor
- Vision expenses (including prescription glasses, contacts and Lasik)
- Dental treatment (including orthodontia)
- Chiropractor
- Immunizations, Flu shots
- Medical exams, X-rays



# Using Funds



- **Benefits Debit Card**

When you use your Benefits Debit Card to pay for eligible medical expenses, the amount is deducted directly from your account.



- **Online Reimbursement**

Request funds online and receive a check or direct deposit into your personal checking or savings account.



- **Distribution Request Form**

Fax or mail a Distribution Request Form to receive reimbursement by check or direct deposit.



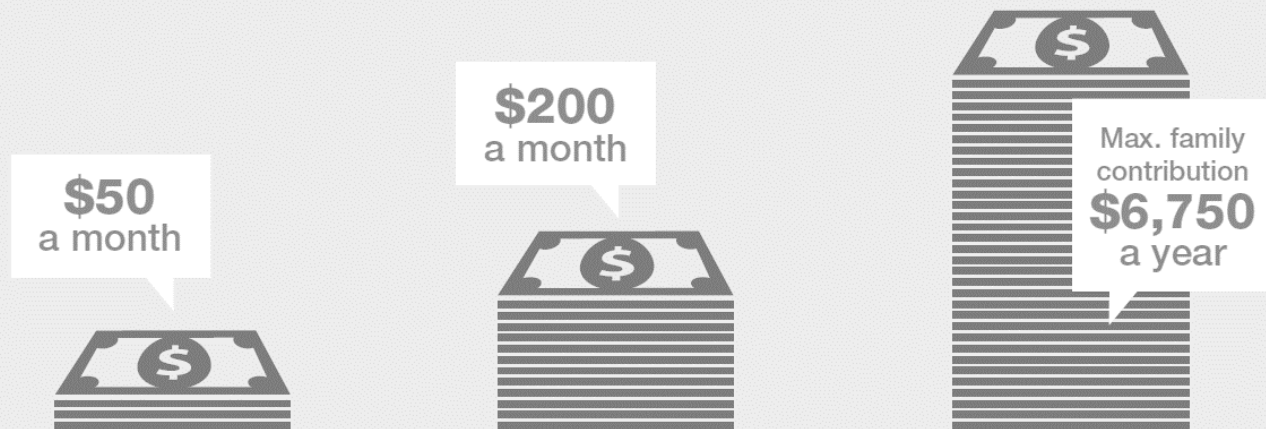
- **Online Bill Pay**

You can request funds online to pay your provider directly from your HSA account.

# Example: Short-Term and Long-Term Savings Potential with an HSA

Let's look at how your employees can save money over time

## A great savings example of contribution over 25 years:



<b>Tax savings</b>	\$4,148	\$16,590	\$45,277
<b>Balance</b>	\$21,876	\$87,502	\$245,972

For illustrative purposes only. Savings calculations are based on a federal tax rate of 15%, state tax rate of 5%, and 7.65% FICA. Balance calculations assume an average interest rate of 3%. Actual results may vary.

This example assumes no use of account for eligible expenses and is based on 2017 contribution limits.





# A Dig into FSAs

# Flexible Spending Accounts

Tax-free savings for medical, dental, and vision

## What is it?

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

	2018
Max Election	\$2,650

# What You Need to Know About FSAs

- **FSA 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**
- An FSA often has a **Run Off** period and can have either a **Carryover** or **Grace Period**, as determined by the employer

# How Do FSAs Work

## **Annual Election Amount:**

1. Employee determines at open enrollment
2. Evenly deducted from each pay check – on a pre-tax basis – and placed in employee's account
3. Full amount available on day 1 of plan year to use on qualified out-of-pocket expenses

# Using FSA Funds: Qualified Expenses

- **Qualified expenses include:**
  - Co-pays, coinsurance, deductibles
  - Dental and orthodontia
  - Eye exams, contact lenses, eyeglasses
  - Prescriptions
  - Over-the-counter medical supplies
  - Lasik



# Employee Benefit Debit Card Spending

- **Gives employees easy access to FSA funds:**
  - Works just like a standard debit card, but funds are spent from the employee's FSA
  - Real time, on-demand access to funds
- **Use to purchase qualified healthcare products/services at:**
  - Physician & doctor offices
  - Hospitals
  - Pharmacies
  - Optometrists / vision care locations
  - Dental offices
  - And, even qualifying retail stores!

# Example: Short-Term Savings Potential with an FSA

Let's look at how your employees can save money today – even if they are only contributing a small amount!

	Not Enrolled in a FSA	Enrolled in a FSA	Benefits
<b>Before-Tax Annual Income:</b>	<b>\$38,000</b>	<b>\$38,000</b>	
FSA Contribution	\$0	-\$500	FSA funded by elected contribution
<b>Taxable Annual Income:</b>	<b>\$38,000</b>	<b>\$37,500</b>	
Taxes (27.56%)	-\$10,127	-\$9,994	Pay less in Federal, state & FICA taxes
Out-of-Pocket Medical Expenses	-\$500	\$0	Out-of-pocket medical expenses paid by your FSA
<b>Take-Home Annual Income</b>	<b>\$27,373</b>	<b>\$27,506</b>	Take-home income increases by \$133

\*Illustration is just an example, incomes, contributions, and tax rates will vary by individual. Percentage of savings is based on individual's tax bracket.

# Pairing Your HSA

You have an option to pair your HSA with a Limited Purpose Flexible Spending Account (LPFSA) to pay for qualifying dental and vision expenses for you, your spouse, and your eligible dependents.

	2018
Max Election	\$2,650



*Participating in both plans allows you to maximize tax savings and tax benefits.*

# Options Instead of “Use or Lose”

- **Runoff Period-** A period after the plan year ends when employees can submit claims incurred during the previous plan year that have not yet submitted
- **Carryover Provision-** Employees may carry over up to \$500 of unused contributions from one plan year to the next, which may be used to reimburse eligible medical expenses incurred anytime during the next plan year.
- **Grace Period-** An additional 2 ½ months following the end of the plan year in which employees may incur FSA expenses and still receive reimbursements.

Runoff (only), Runoff + Carryover, Runoff + Grace Period



# A Dig into HRAs

# Health Reimbursement Arrangement

An employer-funded account to help offset certain out-of-pocket healthcare expenses

## 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 employees 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
- Only employer may contribute
- Employer receives the greatest benefit by offering an HRA, *compared to the other two types of reimbursement accounts.*
- 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 pre-fund or to pay only when an employee files a claim.

# Funding Options

## **1) Upfront**

**2) Employer is billed for claims submitted. Once American Fidelity receives the funds, the participants are reimbursed,**

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

# Choosing the Best Plan For Your Specific Needs

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# A Reimbursement Account to Complement Every Plan

Save on every healthcare dollar spent out-of-pocket, no matter which health plan option

[Name of traditional PPO plan]	+	<b>Flexible Spending Account (FSA)</b>
[Name of HSA-eligible plan]	+	<b>Health Savings Account (HSA)</b>
[Name of HRA-eligible plan]	+	<b>Health Reimbursement Arrangement (HRA)</b>

# Plan Features

- FSA - employer owned to **pay for predictable expenses**
- HSA - limited on type of health plan. Not just for predictable expenses. Pays for certain premiums that FSAs don't. Can be used as a retirement savings tool or to pay for healthcare expenses in retirement. Allows for greater flexibility and utilization.
- HRA - best utilized as a tool to reduce risks for a higher deductible health plan and to reduce total out-of-pocket costs of healthcare.

# What Issue Are You Trying to Solve?

- Want to provide something in lieu of health insurance for your part-time employees? **Consider a Limited Purpose FSA.**
- Want to offer a benefit that saves for the future. **Consider an HSA.**
- Want to offer something that reduces out-of-pocket health costs today. **Consider an HRA.**

# How Are HRAs and FSAs Different?

- An HRA is a reimbursement account set up and funded by the employer to cover eligible healthcare expenses.
- Unlike a Healthcare FSA **where the IRS defines the eligible services**, the **employer chooses which of the IRS defined services will be eligible for reimbursement from an HRA.**
- Typically, an employer will reimburse healthcare services like doctor's office visits and hospital services, and prescription drugs.





# Comparing HSAs, FSAs, & HRAs

Side-by-Side

## HSA

## FSA

## HRA

### Eligibility Requirements

Must have a qualified HDHP and no other disqualified health plan.

No Health FSA specific eligibility requirements.

No HRA specific eligibility requirements.

### Availability of Funds

Funds are available as contributions are made.

The full election amount is available up front at the beginning of the plan year.

Generally, funds are available as contributions are made.

### Changing Contributions Amounts

May change at any point during the year, subject to plan provisions.

May be adjusted at open enrollment or with a qualifying change in employment or family status.

Adjustments may be made at any point, subject to employer design.

### Rollover

Always! Any unused balance rolls over in to the next plan year.

With a few exceptions, FSAs are "use or lose" and you forfeit any unused balance at the end of the plan year

Unused amounts in an HRA may be carried over, subject to employer design.

### Connection to Employer

It's your account. You can take it with you wherever you go.

In most cases, you'll lose your FSA with a change in employer.

In most cases, you'll lose your HRA balance with a change in employer, subject to employer design.

### Effect on Taxes

Contributions are taken out of your paycheck pre-tax. Growth and distributions are tax free.

Contributions are taken out of your paycheck pre-tax. Distributions are tax free.

Accounts are funded by the employer. Distributions for qualified medical expenses are tax free.





# Questions?