Determining the Right PRE-TAX BENEFITS for Your Small Business

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Keep your eyes open for our **click to tweet** *quotes to share them with your friends and clients!*

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INTRODUCTION

According to the Kaiser Family Foundation, the average employer-based health care premium for family coverage has more than tripled between 1999 and 2015. In the last five years, the average premium has increased over 16%.

Employers that are no longer able to absorb these cost increases are asking workers to share more of this financial burden. Many are looking to Consumer Driven Health Care (CDH) to offset more health care financial responsibility.

And we think that's a great idea. That's why we've put together this comprehensive eBook that details all of the pre-tax benefit options, the differences between them and unique ways to use them to best serve your small business.

Competition for great talent is as tough as ever. Offering these types of benefits is a solid recruitment tool that your small business can use to attract high quality candidates. After all, your company's greatest asset is your employees. So once you hire the right ones, it's worth the extra effort to ensure they are taken care of as best as possible.

Average health care premiums have increased >16% in the past 5 years.

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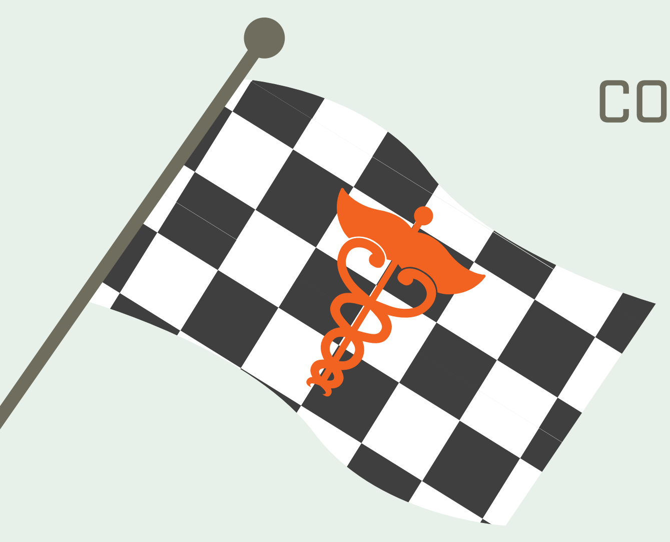


CONSUMER DRIVEN HEALTH CARE: *Full Speed Ahead*

When it comes to health care, consumers have seen rising costs, an increase in plan complexity and more. In partnership with Alegeus, PrimePay is working to educate employers on consumer driven health care, which empowers employees to steer their health care choices smoothly across the finish line.

EXPENSES ADD UP

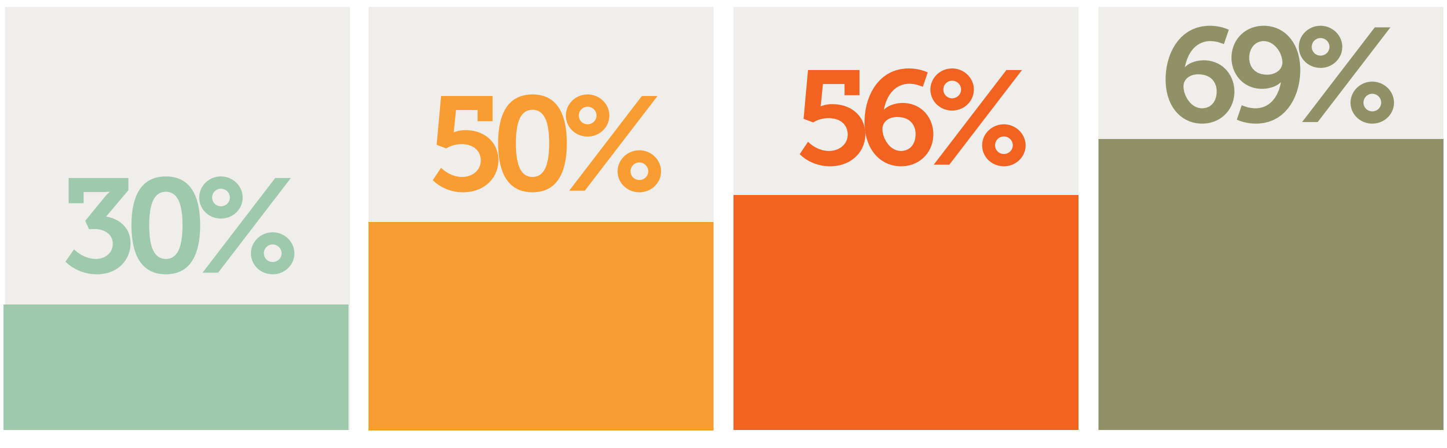
66% of consumers say planning for out-of-pocket medical costs is challenging

45% don't know what their health care expenses will be this year

60% also say managing health care finances are almost as challenging

Health care costs have consistently increased over the last 5 years*

TIME TO EDUCATE: CONSUMERS



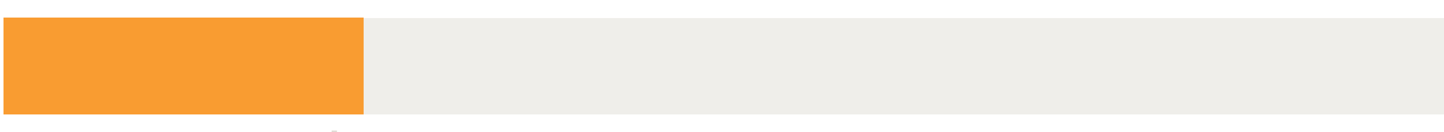
30% understand the basic tax benefits of HSAs

50% understand the basic tax benefits of FSAs

56% of adults age 18-34 say they would use a service to help plan medical expenses

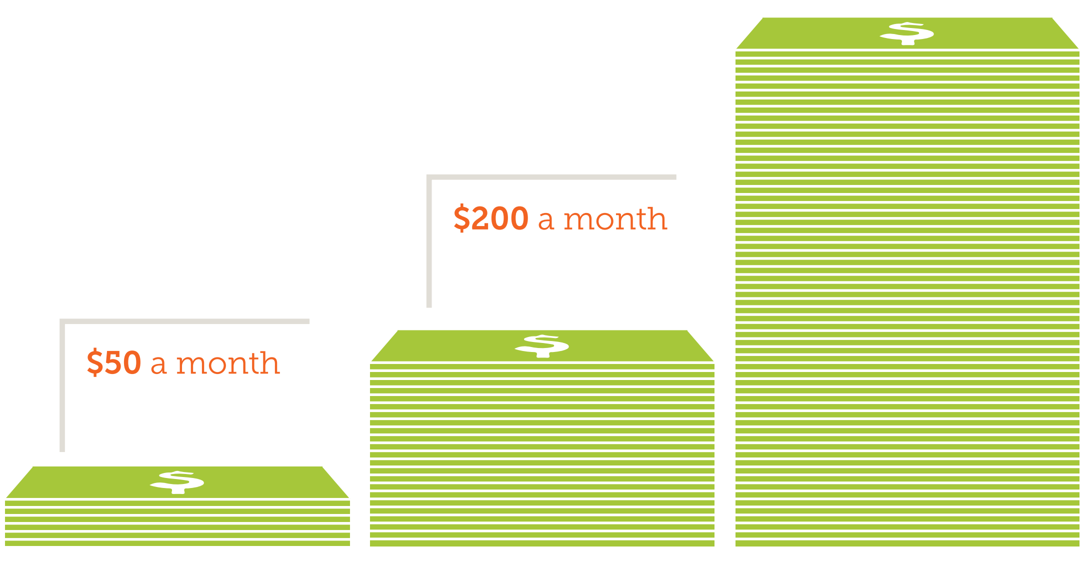
69% of those with a tax benefit plan don't know if they have maximized it

PRE-TAX HEALTH PLANS HELP CONSUMERS SAVE



Only 20-30% of businesses with <50 employees take advantage of pre-tax health options

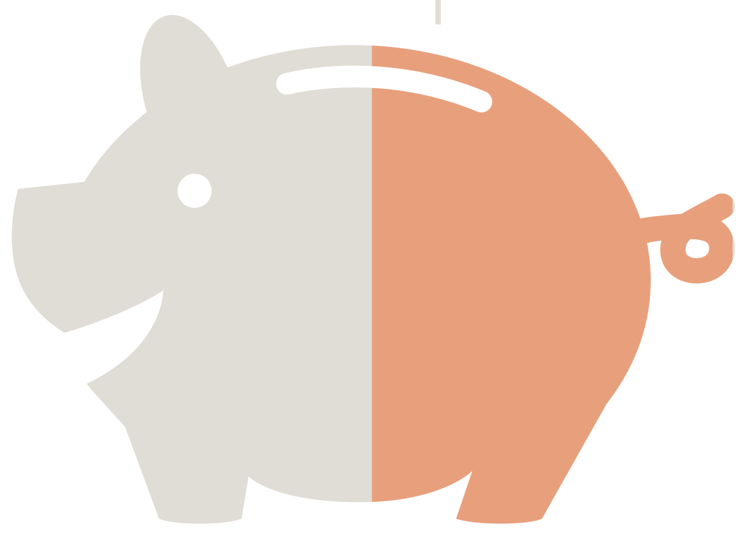
Let's calculate long-term savings in an HSA:



	$50 a month	$200 a month	Max family contribution $6,750 a year
TAX SAVINGS	$4,148	$16,590	$45,277
BALANCE	$21,876	$87,502	$245,972

HSA contributions over 25 years

51% of employers contribute to employee's HSAs - on average **$975***

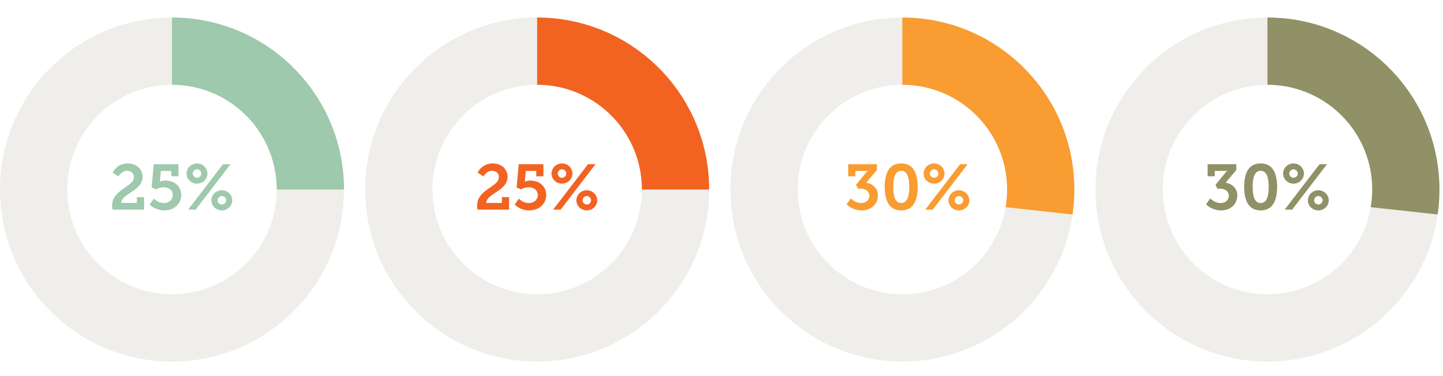


An average employee saves $40.65 per paycheck for every $100 they contribute to an HSA*

FSAs lower your taxable income:

	NOT ENROLLED IN A FSA	ENROLLED IN A FSA	BENEFITS
BEFORE-TAX ANNUAL INCOME	$38,000	$38,000	
FSA CONTRIBUTION	$0	-$500	FSA funded by pre-tax dollars
TAXABLE ANNUAL INCOME	$38,000	$37,500	
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 pre-tax dollars in your FSA
TAKE-HOME ANNUAL INCOME	$27,373	$27,506	Take-home income increases by $133

THE FINISH LINE OF CONSUMER DRIVEN HEALTH CARE



25% are more focused on understanding out-of-pocket costs

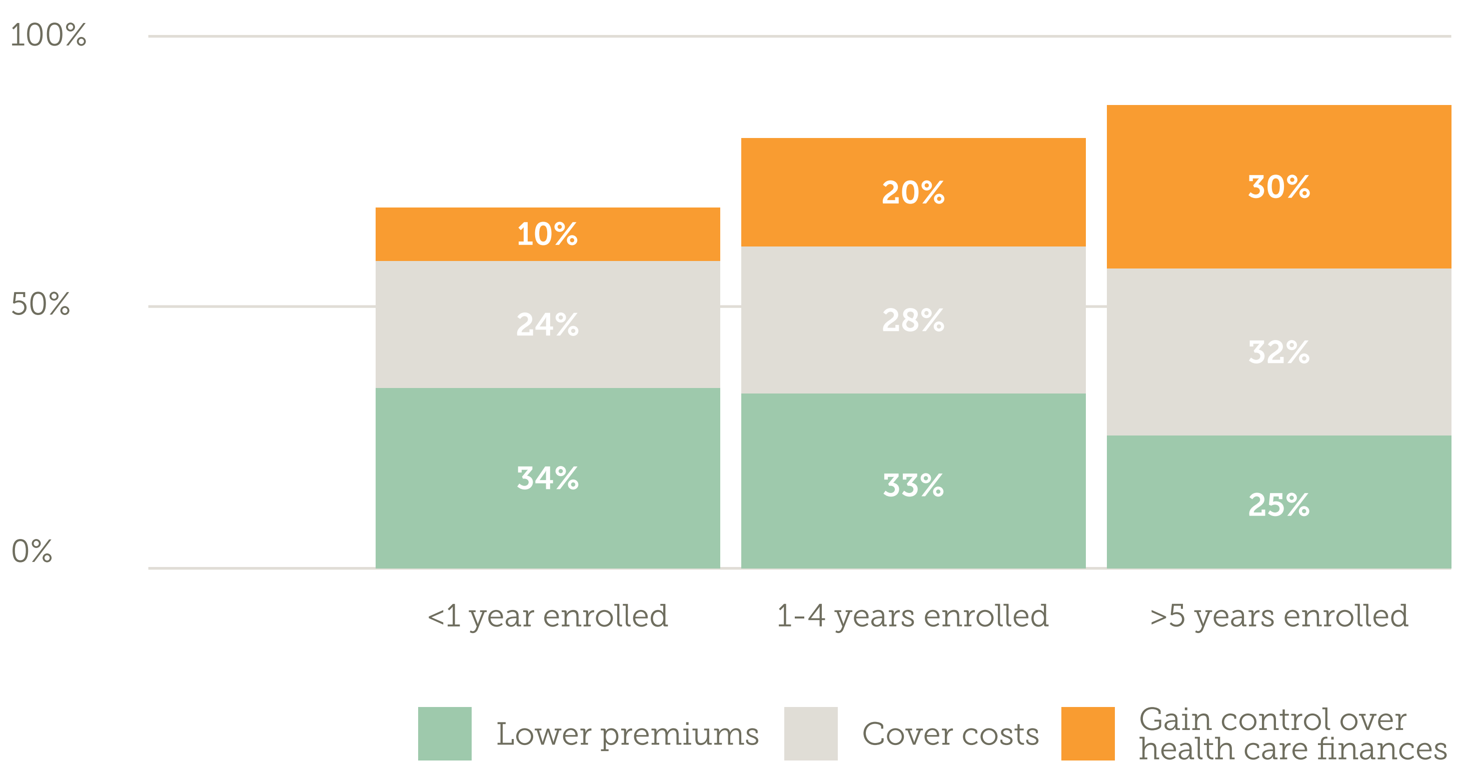
25% are interested in understanding cost implications of different choices

30% are value-conscious

30% are receptive to incentives

WHAT IS THE PRIMARY VALUE OF YOUR HSA?

Over time, HSAs will lower premiums, cover more health care costs and allow consumers to gain more control over their health care finances



Help your employees take advantage of their pre-tax health accounts with assistance from **PrimePay's Benefit Services:**

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Sources: Kaiser Family Foundation and Health Research & Educational Trust
Optum: http://www.theihccforum.com/wp-content/uploads/presentations/2011WestWorkshopA.pdf

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As CDH continues to gain momentum, employers cannot neglect the consumer part of this strategy. The term consumer brings to mind someone who makes informed buying decisions, plans for purchases and cares for the items to prolong its life. Consumerism is a new concept in health care, and many employees are not ready to take on this new role.

Alegeus surveyed 4,000 U.S. consumers to understand their current health care challenges and they found that consumers are not confident with actively managing their health care. Further, they found that consumers are most stressed from planning for out-of-pocket costs. Most of all, consumers want information in simple language.

SUPPORT SYSTEM

If you are considering, or have already rolled out a CDH strategy, do not depend on plan design alone to shape new behaviors. For employees to become real health care consumers, they need tools and support aimed at engaging and empowering them to change behaviors. Here are a few things to consider:

> *Alegeus surveyed 4,000 people to understand health care challenges & found that consumers aren't confident with managing their health care.*

PLAIN COMMUNICATION

Be sure to communicate benefits using language your employees understand and be willing to swap lesser-known industry terms with simple concepts. Instead of using "premium," consider saying: "the portion you pay out of your paycheck." Or, instead of "deductible," you might say: "the portion you are responsible for before the health plan pays."

HUMAN TOUCH

Make sure someone (you, your broker or your carrier) is available to speak with employees and answer their questions. Employees need more live support initially, but as they become more comfortable and familiar with the new plan design, then they will be ready for online tools.

STAY WELL

Incorporate health management programs and incentives in your health plan so employees can enjoy optimal health and wellbeing. Employees who are financially responsible for their health care costs are more motivated to take control of their health. From wellness incentive plans to disease management to health coaching, there are a number of options available.

VALUE SHOPPING

Include tools and resources so employees can comparison-shop pricing. Our current health care system is similar to shopping blindfolded in a store. It's difficult to compare quality and you won't know the cost until the bill arrives in the mail.

FUTURE SAVINGS

If employees are offered a health savings arrangement (HSA), introduce the idea of saving for short and long-term health care costs. Few employees who are eligible to make HSA contributions maximize the savings opportunity and are underfunding their health care savings.

There is a paradigm shift occurring in employer-based health insurance, and change brings opportunity. There's opportunity to help employees achieve better and receive the most value from their health care dollar.

Employers who structure their health care strategy to include both financial responsibility and empowerment will provide their workers the opportunity to enjoy better health and lower health care costs.

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WHY CONSIDER THESE PLANS

The following breakdown offers an in depth explanation as to why employers and employees should choose either FSA or HSA options.

Top five benefits for employers choosing to provide FSAs:

1. Provides tax savings for both the employer and employees.
2. Increases employees' awareness of out-of-pocket health care costs.
3. Helps employees manage out-of-pocket health care costs.
4. Because FSAs are a common benefit, employers can remain competitive when attracting great employees.
5. Increases cashflow needs by having the annual election available from the first day of the plan year.

Why employers should promote FSA offering:

As many employers are forced to shift more financial responsibility to employees for health care costs, employers can introduce FSAs to soften the blow.

Of course, contributions are made on a pre-tax basis and due to the Uniform Coverage rule, employees have access to their full annual election on the first day of the plan year. This can be a tremendous financial relief to employees facing large health care expenses at the beginning of the year.

Top four benefits for employees to choose HSAs:

1. Three powerful tax benefits.
   - Pre-tax contributions: You don't pay taxes (Social Security, Medicare, federal income and depending on the state, state income tax/unemployment) on the money contributed to the account.
   - Tax free growth: If you invest your funds, you don't pay taxes on the gains.
   - Tax free distributions: When you use funds for qualified expenses, you don't pay taxes.
2. For many consumers, HSAs may provide greater benefits than traditional FSAs. Like FSAs, your contributions are pre-tax and you may use HSA dollars to pay for eligible health expenses tax free. But unlike FSAs, there is no use it or lose it rule. Funds roll over year to year and there is no annual rollover limit.
3. HSAs are individually owned, so funds are portable. If an employee leaves his current employer, he will take his HSA account.
4. Most HSA custodians (the institution holding the account) provide investment options, so when combined with regular contributions, an HSA balance may accumulate quickly.

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Savings power & beyond

Eligible individuals have a powerful savings vehicle in HSAs. First, eligible individuals can contribute more annually to HSAs than FSAs. Second, there is no annual rollover limit on HSA balances. Individuals can quickly accumulate significant balances in their HSA accounts.

Beyond the savings power, individuals still enjoy many benefits.

- Ownership. These accounts are individually-owned, meaning the employee owns the account. While the IRS determines what qualifies as a Qualified High Deductible Health Plan (QHDHP) and what are eligible expenses (i.e. 213d Expenses), the account holder controls almost every aspect of the account, from deciding how much to contribute, to how to use the funds, and when to invest. Also, many HSA custodians offer easy payment mechanisms such as account debit cards and online payment features.

Remember, preventative service must be offered at no cost under the Affordable Care Act. Individuals enrolled in a QHDHP can take advantage of preventative services without paying any deductibles, copays, coinsurance or other cost-sharing requirements when delivered by in-network providers.

Implementing and managing an HSA plan

Because these are individual accounts, employers can face challenges when they do not team up with an experienced partner. PrimePay helps employers navigate through account setup and account funding processes and if there is an issue with an account, PrimePay can facilitate resolution between the HSA custodian, the employer and the account holder.

For many consumers, HSAs may provide greater benefits than traditional FSAs.

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WHAT IS AN FSA?

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What does it stand for?

Flexible Spending Account

Who owns the account?

The employer.

How is the account funded?

A set amount of pre-tax wages determined by the employee &/or the employer is held to help pay claims for eligible expenses.

Is it a personal account?

Yes.

Is the account portable?

No. Once the employee terminates employment with the employer, eligibility ends. The plan may provide a short window after employment ends (known as a Run Out period) for participant to be reimbursed expenses incurred prior to the termination date. Any funds remaining in the account are forfeited to the plan.

Who is eligible?

The employer determines who is eligible to participate.

What type of corresponding health plan is required?

An FSA can only be offered along side an employer-sponsored group health plan.

Can account funds be used for non-medical expenses?

No. The health/medical portion of the FSA can only be used for expenses defined under section 213(d) of the IRC.

What is the tax treatment for the account?

Contributions to these accounts are made on a pre-tax basis, and funds may be used tax free for qualified health care expenses.

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GET STARTED WITH FSA BY CALLING PRIMEPAY BENEFIT SERVICES:

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1. **Can an employer fund an employee's FSA account?**

   Yes, the funding can be made each payroll period, monthly, quarterly or annually. The contribution may be in the form of a match or fixed dollar amount. The employer's contribution must be consistent to all eligible employees.

2. **As an employer, if we have an HRA, can we still implement an FSA?**

   Yes, these benefits coexist very well together. In no case may an employee be reimbursed for the same medical care expense by both an HRA and a health FSA. If coverage is provided under an HRA and a health FSA for the same medical care expenses, the Plan Document for the HRA may specify the ordering rules for these expenses.

3. **Do all claims need to be substantiated?**

   Yes, an FSA may only provide benefits that reimburse expenses for medical expenses as defined in § 213 (d). Each medical care expense submitted for reimbursement must be substantiated.

4. **Can you contribute to an FSA if you are contributing to an HSA?**

   No, you are unable to contribute to an HSA if you are currently participating in a general-purpose FSA. You may participate in a limited-purpose FSA (for vision, dental and preventative services only) or post-deductible FSA and contribute to an HSA.

5. **Is an FSA subject to COBRA continuation requirements?**

   Yes, if the health FSA qualifies for the Special Limited COBRA obligation, then COBRA must be offered to an employee if the amount they have contributed plan-to-date is greater than the amount they have been reimbursed. If the health FSA does not qualify for the Special Limited COBRA obligation, COBRA must be offered for all FSAs and again offered at open enrollment. FSA COBRA premiums are equal to the employee's monthly contributions plus an additional 2% administrative fee. This administrative fee is an optional fee, allowed by law, that an employer can charge a participant for administering the COBRA plan. In the event an employee fails to make premium payments, the employer has the right to terminate COBRA coverage.

6. **Can all owners participate in the FSA plan?**

   No, sole proprietors, 2% or greater S-Corp shareholders (includes family members) and partners in a partnership are not eligible to participate.

7. **Are all employees eligible to participate?**

   Yes, however, the employer has the ability to exclude employees based on the number of hours worked, a minimum age requirement, a waiting period for newly hired employees and being members of a bargaining unit (certain family members may also be excluded).

8. **Are there nondiscrimination testing requirements for an FSA? What about the Form 5500?**

   Yes, there is an annual nondiscrimination testing requirement that focuses on the highly compensated and key employees of the company. You only need to file a Form 5500 if you have over 100 employees participating in the health FSA at the beginning of the plan year.

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WHAT IS AN HRA?

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What does it stand for?

Health Reimbursement Arrangement

Who owns the account?

The employer.

How is the account funded?

HRAs are funded 100% by employers.

Is it a personal account?

Yes.

Is the account portable?

No. However, an employer may choose to continue reimbursing employee's expenses depending on the plan's design.

Who is eligible?

Any employee is eligible – subject to employer-designed exclusions.

What type of corresponding health plan is required?

Any type of group health plan arrangement or no health plan at all.

Can account funds be used for non-medical expenses?

No. Only expenses as specified in section 213(d) of the IRC are covered under an HRA or as specified by the plan.

What is the tax treatment for the account?

Reimbursements to the employee are tax-free as long as they are used on qualified health care/medical purchases.

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COMPARE & CONTRAST FSA & HRA

Let's take a look at the comparison between an FSA and an HRA. To recap:

Flexible spending account (FSA): This tax-advantage account is used to put money into in order to pay for out-of-pocket, qualified medical expenses. It is typically set up with a cafeteria (aka Section 125) plan and the money is provided by the employee.

Health reimbursement account (HRA): An account of this caliber is owned by an employer and funded by that employer. The tax-advantage plan money is available at the beginning of the year to reimburse employees for out-of-pocket, qualified, medical expenses.

Both are great options to help pay for health care costs, tax-free.

IRS Notice 2013-54 made some changes that may impact your FSA or HRA.

In general, the notice mentions that employers that provide pre-tax benefits such as an FSA or HRA could face massive penalties if these plans are not in compliance.

[FSAs & HRAs] are great options to help pay for health care costs, tax free.

Does your company provide an HRA? Here's what you need to check off your list to maintain compliance.

Your HRA:

- Is integrated with an Affordable Care Act (ACA) compliant group health plan
- Isn't offered as a stand-alone benefit; unless reimbursement is for dental and vision only
- Isn't offered to pay for individual medical premiums
- Under Qualified Small Employer Health Reimbursement Arrangements (QSEHRA), groups with less than 50 full-time or full-time equivalents can now reimburse employees for qualified medical expenses including premiums for individual health insurance policies.
- Is offered to retirees only on a stand-alone basis
- However, a retiree's participation in the HRA, could possibly prevent the eligibility for a subsidy.
- Is a COBRA-eligible benefit

More of an FSA company? Take a look through this list to make sure you comply.

Your FSA:

- Is only offered to employees eligible for the group health plan
- Actual participation in group health plan is not required
- The maximum employer benefit cannot exceed the greater of: (a) two times the employee's annual health FSA election, or (b) the employee's annual health FSA election plus $500
- Has had its eligibility checked to ensure it is consistent with the medical plan
- Plan documents reflect the treatment of positive end of year account balances (use it or lose it, grace period, or rollover)
- Communications to employees have been updated to show maximum contribution limits an employee can make to their health FSA
- Is a COBRA-eligible benefit, if there is a positive balance in the account upon termination

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WHAT IS AN HSA?

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What does it stand for?

Health Savings Account

Who owns the account?

The employee.

How is the account funded?

Money is deposited directly into the employee's account. Contributions can be made by the employee through lump sum contributions or pre-tax payroll deductions. An employer may also contribute to the account.

Is it a personal account?

Yes.

Is the account portable?

Yes, the employee owns the HSA, and they can take it with them into retirement and even pass it on to their heirs.

Who is eligible?

First, you must be enrolled in a Qualified High Deductible Health Plan (QHDHP) and not be covered by any other insurance for health expenses. There are two groups not eligible to contribute to an HSA: someone who can be claimed as a tax dependent & someone entitled to Medicare. Factors that do not affect eligibility are annual income, employment status, or incurred medical expenses.

What type of corresponding health plan is required?

Only a defined High Deductible Health Plan (HDHP).

Can account funds be used for non-medical expenses?

Yes. However, funds used for non-medical expenses are taxed as income and incur a 20% penalty. After 65, there is no penalty.

What is the tax treatment for the account?

Contributions to these accounts are made on a pre-tax basis, and funds may be used tax free for qualified healthcare expenses.

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3 THINGS TO KNOW ABOUT HSAS

So, you've decided to implement an HSA in your benefit offering. Before electing this type of plan, here are three things consumers should know (and things plan administrators should inform their employees of).

1. HOW TO QUALIFY

Who offers HSAs? Well, there are a few simple rules governing HSA participation. First, you must be enrolled in a Qualified High Deductible Health Plan (QHDHP) and not be covered by any other insurance for health expenses. The IRS releases the QHDHP requirements annually. For 2016 and 2017, the minimum deductible for an individual is $1,300 and for a family, $2,600.

But there are two groups who are not eligible to contribute to an HSA: someone who can be claimed as a tax dependent and someone entitled to Medicare. Factors that do not affect an individual's eligibility include: annual income, employment status or incurred medical expenses.

2. KNOW YOUR CONTRIBUTION LIMITS

For 2016, the maximum contribution for an individual with QHDHP coverage is $3,350. For those with QHDHP family coverage, the 2017 limit is $6,750 and $3,400 for single coverage.

3. HOW TO USE HSA DOLLARS

HSA dollars may be used by the account holder, the account holder's spouse, and any tax dependents for qualified medical expenses. Note: most common medical expenses are qualified. These include most medical services by your insurance, dental services (non-cosmetic), vision care, alternative remedies and over-the-counter drugs with a prescription.

Tax-free distributions can be taken at any time for qualified expenses and as long as the HSA was in place when the expense was incurred, the distribution can even be taken in future years. Just make sure to save those receipts. Those who are 65 years or older do not incur penalties for non-qualified distributions, they only pay standard income taxes. Prior to age 65, non-qualified distributions will incur a penalty of 20% and taxes.

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THE GOLDEN YEARS OF HSAS

Many Americans look forward to their golden retirement years, but it takes a great deal of planning and saving to make the dream a reality. To fully unlock your HSA benefits, you should understand how it can be a financial planning tool. You may be surprised to find your HSA can help you achieve your financial goals.

TAX BENEFITS

As we've mentioned in previous sections, these accounts have many tax benefits…ones that other retirement savings options cannot provide.

1. Your HSA contributions are not taxed. Your contributions are tax-deductible, or if your employer withholds deductions from your paycheck, your contributions are taken before taxes are calculated.
2. You don't pay taxes on any interest earned in your HSA.
3. You may make tax-free withdrawals for qualified medical expenses. These benefits draw many individuals to HSAs, but there are more hidden benefits to discover.

Did you know HSAs can help you achieve your financial & retirement goals?

PENALTY-FREE DISTRIBUTIONS

At age 65, you may take penalty-free distributions from your account for any reason, but you may also take tax-free and penalty-free distributions from your account for qualified medical expenses and health insurance premiums. That is a huge advantage over other retirement vehicles like 401(k) plans.

On average, Americans face higher out-of-pocket medical expenses after age 65, but with your HSA, you can pay these expenses with tax-free dollars. Further, you can use your HSA funds to pay for Medicare parts B, D, and Medicare HMO premiums.

INVESTMENT

You may know about investment options available in your 401(k) or IRA, but do you know what investment options are available for your HSA account? Many HSA custodians offer a wide range of investment options, and you may see your HSA balance grow through wise investing.

If you are able to tolerate the financial risk, then you may want to explore how your HSA dollars can grow for you. Ask your HSA administrator or employer if investment options are available to you, and your financial planner can help you create the right investment strategy for your financial plan.

They don't call them the golden years for nothing. The more you prepare your finances now and make smart decisions with your HSA, the more likely you are to have a retirement that's truly golden.

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HSA & HRA – CAN I HAVE BOTH?

Review: It's easy to get the terms health savings account (HSA) and health reimbursement account (HRA) confused. The main difference between the two is their owners.

HSA: Owned by an individual and can funded by the employee and employer. This can be taken with the employee if they switch jobs.

Money is available into an HSA account as it is contributed. It is a tax-advantage plan. The money can be used for medical expenses.

HRA: Owned by the employer, funded by the employer. This is typically not transferable between jobs.*

Money is available at the beginning of the year, made possible by the employer. This tax-advantage plan money can be used to reimburse an employee for out-of-pocket medical expenses.

**HRAs can be provided to former employees and retirees. In these special cases it could technically be transferred between jobs.*

Now the question remains, can I have an HSA and an HRA?

Yes, if you have a Qualified High Deductible Health Plan (QHDHP).

That's where a post-deductible HRA comes into play.

- You and your benefits broker can start by purchasing the highest deductible HSA plan to provide best premium savings using IRS maximums.
- A post-deductible HRA is considered a high-deductible insurance product. Add that and it will begin when your minimum deductible standard is met.
    - Minimums are $1,300 single/$2,600 family

If you have an HSA-qualified medical plan and make your HRA HSA-qualified, you're all set.

Why do I want a post-deductible HRA and HSA?

There are many advantages! Here are a few:

- Tax-free HSA contributions and HRA reimbursements (employer and employee)
- Employer HSA contributions and HRA reimbursements can be declared as a business expense
- Employer limited liability - very few employees will reach out-of-pocket medical expenses that require an HRA reimbursement
- Employee protection for catastrophic expenses

Depending on your plan provider, administration can be simple as well. For example, PrimePay clients may receive a debit card for automated reimbursements.

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BENEFIT SERVICES

Interested in learning more about benefit services and how they can benefit you? PrimePay's flexible solutions will help you make the best health care decisions for you and your employees.

YOUR PRE-TAX HEALTH ACCOUNT PLAN OPTIONS

- Section 125 Plans
- Flexible Spending Accounts (FSA)
- Premium Only Plans (POP)
- Health Reimbursement Arrangements (HRA)
- Health Savings Accounts (HSA)

We offer online client support, deliver transparency regarding claims turnaround time, phone metrics and more. At the same time, we focus on efficient, supportive service to ensure you're getting the most value from your employee health care expenses.

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CLICK HERE TO LEARN MORE:

http://primepay.com/pre-tax-health-accounts

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