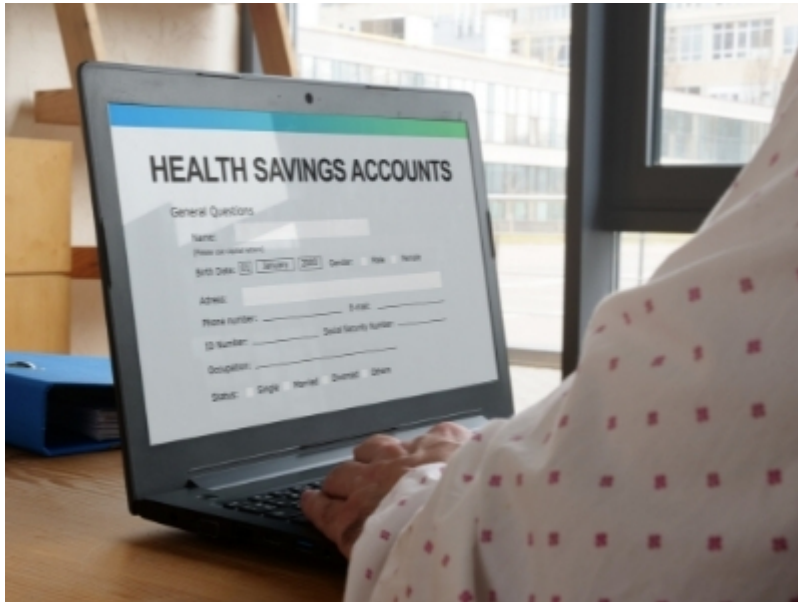


FSAs, HSAs, HRAs: What employers need to understand



You can blame the pandemic — employees are more attuned to health benefits, which means more employees may switch health plans or go into a health plan for the first time next year.

Almost all health plans offer add-on accounts — health flexible spending accounts, health savings accounts, or health reimbursement accounts. You need to know how these accounts differ so you can communicate about them to employees.

Here are the basics.

Health flexible spending accounts

Health flexible spending accounts (FSAs) are probably the most common add-on accounts. FSAs are primarily funded by employees through pretax deductions, although employers may make contributions. Most FSAs are offered through cafeteria plans.

Tax advantage: Employees' and employers' contributions are excluded from employees' wages and aren't subject to income or FICA taxes.

Eligibility: FSAs are generally available only to current employees.

Qualifying insurance: FSAs are generally offered alongside group health plans, but employees typically aren't required to enroll in a group plan in order to enroll in the FSA. Employers may choose to limit FSA eligibility to only those employees enrolled in the group plan.

Contributions: Employees may make pre-tax contributions into their FSAs, but contributions are capped at

\$2,750 for 2021.

The total amount in employees' FSA accounts must be made available to them at the start of the plan year, regardless of whether their contributions are withheld from their pay every pay period. Employees who don't max out their accounts by the end of the plan year lose what's left in their accounts (this is known as use-it-or-lose-it), unless FSAs specifically allow rollovers or grace periods.

Qualifying medical expenses: Qualified medical expenses include expenses for unreimbursed medical care under IRC § 213, general health products (like allergy pills), and menstrual care products incurred by employees and their spouses, dependents, and adult children younger than 27 at the end of the taxable year.

FSAs can't be used to reimburse employees for their monthly premiums or for anything covered under another health plan.

Health reimbursement arrangements

Health reimbursement arrangements (HRAs), unlike FSAs and health savings accounts (see below), are funded solely by employers. There are five different types of HRAs.

Tax advantage: Employers' contributions are excluded from employees' wages and aren't subject to income or FICA taxes.

Eligibility: HRAs are generally available to current and former employees.

Qualifying insurance: Generally, HRAs must either require covered employees to be simultaneously enrolled in a certain type of health plan or be provided in a more limited manner and offered alongside employee-sponsored insurance.

Contributions: In general, there are no statutory limits on HRA contributions. Employers set their maximum contributions when designing the plan. Some specific HRAs do have contribution caps, however.

Qualifying medical expenses: HRAs can be used for unreimbursed payments of qualifying medical expenses under IRC § 213 and menstrual care products incurred by employees and their spouses, employees' dependents, and employees' adult children younger than 27 at the end of the taxable year.

In some instances, employees may use HRAs to pay their monthly premiums.

Unused HRA balances at the end of the plan year may be carried forward, although employers may limit the amounts employees can carry over.

Health savings accounts

Health savings accounts (HSAs) must be paired with high-deductible health plans (HDHPs). Employees usually contribute to HSAs on a pretax basis. Employers can also make contributions to employees' HSAs.

Tax advantage: Employee and employer contributions are excluded from employees' wages and aren't subject to income or FICA taxes. Unused HSA amounts may be invested, and earnings grow tax-free.

Eligibility: Employees can establish HSAs if their group coverage qualifies as HSA-eligible HDHPs, they don't have disqualifying coverage and they can't be claimed as dependents on another person's tax return.

Qualifying insurance: HDHPs must meet certain cost-sharing requirements. For an HDHP to be HSA-qualified, the plan must:

- Have a deductible above a certain threshold (\$1,400 for single coverage and \$2,800 for family coverage in 2022).
- Limit out-of-pocket expenditures for covered benefits to an amount below a certain threshold (\$7,050 for single coverage and \$14,100 for family coverage in 2022).
- Cover only preventive care and telehealth services before the deductible is met.

Contributions: Employees' contributions are capped every year and subject to inflation adjustments by the IRS. For 2022, the maximum contributions are \$3,650 for single employees and \$7,300 for married employees.

Qualified medical expenses: Withdrawals from HSAs are tax-exempt if used for unreimbursed qualifying medical expenses for employees, employees' spouses, and dependents.

Qualified medical expenses include all unreimbursed medical care under IRC § 213 and menstrual care products. Monthly premiums can't be paid for with HSA funds.