New Requirements on Healthcare FSAs & HRAs Starting in 2014

November 5, 2013

Here are some key points to know so you can advise clients when reviewing their plan for next year.

Allowable HRAs

- **Integrated HRA:** All members in the HRA are also enrolled in other group health plan coverage offered by the employer; and
  - The other group health plan coverage offered by the employer does not impose any annual or lifetime dollar limits on essential health benefits.
- **Retiree-only HRA:** All members in the HRA are retirees.
- **Dental or Vision Only HRA:** The HRA offers only HIPAA-excepted benefits of dental and vision coverage and meets the excepted benefit requirement under the federal law.
- **Small Benefit HRA:** The HRA has an annual benefit of $500 or less and has no carryover provision and other coverage is available to the HRA members.
- **Spend-down HRA:** The HRA plan is used for 2013 account balance spend-downs only.

Although it is true that most Stand-alone HRAs can no longer be used to reimburse individual health plan premiums, other types of HRAs are still thriving in the group marketplace.

Allowable Healthcare FSAs

- **HIPAA Excepted Benefit Healthcare FSAs:**
  - Other major medical coverage is made available to participants by reason of employment; and
  - The maximum benefit payable to any participant for the year does not exceed two times the salary reduction for the year (or, if greater, the amount of the employee's salary reduction plus $500). *In other words, it must satisfy one of these requirements:*
    - The employer does not make any contributions to the Healthcare FSA.
    - The employer makes no more than a dollar-for-dollar match to the Healthcare FSA.
    - The employer contributes no more than $500 to the Healthcare FSA.
- **Limited Scope FSA:** The Healthcare FSA provides reimbursement for only HIPAA-excepted benefits of dental and vision coverage and meets the excepted benefit requirement under the federal law.
Other Important Information on Healthcare FSAs

- Healthcare FSAs offered through a section 125 Cafeteria Plan have limits on the amount of salary reduction of $2,500 annually (indexed annually for plan years beginning January 1, 2014).

- Employers that offer Healthcare FSA programs will have the option of allowing employees to rollover up to $500 of unused funds at the end of the plan year.

Failure to comply with the new guidance could result in the Healthcare FSA or HRA having to provide reimbursements for essential health benefits without any annual or lifetime dollar limits, and it could also require the Healthcare FSA or HRA to provide reimbursements for preventive services without cost sharing to the member. Penalties of up to $100 per employee per day may also be applicable for non-compliance.

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