Why your boss may be pushing HSAs and FSAs

Bankrate

Never heard of a health savings account HSA)? Or bothered with the flexible spending account FSA) offered by your employer?
Chances are you soon will. Both health savings vehicles are moving into the spotlight as corporate America sheds its one-size-fits-all comprehensive health insurance model for a less costly, more customizable alternative called “consumer-directed health plans,” or CDHPs.
It’s an alphabet soup that enables employees to use savings vehicles, often paired with high-deductible insurance plans, as the building blocks to let employees handpick their health coverage to meet their needs at the lowest premium possible. By combining consumer-directed health plans with incentives promoting employee wellness screening and fitness programs, employers hope to achieve the rare health care win-win:
More choices and savings for workers.
Reduced health care costs for the company.
The reasons for the trend
Why are businesses making this shift? Two words: medical inflation. A January 2015 health care survey by the Society for Human Resource Management found that up to three-quarters of companies experienced rising health costs over the previous three years. Half passed more costs on to their workers in 2014; one-quarter plan to do so in 2015.
“CDHPs are a way for employers to offer a solid benefit at an efficient price,” says Bruce Elliott, the society’s manager of compensation and benefits. “It also encourages the employee to start shopping around.”
Other forces, including the Great Recession and the Affordable Care Act, have helped make consumer-directed health plans, and especially HSAs, the new must-have employer health option.
“We’re seeing a real explosion in offerings of CDHPs with the HSA feature,” confirms Beth Umland, director of employer research for health and benefits at the global human resources firm Mercer.
Flavors of consumer-directed accounts
Here are some of the ABCs related to CDHPs:

Health savings account HSA). A decade ago, HSAs were primarily an affordable, tax-advantaged way for the self-employed and employees at small businesses to obtain full health coverage, choose their own doctor, lower their income tax and sock money away in a 401k)-style account for medical care.

Today’s more widely available HSAs are integral to the consumer-driven health care revolution.

An HSA must be combined with a high-deductible health plan, which the IRS currently defines as a plan with an annual deductible of at least $1,250 for individual coverage or $2,500 for a family. Umland says the majority of employers now contribute to employees’ HSAs to help offset the deductibles.

Your employer’s contributions are not taxed as income, but they’re also not deductible. On the other hand, whatever you put into an HSA on your own can be written off your taxes, even if you don’t itemize deductions.

But you can write off only $3,350 $6,650 family) in HSA contributions on your federal income tax for 2015, plus a $1,000 catch-up bonus if you’re 55 or over. HSA balances roll over year to year, and you can invest the money.

While an HSA can be a money-saver if you and your family are in good health, critics fear that the steep deductibles may prevent some consumers from seeking needed medical care.

Flexible spending account FSA). Originally, HSAs weren’t available to those with employer health coverage. Instead, employees were offered FSAs, or flexible spending accounts, as a way to lay aside money tax-free to pay for such out-of-pocket health costs as deductibles, copayments and other limited medical, dental and prescription expenses.

FSAs are still around and also can be set up to pay for child care. Employers often provide an FSA match, similar to their contributions to HSAs.

You’re allowed to contribute up to $2,500 annually into your FSA, but unlike with HSAs, you must use the money by year’s end or you lose it. Employers can now grant you a $500 carryover or a 2 1/2-month grace period to exhaust your balance, but not both.

Health reimbursement arrangement/account HRA). Health reimbursement arrangements, also known as health reimbursement accounts, are owned and funded by the employer and are used to pay for health expenses not covered by your group plan, including deductibles and coinsurance. Because the money is not considered income, it’s tax-free to you.

Premium reimbursement arrangement PRA). Through a premium reimbursement arrangement, your employer agrees to reimburse you a fixed monthly premium amount, provided you purchase your own health insurance. The reimbursement amount may be added to your paycheck tax-free. Note, however, that the U.S. Department of Labor and the IRS have said that premium reimbursement arrangements violate the Affordable Care Act and may be subject to penalties.

Not necessarily a result of health reform

Management consultant Jay Savan with the global consulting firm Mercer says the wheels were in motion on the new push toward consumer-directed health plans well before health care reform and the signing of the Affordable Care Act in 2010.

“Some employers say it’s all about the ACA, but I beg to differ,” he says, noting that before the law, U.S. employer plans were already meeting Obamacare’s coverage standards.

But corporations were struggling with medical costs. By providing consumers with new plan options that reward comparison shopping, employers hope to drive down medical prices by spurring competition, Savan says.

“The unfortunate reality is, even in the best of circumstances, health costs are projected to rise 4.6 percent next year,” he says. “That’s a pretty steep number in an economy where revenues are not growing at that level.”

Consulting firms such as Mercer and Aon Hewitt are leveraging the shift to consumer-driven care by providing private health exchanges where workers can shop for their own coverage. That relieves employers of the administrative burden of offering health insurance to workers.

Concern for the consumer

The pressure on consumers to come up to speed quickly on HSAs, FSAs and the mechanics of consumer-directed health plans worries Amy Bach, executive director of the San Francisco-based consumer group United Policyholders.

“On balance, the innovations, the competition and the proliferation of options are good for consumers who know how to shop,” she says. “For those who don’t, it’s always going to be a problem because it’s not clear that there are viable default health options anymore. It’s not one-size-fits-all anymore.”