



Update: January 19, 2010

Healthcare Reform and Tax Advantage Employee Benefits

The following charts outline elements of the proposed changes to Flexible Spending Accounts (FSA), Health Reimbursement Arrangements (HRA), and Health Savings Accounts (HSA). *The two bills are currently being merged; a final document has not yet been produced.*

H.R. 3590 Senate Health Bill **PASSED 12/24/2009** (Items in red indicate a change from the original language.)

ITEM	CAP/LIMIT	EFFECTIVE	WHAT IT MEANS TO YOU
FSA Cap Cap on employee contributions to a medical Flexible Spending Account (FSA).	\$2,500 With indexing for inflation occurring for future years.	January 1, 2011 (Indexed beginning 2012)	<ul style="list-style-type: none"> Medical expenses only. Dependent care and other accounts remain unchanged. Not a significant immediate effect; less than 20% of FSA participants contribute more than \$2,000/year. Cap is per individual, not tax-filing status. A husband and wife each working at two different companies may both partake in their company's FSA Plan at the \$2,500 cap, potentially providing them with a total of \$5,000 in FSA contributions. The addition of indexing for inflation is considered a win for participating employees; however, if healthcare costs continue to increase at a faster rate than the CPI +1%, any caps/limits may pose a more significant impact.
Excise Tax Cap on "high cost" employer-sponsored health coverage with excise tax for exceeding the cap/limit.	<ul style="list-style-type: none"> \$8,900 Self-only \$24,000 Other than self-only 40% excise tax for exceeding these limits *Dental and vision will not be included until 2014. *Union health plan contracts not affected until 2018. Subject to cost-of-living adjustment + 1% 	2013*	<ul style="list-style-type: none"> Total healthcare benefits proposed to include all health premiums and other tax-advantage contributions from FSAs, HSAs, and HRAs. Excise tax is higher than originally anticipated; the affect depends per individual on employer-sponsored premiums (regardless of who pays for the premiums), on HSA, HRA, or FSA, and on other healthcare expenses included under the total. (Disability and long-term care are not included.) For individuals receiving retiree coverage at age 55 or over, or for an employee who participates in a plan for high-risk professions*, the dollar amount will be increased by: \$1,850 for self-only and \$5,000 for other than self-only. Additional adjustments will be made each year through 2015 for "high cost states" (17, determined by the Secretary of Health and Human Services). The low indexing rate may pose a more significant impact as we move forward. If healthcare costs continue to increase at a faster rate than the CPI +1%, any caps/limits may pose a more significant impact. <p>* Defined as: law enforcement officers, fire-fighters, rescue or ambulance crew, construction, mining, agriculture, forestry, and fishing industries.</p>



Elimination of over-the-counter (OTC) expenses.		January 1, 2011	<ul style="list-style-type: none"> Account distributions will be limited to prescription drugs and insulin. Will need to acquire a prescription to purchase OTC items as eligible expenses. Removal of the OTC deduction would generally return FSAs to pre-2003 status.
HSA penalty tax increase.	20% of the disbursed amount	January 1, 2011	<ul style="list-style-type: none"> Penalty for purchasing non-eligible expenses with HSA funds would rise from 10% to 20% of the disbursed amount.

PLUS: One other piece of the Senate bill was the creation of **SIMPLE Cafeteria Plans for Small Businesses**. Much like the SIMPLE Plans in the retirement world, this would ease the non-discrimination requirements small employers face when implementing a Cafeteria Plan. Further research is needed about this inclusion; we will provide details when that information becomes available.

H.R. 3962, House of Representatives Bill **(Currently being merged with H.R. 3590)**

ITEM	CAP/LIMIT	EFFECTIVE TIMEFRAME	WHAT IT MEANS TO YOU
FSA Cap Cap on employee contributions to a medical Flexible Spending Account (FSA).	\$2,500 With cost-of-living adjustment + 1% Indexing	January 1, 2013 (Indexed beginning 2014)	<ul style="list-style-type: none"> Medical expenses only. Dependent care and other accounts remain the same. Rather insignificant effect; less than 20% of FSA participants contribute more than \$2,000/year. Cap is per individual, not tax-filing status. A husband and wife each working at two different companies may both partake in their company's FSA Plan at the \$2,500 cap, potentially providing them with a total of \$5,000 in FSA contributions. The low indexing rate may pose a more significant impact as we move forward. If healthcare costs continue to increase at a faster rate than the CPI +1%, any caps/limits may pose a more significant impact.
Elimination of over-the-counter (OTC) expenses.		January 1, 2011	<ul style="list-style-type: none"> Account distributions will be limited to prescription drugs and insulin. Will need to acquire a prescription to purchase OTC items as eligible expenses. Removal of the OTC deduction would generally return FSAs to pre-2003 status.
HSA penalty tax increase.	20% of the disbursed amount	January 1, 2011	<ul style="list-style-type: none"> Penalty for purchasing non-eligible expenses with HSA funds would rise from 10% to 20% of the disbursed amount.