



Update: November 20, 2009

Healthcare Reform and Tax Advantage Employee Benefits

Following are charts outlining elements of the proposed changes to Flexible Spending Accounts (FSA), Health Reimbursement Arrangements (HRA), and Health Savings Accounts (HSA) as outlined in the Senate and House health care bills.

H.R. 3590 Senate Health Bill (Items in red indicate a change from the previous bill.)

ITEM	CAP/LIMIT	EFFECTIVE	WHAT IT MEANS TO YOU
FSA Cap Cap on employee contributions to a medical Flexible Spending Account (FSA)	\$2,500 No indexing for future years.	January 1, 2011	<ul style="list-style-type: none"> Medical expenses only. Depending care and other accounts remain the same. Not a significant immediate effect; less that 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. Since no indexing is allowed, this may represent a far more significant impact as we move forward.
Excise Tax Cap on "high cost" employers-sponsored health coverage with excise tax for exceeding the cap/limit.	<ul style="list-style-type: none"> ■ \$8,500 Self-only ■ \$23,000 Other than self-only ■ 40% excise tax for exceeding these limits ■ 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. Excise tax is higher than originally anticipated, the affect depends per individual on employer-sponsored premiums (regardless of who pays for the premiums), HSA, HRA, or FSA, and other health 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 participate 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. There are also adjustments each year through 2015 for "high cost states" (17, determined by the Secy of Health and Human Services) The low indexing rate may represent a more significant impact as we move forward. If healthcare costs continue to increase at a faster rate then CPI +1% any caps/limits will become more impactful. <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 basically 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 needs to talk place on this inclusion; we will post more information when that information becomes available.

H.R. 3962, House of Representatives Bill

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	2013 (Indexed beginning 2014)	<ul style="list-style-type: none"> Medical expenses only. Dependent care and other accounts remain the same. Insignificant effect; less that 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 represent a more significant impact as we move forward. If healthcare costs continue to increase at a faster rate then CPI +1% any caps/limits will become more impactful.
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 basically 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.