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CDHP: HSA, FSA, HRA...

Alphabet Soup that can save you money!

For many the image of a steaming bowl of alphabet soup is a comforting childhood memory and one of few exceptions to the rules of not playing with our food. Today, the alphabet soup of modern health plan acronyms seems anything but comforting. Just as a bowl of soup only fills the stomach for a few hours, many health plan strategies have also been only temporary. Admittedly many of us who work in the industry have attempted to stop arterial bleeding with a

"74% of covered employees regard health benefits as an important factor in company loyalty."¹

few well placed band-aids. With an average increase of 20% in employer health plan contributions since 2005, it's time to rethink our diet. Where does CDHP brand alphabet soup rank on the food pyramid? Read on to learn how a healthy dose of CDHP provides a full serving of all the food groups.

If you can answer yes to any of these questions, then this article is for you?

- Has your health plan premium increased by more than 5% each year?
- Do you feel like you receive little value for the premium you pay?
- Are you asking employees to pay more for health care than in years past?
- Have you raised your deductible more than once in the past five years?
- Do you think there is little you can do to manage increasing health care costs?
- Is health insurance one of your largest budget items?

What is CDHP?



If you are not yet familiar with the term "Consumer Directed Health Plans" (CDHP), now is the time to educate yourself. CDHP is simply the umbrella under which consumer driven health plan strategies such as HRAs (Health Reimbursement Arrangements), HSAs (Health Savings Accounts), and FSAs (Flexible Spending Accounts) fall. CDHPs simply use different ways of spending to put more control in the hands of consumers or employees. CDHP plans typically offer lower premium but more up front costs.

HDHP

This acronym simply means "High Deductible Health Plan." As its name implies this is simply a high deductible plan (\$1,000 or higher) that offers a lower cost than its traditional counterpart. These plans require consumers to spend more out of their pockets up front, but provide solid back-end catastrophic protection. HDHP plans typically do not offer a copay, meaning the entire deductible must be met before anything is covered. The deductible is waived for preventive care or often it is covered in full on these plans. A true HDHP plan meets certain guidelines that allow it to stand alongside a tax-free bank account known as an HSA (Health Savings Account).

Example: Tom has an HDHP plan with a \$1,500 deductible. Following a doctor's appointment, Tom receives a bill for \$120. After insurance processes the claim and writes off some of the charge for any network discount, Tom pays the rest of the bill. There is no fixed copay. Tom pays this and all later medical bills until he meets the entire \$1,500 deductible.

HSA

A Health Savings Account (HSA) refers to the interest bearing checking account that can be coupled with an HDHP. Money can be set aside in this account on a pre-tax basis to fund medical, dental, vision, or other qualified expenses. This is a legal tax shelter in the form of an IRS qualified checking account. Much like an IRA, monies withdrawn from this account for non-qualified expenses are subject to your tax bracket plus a 20% tax penalty.⁴ The IRS sets a maximum each year that can be sheltered in this account. Unused funds roll over year after year, ultimately creating a sizeable nest egg for unknown future medical expenses, or the balance can be cashed out

"10 million Americans are now covered by HDHP/HSAs, an increase of 25% since 2009."²

without tax consequence at age 65. It is important to keep accurate records and receipts related to this bank account for tax purposes.

FSA

Unlike an HSA that rolls over each year, monies placed in a Flexible Spending Account (FSA) truly are "use it or lose it." Employees decide annually how much money they would like to set aside in the FSA plan, and employee elections are typically taken via pre-tax payroll deduction. The benefit to employees is that they can lower taxable income and use FSA money for any out of pocket medical, dental, vision, or other qualified expenses for anyone in their IRS household. Employers benefit by lowering the associated FICA match while offering a valued employee benefit. While employers may retain any forfeited employee funds at the end of the plan year (unlikely if solid education is provided), most employers reinvest these funds into plan administration costs.

HRA

If you are not yet ready to launch an HDHP (with or without an HSA), consider an HRA (Health Reimbursement Arrangement). If you can save premium by raising your deductible, consider creating an employer-funded HRA to help bridge the gap for employees. The net effect is to create a tax-free reimbursement benefit that feels like there was little or no change to the deductible. HRAs can also be used to help employees when benefits such as dental or vision must be eliminated.

Example: ABC company raises their deductible from \$500 to \$1,000. If and only if an employee incurs a deductible expense greater than \$500 would the employer reimburse the employee on a pre-tax basis up to \$1,000.

Time-Tested Tips

- ☑ Survey employees 4-6 months prior to your health plan renewal to better determine CDHP interest, deductible use, and what benefits are most valued.
- ☑ Step up benefits education to ensure measurable employee comprehension. Employees who do understand their benefits rarely value them!
- ☑ Give employees adequate time to learn and make informed decisions before enrolling in these benefit vehicles.

"53% of employers report controlling benefit costs as their top objective."³

Summary

HRAs and FSAs are time-tested, well received by employees, and provide solid options to reduce costs while giving back to employees. HDHPs combined with an HSA bank account have been shown to dramatically change consumer spending habits while setting the clock back on double digit annual premium increases. Statistics continue to show that typically less than 20% of employees actually meet their deductible, a sobering thought when you evaluate how much premium is left on the table every year often due to fear of change. If you are not already enrolled in or offering Consumer Directed Health Plans on your menu, it may be time to expand your palate. Contact your broker or Employee Benefits advisor for more information.

Here's to your health! ■

Helpful links

www.irs.gov | www.ustreas.gov | www.kff.org

¹ 8th Annual Met Life study of Employee Benefit Trends

² & ³ The Henry J. Kaiser Family Foundation & Health Research & Educational Trust

⁴ 20% penalty effective January 1, 2011