

Health Insurance Issues and Options

When healthcare costs began to rise, businesses were forced to shift a portion of financial responsibility to their employees. However, most businesses have pushed this shift as far as possible even though healthcare costs continue to rise. To assist both the employer and the employee reduce costs via tax savings, the IRS has developed three tax-advantaged plans, also referred to as qualified reimbursements tools. Following is a brief summary of the tax-advantaged plans currently available:

FLEXIBLE SPENDING ACCOUNTS (FSA)

- Allows employees pre-tax deductions to pay for premiums, out of pocket health care costs, and child care
- Employer saves social security payroll taxes
- Employee saves all taxes: Federal, State, and social security
- No requirements for a qualified plan

HEALTH REIMBURSEMENT ARRANGEMENTS (HRA)

- Employers reimburse health care expenses to employees
- Reimbursement is not wages to employee
- Reimbursement is a business expense to the employer
- HRA dollars are completely tax-free
- HRAs are employer owned and employer defined
- No requirements for a qualified plan

HEALTH SAVINGS ACCOUNTS (HSA)

- Can be established by an individual or an employer
- The individual must be covered under a qualified high deductible health plan
- Owned by the individual and commonly referred to as a “Medical IRA”

- Can be employer or employee funded
- Tax-free in, and tax-free out if used to pay qualified medical expenses
- Self-administered

Please refer to the US Department of Treasury link for more information about Health Savings Accounts:

<http://www.treasury.gov/offices/public-affairs/hsa/>

What is the role of Bruce A Rukkila, CPA, PC in the process of assisting businesses in the design of their health insurance package?

We can:

- Provide an independent analysis of your current benefit structure
- Suggest a transition strategy in moving from a traditional plan to a tax-advantaged plan
- Assist you to enroll in FSAs, HRAs, and/or HSAs
- Assist you with employee education
- Help you develop your benefit budget
- Set up your payroll system to allow for pre-tax deductions
- Analyze your current benefit proposals presented by your insurance agent to assure you are considering all options.

Attached please find a schedule comparing the three qualified reimbursement tools addressed above.

Comparison of Qualified Reimbursement Tools

	HSA	HRA	FSA
Who Can Use?	Individuals & Any Size Group	Any Size Group (Excluded To Partners, 2% Stockholders Or More In Sub S Corp. And Members Of An LLC.)	Any Size Group (Excluded To Partners, 2% Stockholders Or More In Sub S Corp. And Members Of An LLC.)
Maximum Dollar Contribution	Lesser Of Deductible Or \$2,700 Singles And \$5,450 Families (CPI Rated Annually)	Determined By Employer	Employers Sets Premium And Maximum Medical Reimbursement Cap. Dependent Care At \$5000 By IRS
Who Can Contribute?	Individuals, Employers & Employees (Can Be Both)	Employer Only	Employee Primarily, But Employer Can Also Fund
Employer Tax Deductible?	Deductible	Reimbursements Are Deductible	Employer FSA Contribution Are Deductible Business Expenses
Employee Tax Deductible?	Pre-Tax In A Cafeteria Plan Or Tax Deductible (Not Necessary To Itemize)	Employer Dollars Only, Reimbursements Are Not Wages	Tax Free Employee Contribution And Reimbursement
Who Owns The Account?	Employee	Employer Only	Employer
Is It Portable?	Yes	No	No
Can Dollars Rollover?	Yes	Yes	No
How Is It Funded?	Funded Dollars	Funded Only On A Claim	Per Pay Period By Employee
Health Plan Styles Required	Aggregated High Deductible – No Co-Pays On OV Or Rx	No Restrictions	No Restrictions
Section 125 FSA	Only Premium, Limited Purpose, and Dependent Care; No Medical Reimbursement Accounts	No Restrictions	N/A
Minimum Deductibles - 2006	\$1050 Minimum	No Restrictions	N/A
Maximum Out Of Pocket	Single – Up To \$5,250 Family – Up To \$10,500 (Out-Of Network Not Included)	No Restrictions	N/A
Non-Qualified Withdrawals?	Taxable Plus 10% Penalty To Age 65	Qualified Expenses Only, Employer Determines Post 65 Payment	Each Claim Is Adjudicated To Meet IRC Section 213
Effective	January 1, 2004	Continued Application	Continued Application

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