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Wisconsin Department of Employee Trust Funds
High-Deductible Health Plans with HSAs, HRAs, and ERAs

Overview of Key Considerations and Implications

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Strategic Considerations for HDHPs, HSAs, HRAs, and ERAs

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  - Plan design, administration, PPACA

HDHPs: Key Considerations & Implications

High Deductible Health Plans	**Where we're at today:** • Discussion of HDHPs included in report: "Medical Cost Containment Strategies for Key States" (April 22, 2013). • That report looked at sample HDHP+HSA designs and considerations (e.g., "hold harmless" design implications, HSAs versus HRAs, what other states are doing). • Further Board discussion and needs on HDHPs.
Timing	• **January 31, 2014:** Joint ETF/OSER report on HRA versus HSA study findings and recommendations due to the Governor and the Joint Committee on Finance. • **January 1, 2015:** Implementation of HDHP+HSA or HDHP+HRA plan option(s). • **January 1, 2015:** Potential new ERA administrator.

HSAs and HRAs: Key Considerations & Implications

HSA Advantages

- **Employer Contributions:** Optional.
- **Validation of Reimbursements:** Employer has no responsibility.
- **COBRA:** HSA is not a COBRA-eligible benefit.
- **IRAs:** Employee can make one-time rollover from IRA to HSA.
- **Investment Earnings:** Allowed; do not count toward annual allowable maximum.
- **Administrative Fees:** Can be paid from HSA.

HRA Advantages

- **HDHP Design:** Employer has more flexibility over plan design that is coupled with account.
- **Coverage Tier Considerations:** HRA not available for expenses of uncovered dependents.
- **Reimbursements:** Employer has more control over types of expenses that can be reimbursed.
- **Reimbursement Timing:** Employer has control over when reimbursements can be made.
- **Fund Location:** Since notional accounts, no need for separate custodial accounts.
- **“Cadillac” Excise Tax In 2018:** Employer HRA accruals included; no employee contributions.
- **ERAs:** Can be easily coordinated with HRAs.
- **Portability:** Employer discretion.
- **Ownership:** Employer.

Issues for Consideration

Other ETF Plan Option Issues

- Carved out pharmacy benefits:
  - Since separate administrator for pharmacy benefits, integrated medical + pharmacy nature of HDHP design may introduce administration complexity (e.g., coordination of medical and pharmacy claims in determining when deductible met).
  - There may be less advantage in having medical insurer or claims administrator manage HSA accounts (versus a separate HSA account custodian).
- Under an HDHP+HSA design, additional complexity introduced with respect to health ERA restrictions:
  - ERA would need to be a limited-purpose ERA (e.g., covers dental and visions claims only) and/or post-deductible ERA (i.e., not available for reimbursement until after HDHP deductible met).
  - Post-deductible design may severely limit interest as participants would need to know in advance that they would meet the HDHP deductible in order to have need to fund ERA else forfeit any ERA contributions.
- Under an HRA design, HRA must be exhausted before ERA is available, though this order can be reversed or made more flexible through change in plan document language.
- When compared to the current plan options, claims payments under a HDHP+HSA/HRA design may be advantageous or disadvantageous to an employee depending on the individual employee's claims circumstances. Care should be taken by analyzing which employees are potentially disadvantaged and in establishing the HDHP+HSA/HRA design accordingly.
- A self-insured HDHP does not necessarily introduce any additional complexity in administration over other self-insured plans.
- If stop-loss insurance is considered, pricing typically based only on HDHP component claims:
  - Does not include HSA accruals or reimbursements.
  - May include HRA accruals or reimbursements.

Issues for Consideration

Health Care Reform Issues

- ERAs offered through IRC §125 plans are exempt from the ban on annual dollar limits.
- Minimum values of HDHP plans include actuarially expected level of HRA or HSA reimbursements rather than total HRA or HSA annual accrual.
- HSAs, HRAs, and ERAs are included in 2018 “Cadillac” excise tax calculations (total HSA and HRA amounts, not just actuarially expected utilization as is the treatment for MVs):
  - For HSAs and HRAs, this includes employer annual accruals.
  - For HSAs, this includes employee elective accruals through section §125 plans. Thus, excise tax status could potentially differ from employee to employee for the same plan.
  - For HSAs, uncertain treatment of separate, discretionary employee HSA contributions outside of the employer plan (though expect that these will not be included in calculations).
  - For ERAs, include the amount of each employee’s salary reduction contribution. Thus, excise tax status could potentially differ from employee to employee for the same plan.

Questions

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Established	• IRC §223 (December 2003)	• IRC §§105-106 (June 2002)	• IRC §105 & §125 (November 1978)
Eligibility	• Employees, retirees, and the self-employed who are covered under a qualified high-deductible health plan (HDHP), but not covered under any other health plan (vision plans, dental plans, and limited purpose or post-deductible ERAs and HRAs possible exceptions). • Medicare-primary eligible individuals cannot make contributions, but can draw down HSA balances.	• Must be paired with a medical plan option (can not be “stand-alone”). • May be offered to current and former employees and individuals electing COBRA. • No restriction for individuals covered by Medicare. • Can be covered under an ERA as well, and can draw from previously-established HSA where no new contributions are being made.	• May be offered to current and former employees and individuals electing COBRA. • No restriction for individuals covered by Medicare. • Can be covered under an HRA as well, and can draw from previously-established HSA where no new contributions are being made.
Ownership	• Employee ownership	• Employer ownership	• Employer ownership
Employee Contributions	• Allowed if covered under qualified HDHP (payroll deferral and/or direct). • Contributions excludable from gross income.	• Prohibited.	• Allowed (payroll deferral only). • Contributions excludable from gross income.
Employer Contributions	• Allowed if covered under qualified HDHP. • Contributions excludable from gross income.	• Allowed (“required” in order to exist.) • Contributions excludable from gross income.	• Allowed. • Contributions excludable from gross income.
Maximum Deduction and Exclusion Rule on Contributions	• The deduction and exclusion for contributions to an HSA cannot exceed the annual statutory maximum ($3,300 single coverage, $6,550 family coverage for 2014). • Additional “catch-up” contributions allowed for employees age 55+.	• No statutory limit, but benefits for highly compensated employees may be limited by the application of nondiscrimination rules under code 105(h).	• The deduction and exclusion for contributions to an ERA cannot exceed the annual statutory maximum ($2,500 for 2013).

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs *(continued)*

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Employee Tax Impact	• Reimbursements are tax free if they are distributed to reimburse for any qualified medical expenses. • Reimbursements taxed if not for any qualified medical expenses. • Reimbursements subject to 20% tax penalty if not for qualified medical expenses (20% penalty does not apply if made after death, disability, or age 65).	• Reimbursements are tax free if they are distributed to reimburse for plan-allowed qualified medical expenses. • Reimbursements typically not allowed if not for plan-allowed qualified medical expenses.	• Reimbursements are tax free if they are distributed to reimburse for plan-allowed qualified medical expenses. • Reimbursements typically not allowed if not for plan-allowed qualified medical expenses.
Funding Basis	• Actual.	• Notional.	• Actual.
Funding Requirements	• Must be funded in a trust or custodial account established by employee.	• Commonly designed as "virtual or notional accounts" with reimbursements made from employer's general assets as claims occur. • The account may be, but is not required to be, pre-funded by the employer.	• Commonly designed as "virtual or notional accounts" with reimbursements made from employer's general assets as claims occur.
Tax Treatment of Earnings	• Earnings on HSA assets are not subject to tax while they are held in the HSA and are never taxed if they are distributed to reimburse for qualified medical expenses.	• Since accounts are notional, earnings at employer's discretion (not common feature). • If earnings provided, not subject to tax.	• No "earnings" in classic sense, though additional account accruals can occur due to distribution of forfeitures from other employees, though any annual accrual in excess of statutory maximum is taxable.

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs *(continued)*

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Paired Health Plan	• Compatible with a qualified HDHP (legislated definition). • For 2014: HDHP must have an in-network annual deductible of at least $1,250 for single coverage, $2,500 for family coverage. • For 2014: In-network out-of-pocket expense requirement cannot exceed $6,350 for single coverage, $12,700 for family coverage. • HDHP can not have an "embedded individual deductible" as part of the family deductible.	• Flexible; defined by employer, with no lower limit to deductible and no upper limit to maximum out-of-pocket other than that specified under ACA.	• n/a
Reimbursable Expenses	• Must reimburse for any health expenses defined in Section 213(d) of the Internal Revenue Code. • Generally cannot be used to pay for health plan premiums (exceptions include COBRA, long-term care premiums, and premiums for non-Medigap premiums for people over age 65).	• May reimburse for medical expenses defined in Section 213(d), including amounts paid for health plan premiums and long-term care coverage premiums, but cannot reimburse expenses for long-term care services.	• May reimburse for medical expenses defined in Section 213(d), including amounts paid for health plan premiums and long-term care coverage premiums, but cannot reimburse expenses for long-term care services.
Qualified Premiums	• Non-Medicare Supplement post-65 health insurance, Medicare, COBRA, qualified LTC, health insurance if unemployed.	• Retiree health insurance, including qualified LTC, COBRA.	• None.

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs *(continued)*

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Claim Processing	• Discretionary or automatic. • Can be via debit card. • Handled by claims administrator or separate HSA trustee. • Reimbursement limited to amount in account at time of reimbursement request.	• Discretionary or automatic. • Typically handled by claims administrator. • Reimbursement can be based on entire annual accrual amount even if not yet completely funded. If reimbursement limited to year-to-date pro-rata accrual, temporarily exposes employee to greater out-of-pocket cost exposure.	• Discretionary or automatic. • Handled by claims administrator or separate ERA trustee. • Reimbursement must be based on entire annual accrual amount even if not yet completely funded.
Claim Substantiation Requirements	• Employers and HSA trustees are not required to determine whether HSA distributions are used exclusively for qualified medical expenses. HSA holders should maintain supporting records. • Substantiation likely required under HDHP.	• ERISA plan - medical care expenses must be substantiated.	• ERISA plan - medical care expenses must be substantiated.
Timing of Reimbursements	• Can receive reimbursement any time for any expense incurred after creation of HSA (even years later).	• Reimbursement window limited by employer (e.g., 90 days after close of plan year).	• Reimbursement window limited by employer (e.g., 90 days after close of plan year).
COBRA	• COBRA is not applicable to HSAs, but it would apply to the qualified HDHP. • Can use HSA to pay COBRA premiums.	• COBRA is applicable to both the HDHP and the HRA. • Can use HRA to pay COBRA premiums.	• COBRA is applicable. • Can not use ERA to pay COBRA premiums.

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs *(continued)*

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Ability To Roll Over Funds Year Over Year	• Yes	• Yes, at employer's discretion.	• No. Unused funds remaining at the end of the plan year are forfeited to the employer. However, an employer may opt to provide a grace period of up to 2½ months after the end of the plan year to incur reimbursable claims.
Portability	• Yes, completely (Statutory requirement).	• Only at employer's discretion, though COBRA-eligible benefit.	• Only at employer's discretion, though COBRA-eligible benefit. • Reversion to employer (with limitations).
Administration Cost	• Yes (annual basis). • Fees often paid by employer while employee is active; paid by employee after termination (i.e., deducted from HSA).	• Yes (monthly basis). • Fees generally paid by employer.	• Yes (monthly basis). • Fees generally paid by employer.