Benefits Corner

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This Alphabet Soup Might Hit the Spot

It is pretty amazing how many of our major purchasing decisions are heavily influenced by the Internal Revenue Service (IRS) tax code. This definitely holds true in the area of health insurance and other benefits. Over the years, Congress has passed a range of ways for you, or your business, to save money in purchasing benefits. The IRS and, sometimes, the Department of Labor (DOL) are responsible for making sure we do not get more benefit out the programs than intended. These are the guys that also tend to give us all those "catchy" acronyms designed to make things memorable and easy to understand, but really turn it all into alphabet soup.

Let's start with the basics before we dive into the big bowl of alphabet soup. If you are a small employer sponsoring a benefit program, don't forget to look into whether a Section 125 plan might make sense. This is the Section of the tax code that allows an employee to pay for their share of a premium payment on a pretax basis. These plans can also be known as "Premium Only Plans" or POP plans. These are very simple to set up and administer. An additional benefit for the employer is that FICA contributions are lowered due to the reduction in taxable wages.

The next vehicle that allows for some tax saving on Qualified Medical Expenses or QMEs is the Flexible Spending Account or FSA. These types of plans have been available through larger employers for many years. They are attractive because the employee can pay for QMEs on a pretax basis and the employer again has a lessened FICA burden. This is the plan where you try to guess what your noninsured medical expenses will be and then tell your employer to take that out of your paycheck throughout the year. Hopefully, you will have guessed right, because any money left in an FSA at the end of the year is subject to the "use it or lose it" provision.

A newer variant of the FSA is the HRA—Health Reimbursement Arrangement. Again, this is a program available to employers sponsoring a health insurance program. The HRA is most often used in conjunction with a higher deductible health plan. An HRA is totally funded by the employer and the employer also determines the QMEs that the HRA funds can be used for, in advance. Rollovers from unused funds are allowed if the employer chooses. The neat thing about these types of plans is that the employer could buy a health plan policy with a $2,000 deductible, put $1,000 in an employee's HRA, and it feels like a $1,000 deductible policy and everybody saved money and taxes. The math is usually not that simple, but the concept is.

The final variant is the still new Health Savings Account or HSA. These plans are very flexible and are available for both individual and employer health plans. These plans do require that the health insurance in place be a Qualified High Deductible Health Plan or QHDHP. The two biggest things that are given up with a QHDHP is the office visit co-pay and prescription drug card co-pay feature. Instead, these charges now go toward the deductible on the plan. The HSA can be funded by the individual, employer, or a combination of the two. Money in the HSA is owned by the individual, can be used for QMEs, and is not subject to the "use it or lose it" provisions of the FSA. I will devote one of my next advertorials solely to the topic of HSAs.

These are several ways to make your benefit plans more affordable through wise use of the available tax-advantaged vehicles. Another sound piece of advice is to consult with your CPA or tax preparer; they have great ideas in this area, too!

I hope you enjoyed today's serving of Alphabet Soup at the Benefits Corner!

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