

Employee Benefits Series



Health Flexible Spending Arrangement (FSA)

KEY FEATURES FOR 2015



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Overview	
Account Description	Employer-established benefit plan that allows eligible employees to be reimbursed for qualified medical expenses
Important Reminders for 2015	New limits on contributions . In addition, a health FSA must qualify as excepted benefits* and be offered through a Section 125 cafeteria plan , or the arrangement will violate certain requirements under Health Care Reform.
Potential Tax Benefits for Employees	<ul style="list-style-type: none"> • Contributions (by both employee and employer) are generally excluded from gross income and not subject to employment taxes • Reimbursements used to pay qualified medical expenses are not taxed
Employee Eligibility	
Who May Participate	<p>Employer sets rules for eligibility</p> <p>Health FSAs may not discriminate in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC Section 105(h)).</p> <p>Employers also must comply with nondiscrimination rules for cafeteria plans under Section 125 regarding eligibility, contributions, and benefits for highly compensated and key employees.</p>
Notes: Self-employed persons are not eligible for a health FSA, and certain limitations may apply to key employees or highly compensated participants. In addition, guidance regarding the participation by same-sex spouses in FSAs and cafeteria plans is now available.	
HDHP (High Deductible Health Plan) Coverage Required	No; however, a health FSA will be considered to provide excepted benefits only if the employer also makes available other group health plan coverage that is not limited to excepted benefits (and the health FSA is structured to meet certain other requirements)
Contributions	
Who May Contribute	The employee, the employer, or both may contribute to the health FSA
Pre-Tax Employee Contribution Allowed	<p>Yes, typically funded through salary reduction agreements in which employees elect an amount to be voluntarily withheld from wages</p> <p>(A health FSA must be offered through a Section 125 cafeteria plan in order to be exempt from the annual dollar limit prohibition under Health Care Reform.)</p>
Limit on Contributions	<p>Yes. For 2015, salary reduction contributions to a health FSA are limited to \$2,550 per year (adjusted for inflation).</p> <p>A health FSA will be considered to provide excepted benefits only if the arrangement is structured so the maximum benefit payable to any participant cannot exceed 2X the participant's salary reduction election for the health FSA for the year (or, if greater, cannot exceed \$500 plus the amount of the salary reduction election), and certain other requirements are met.</p>
Employer Participation	Any contributions made by the employer must comply with the nondiscrimination requirements under IRC Sections 105(h) and 125 .

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Distributions	
Distributions Allowed	A health FSA may only reimburse <u>qualified medical expenses</u> incurred by an employee and his or her spouse and dependents, as well as the employee's adult child under age 27 as of the end of the taxable year (regardless of whether the adult child qualifies as a tax dependent of the employee).
Timing of Distributions	<p>Expenses are incurred when services are provided. Expenses incurred before or after the period of coverage may not be reimbursed.</p> <p>Employees are entitled to receive the maximum reimbursement at any time during the coverage period, <u>regardless of the amount that has been contributed</u> (reduced by any prior reimbursements).</p>
Qualified Medical Expenses	<p>Qualified medical expenses are those specified in the plan that generally would qualify as expenses for "medical care" as defined in IRC <u>Section 213(d)</u>.</p> <p>A health FSA may be limited to a subset of permitted Section 213(d) medical expenses.</p> <p>FSA distributions are <u>not permitted for the following expenses</u>:</p> <ul style="list-style-type: none">• Amounts paid for health insurance premiums• Amounts paid for long-term care coverage or expenses• Amounts that are covered under another health plan <p>Note: Under Health Care Reform, group health plans are required to cover certain <u>preventive services</u> without cost-sharing. A health FSA that does not qualify as <u>excepted benefits</u> fails to meet the preventive services requirements.</p>
Other Issues	
Balance and Carryover	<p>Amounts of <u>up to \$500</u> remaining in a health FSA at the end of the plan year may be carried over to the immediately following plan year or, alternatively, a plan may provide for a <u>grace period</u> of up to 2 ½ months after the end of the plan year in which the employee may use amounts remaining from the previous year.</p> <p>Note: An individual who is covered by a general purpose health FSA is <u>not eligible to make HSA contributions</u> during the entire plan year of the health FSA, even if the individual has coverage solely as a result of unused carryover amounts from the prior year.</p>
Account Subject to COBRA	No, if the benefits provided under the health FSA are <u>excepted benefits</u> and <u>certain conditions</u> are satisfied
Portability	No

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*Benefits provided under a health FSA are excepted for a class of participants only if they satisfy two requirements:

1. Other group health coverage, not limited to excepted benefits, is made available for the year to the class of participants by reason of their employment; and
2. The arrangement is structured so that the maximum benefit payable to any participant in the class for a year cannot exceed two times the participant's salary reduction election under the health FSA for the year (or, if greater, cannot exceed \$500 plus the amount of the participant's salary reduction election).

Note: Unused carryover amounts remaining at the end of a plan year that satisfy the modified "use-or-lose" rule are not taken into account when determining if this requirement is satisfied.

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Written and created by: HR 360, Inc. | Last update on October 30, 2014

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