Mulling alternatives to employee health coverage

FSAs, HRAs might provide good benefit at lower cost

Guest Writer

June 30th, 2016

Robert Welk

Historically, offering health insurance to employees has been a great retention tool for businesses.

That being said, the unsustainable premium growth and increasing complexity have caused many employers to go back to the drawing board.

There are a couple of simple things that can be done to improve the situation, even if employers choose not to offer health care coverage. The first thing they can do is establish a flexible spending account for their employees. Any costs an employee incurs that fall under section 125 of the IRS tax code can be reimbursed out of a flexible spending account. Neither the employee nor the employer pay for the taxes on those dollars.

For an employer, the cost is about $5 per employee, and after the account is established, it requires little work from the business. Because most plans that employees purchase on their own through the state health care exchange have large deductibles and little if any upfront coverage, a flexible spending account provides welcome relief.

There are two things that make this traditional benefit even stronger under Obamacare. First, every dollar by which an employee's income is reduced results in between a 9 percent and 15 percent tax rebate. As income goes down, the subsidy goes up. Second, section 125 also enables employees to add day care costs of up to $5,000 a year to the FSA account. In other words, an employee with fixed medical expenses or day-care expenses can get a rebate between the two tax benefits of 24 percent to 41 percent.

In addition, the vast majority of employees never will reach their deductible, so the reduced tax bill at the end of the year softens the blow. Keep in mind, the money in such an account must be used by year-end, so it's a good idea to contribute exactly as much as is to be spent.

Section 125 is fairly broad. As mentioned above, it includes qualified day care expenses. Young families that often end up subsidizing the system because they use little health-care services finally get a break through child care. While the limit for the FSA is about $2,500 for most things, the limit for day care is $5,000 per household.

Reduction in an employee's income also can result in a reduction in deductible and maximum-out-of-pocket expense. The differences can be profound for younger consumers, even with a small shift in income.

The other account an employer can set up is a health reimbursement account. If they don't provide health insurance for their employees but pay extra to compensate for that fact, they can set up that HRA.

With this account, neither an employer nor an employee has to pay taxes on that amount, and the balance will roll from year to year. The money in that account can be used for health care-related out-of-pocket expenses, but not for day care. Contributions to an HRA should result in a tax rebate of about 15 percent at the end of the year.

In summary, it's worth an employee's time to consult with a tax professional to see how much either a flexible savings account or an HRA arrangement would help before talking to an employer, because it's an extra expense for them. Such options, however, definitely merit exploring.

Another avenue to reduce employee cost is to become versed in how Medicaid works with employer coverage. If an employee's family income is less than 300 percent of the federal poverty line and an employer is offering coverage for the family, Medicaid will reimburse the employer for the employee dependent cost. This single concept might help the employees budget while enhancing employee retention.

An employer also can discuss with its insurance broker not offering coverage to spouses. This will enable the spouse to potentially receive subsidies he or she wouldn't have received otherwise.

If an employer's goal in offering coverage to employees is to increase loyalty, there is some brainstorming they should be doing with their insurance broker, insurance company, and accountant so they can create loyalty at a lower cost and create as much—if not—more benefit for employees.

Robert Welk is the owner of Welk Security & Trust, of Spokane.

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