



OSBORNE-BRUMSEY & ASSOCIATES, INC.

Employer Medical Benefit Plan Design Summary

	<u>FSA (Section 125)</u>	<u>HRA (Section 105)</u>	<u>H.S.A</u>
Who Can Contribute	Employee & Employee	Employer Only	Employer & Employee
High Deductible Plan Required	Not Required	Not Required	Required
Employer Involvement	Required	Required	Not required
Funding	Funded as claims Filed	Per employer, Funded as claims Filed	Cash only
Contribution Limits	Per employer No statutory Limits	Per employer No statutory Limits	Statutory limits
Portable	No	Per employer, Usually not.	Required
Does account Roll over?	No	Per employer, Usually not.	Required

F.S.A.; Flexible Spending Account (I.R.S. Section 125 plan)

125 plans can be funded by both an employer and an employee. Most generally, this plan is funded by the employee. Contributions are “salary reductions” and escape Social Security, Medicare, state and federal income taxation. The allocated funds are set for the

plan year and may not be changed except upon a 'qualifying event'. Allocated funds must be used within the plan year or they are forfeited. The year's allocated funds are fully available for medical claims from the 1st day of the plan year. This plan may be used with any medical plan design. FSAs are not available to sole proprietors, partners, or 2%+ owners of sub-S corporations. Benefit discrimination standards apply.

H.R.A.; Health Reimbursement Arrangement (I.R.S. Section 105 plan)

H.R.A. plans may be funded with either employer only or a combination of employer and employee contributions. Most operate with employer only funding. Employer contributions are not taxed to the employee at any level. Annual contribution limits are available to an employee from the 1st day of the plan year. Contributions may accumulate year to year for the employee. Unclaimed employer contributions are normally forfeitable by an employee that terminates employment. Payments made by the plan for medical expenses are not taxed to the employee. Employer may only deduct as expenses those benefits actually paid by the plan.

H.S.A.; Health Savings Accounts (Effective 1/01/04; Medicare Reform package 2003)

This is the new "plan" on the block and is generating the most excitement since the concept of 'contracted providers' hit the market in the mid-1980's. Generally, the primary features of this plan are:

1. Contributions may be made by either an employer, an employee only or both.
2. Contributions are "cash" only and prospective from the date of adoption with a calendar year controlling.
3. Contributions are made on the same basis as a 'qualified retirement plan'. Contributions by and employee are subject to social security and Medicare tax, but not state or federal income tax. Here the use of an F.S.A. plan for H.S.A. contributions can avoid this level of taxation.
4. Account balances are fully owned by the employee and may be accumulated year after year.
5. Account balances may be invested in any investment normally acceptable for I.R.As. Account balances may grow tax-free throughout the years.
6. Employee accounts may be 'rolled over' from one employer plan to another and to an individual account upon termination of employment.
7. H.S.As require the adoption of a specially designed "High Deductible Health Plan" (HDHP).
8. Employee contributions to an H.S.A. are available to everyone insured by an HDHP plan, including sole proprietors, partners, and 2%+ owners of sub-S corporations.
9. There are no discrimination rules governing the operation of the plan, except there are rules that govern if the employer is making a contribution to the H.S.A. plan. These must be fully examined for suitability to individual companies.
10. Distributions are available for any "qualified" medical expense not payable by the insurance policy and are the responsibility of the individual to maintain adequate records in the event of future tax audits. No responsibility for "qualified expense" status rests with an employer.
11. Contribution limits are flexible and generally determined by the HDHP plan in effect.

A Point of View from Jade Osborne

H.S.A. plans will become the primary plan design for medical insurance policies provided by employers during the next several years. The change of attitude required by both employers and employees towards the operations of the medical plan will be extensive. Education of both the employer and employee is required for understanding and acceptance. But the cost factors and financial advantages of these plans will be the primary determining factors that will drive this change.