Consumerism in Healthcare

A Roadmap for PEOs

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The employer-sponsored healthcare benefit is somewhat unique to the United States. It proliferated during the Great Depression when President Roosevelt imposed a wage freeze on American companies. Private-sector companies responded by offering group healthcare benefits as a means of additional compensation.

By 2008, more than 60 percent of small to medium-sized employers offered this benefit, but that number decreased somewhat with the passage of the Affordable Care Act (ACA) in 2010. In 2016, however, the number of employers offering the benefit had again started to increase. That trend is continuing, due to the factors of diminishing unemployment and lower premium increases over the past few years. As a result, new hires and current employees expect more comprehensive benefits packages, even those in small to medium-sized firms that lie in the PEO target market.

In 2018, healthcare was a more than $3.5 trillion industry, with $1 in every $6 spent going toward healthcare. Employers responded to this burden by shifting toward higher deductible health benefits policies to keep premium increases in check and offering new financial benefits related to healthcare spending to help offset the larger premiums and out-of-pocket expenses now borne by employees. In response to these trends, PEOs are deploying more benefits strategies to attract and assist those small and medium-sized employers in making suitable benefits available to their worksite employees, using the tools described below.

Health Savings Accounts (HSAs)

Introduced in 2003, an HSA is a benefits account opened and owned by the worksite employee, who participates in a specialized group health benefits plan, the high-deductible health plan (HDHP). An HDHP has certain mandated design requirements for employees to be eligible to open, contribute to, and use the HSA. For 2019, the HDHP parameters include a minimum deductible of $1,350 (single) and $2,700 (family), and participants must have certain first-dollar benefits such as annual physicals and preventive care. With an HDHP in place, either or both the employee and employer can contribute to the HSA, and once funded, the employee owns the account and keeps the account beyond employment. The employee contribution is pre-tax if the employer has a Section 125 plan in place, or employees can take the tax savings when filing their annual taxes. The employer will realize FICA savings to the extent participants contribute to their accounts. HSA accounts have grown appreciably over the years. It is estimated that by the end of 2020, the HSA market will be more than $75 billion in HSA assets covering more than 29 million accounts.

PEOs are increasingly offering HSAs to their worksite employees as a health benefit option. They can do this only if the employee is participating in an overlying HDHP, sponsored either by the PEO or the worksite employer. PEOs have found the HR process of deploying these benefits far more manageable and cost efficient by having one source to manage the HSA banking relationship and having the ability to use one integrated benefit card for the HSA and any overlying limited flexible spending account (FSA). By centralizing the HSA benefit, the PEO can better manage contributions that result in actual FICA savings to the PEO, to the extent the contributions are run through the PEO's Section 125 plan.

Health Reimbursement Arrangements (HRAs)

Introduced in 2002, HRAs are employer-funded account-based group health plans that employees can use to pay for their own medical expenses or the medical expenses of spouses and qualifying dependents. Since the enactment of the Affordable Care Act, employers generally must offer a deductible group health plan in concert with the HRA (because stand-alone HRAs are generally not allowed). An HRA can only be employer funded, and the employer only pays if there is a claim. The employer may keep any funds a participant does not use during a plan year if the HRA plan document so provides. The decision to deploy an HRA is often made by comparing the premium savings for the higher deductible policy to the anticipated overall payout through the HRA over the plan year. HRA payments (as reimbursement for qualifying medical expenses incurred by the participant) are not taxable as wages to the participant (for federal income and payroll tax purposes) and are tax deductible to the employer. In 2013, President Obama imposed several limitations as a part of the ACA, including the requirement that the participant be enrolled in a group health plan and removing the ability to use it to pay for individual health premiums.

HRAs may be on the rise, however, since President Trump's Executive Order 13813 issued in October 2017, which directed the overseeing departments to consider rulemaking to increase the usability of HRAs, to expand employers' ability to offer HRAs to their employees, and to allow HRAs to be used in conjunction with non-group coverage.

One change will likely be coming in 2020 under new proposed rules, when HRAs will be allowed to cover employees' individual premiums, effectively restoring an HRA model that was allowed prior to the enactment of the ACA and the Obama administration's interpretation of the ACA's market reforms to HRAs. PEOs with employer clients that do not wish to offer comprehensive major medical coverage will soon be able to offer these new HRAs as an alternative, which will allow them to help worksite employees pay for individual insurance coverage and other out-of-pocket expenses.

PEOs have been increasingly offering worksite employers an HRA option by providing worksite employees higher deductible group health plans sponsored by either the PEO or the worksite employer. HRAs themselves have the element of risk attached—they are governed by the Employee Retirement Income Security Act (ERISA) and are considered to be a type of self-funded insurance plan because of many states' laws prohibiting the offering of self-funded multiple-employer welfare arrangements, or MEWAs. PEOs should be mindful that sponsoring an HRA could implicate these state laws. An alternative would be to have each client employer sponsor its own HRA for employees (with the PEO providing administrative support to the HRA). PEOs have found that providing adequate employee communication is key to the plan's success.

Qualified Small Employer Health Reimbursement Arrangements (QSEHRAs)

In December 2016, President Obama signed the 21st Century Cures Act, which included relief to small employers (those with fewer than 50 employees) that offer no group health coverage by giving them the ability to offer HRAs to pay for individual health insurance premiums and out-of-pocket medical expenses. Certain restrictions apply to these QSEHRAs, including annual contribution caps, and coordination with federal subsidies, if applicable.[1]

Flexible Spending Accounts

This pre-tax employee benefit started in 1985 and is governed largely by Section 125 of the Internal Revenue Code (IRC). Depending on the type of flexible spending arrangement (FSA), it allows employees to pay with tax-free wages certain out-of-pocket medical expenses or qualifying daycare expenses under most circumstances. (Additionally, if an employer or PEO establishes a more general IRC Section 125 "cafeteria" plan, the employees can use the plan to pay certain premium costs (such as for medical coverage) with pre-tax dollars as well.) If the employer sets up a qualified benefit plan, has a plan document, administers claims under IRS rules, and offers a plan design that survives non-discrimination standards, then the employees can contribute to their accounts on a pre-tax basis and the employer will realize FICA savings to the extent the employees use the plan. As an option, health FSAs can be coordinated with HSAs by limiting benefits to dental, vision, and post-deductible health expenses and can be offered on a single, integrated debit card that handles both accounts in a compliant manner.

A participant on average will elect $1,625 in the FSA accounts. This reduces taxable income, results in tax savings to the employee, and increases take-home pay. Because the PEO is reporting the worksite employees' wages under its own FEIN, the attendant FICA savings that go to the employer are enjoyed by the PEO. Savvy PEOs are realizing significant FICA savings when participation levels rise above 15 percent of the eligible population.

In summary, these consumerism in healthcare tools, when used properly, will serve to align the interests of the employer, the employee, and the insurance carrier, resulting in lower overall benefit costs. PEOs that effectively offer and manage HSAs, HRAs, QSEHRAs, and FSAs as part of their benefits offering find that they are attracting and retaining more business. ●

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1 See *www.napeo.org/peo-resources/publications-products/peo-insider/issue/december-2017-january-2018/healthcare-certainty* for more information.