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Tax-Favored Accounts Fact Sheet

Vermont Health Connect has received many questions from employers about how existing tax-favored accounts interact with eligibility for premium tax credits and state premium reductions (financial help). This fact sheet is meant to answer some frequently asked questions about paying for health care through tax-favored accounts by providing you with Internal Revenue Service (IRS) guidance and information about how these accounts interact with individual eligibility for financial help.

Please note that these accounts and eligibility for financial help are regulated by the IRS. The IRS is continuing to put out new guidance on these issues, and this information may change. You should consult a federal tax professional to determine how your specific tax liability is impacted. For additional questions, contact the IRS' Business and Specialty Tax Line at (800) 829-4933.

Health Savings Accounts (HSAs)

What is an HSA?

A Health Savings Account (HSA) allows individuals and their qualified dependents to use pre-tax dollars to pay for their out-of-pocket medical costs. HSA funds cannot be used to pay premiums. HSAs can only be paired with high deductible health plans.

If an employer does not offer health insurance, can the employer contribute to an HSA if their employees buy a health plan through Vermont Health Connect?

Yes. Both Blue Cross Blue Shield of VT and MVP Health Care offer high deductible health plans through Vermont Health Connect that may be paired with HSAs. If an employee without health coverage through their job purchases one of the high deductible health plans available on Vermont Health Connect, the employee may apply the HSA contributions toward the out-of-pocket plan costs without affecting eligibility for financial help.¹

Can HSA contributions be used to help pay premiums for employer-sponsored health plans (whether through Vermont Health Connect or otherwise)?

No. Employers cannot contribute to premiums through HSAs.

Is there a maximum that can be contributed to HSAs annually?

Yes. In 2014, the maximum annual contribution is \$3,300 for an individual and \$6,550 for a family.

¹ See Section 4 of IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>, in which HSAs are not included in a list of tax-favored vehicles that are considered employer-sponsored coverage, which would make individuals enrolled in these tax-favored vehicles ineligible for receiving financial help.

Flexible Spending Account (FSAs)

What is an FSA?

A Flexible Spending Account (FSA) is a tax-favored account that allows employees to be reimbursed for medical expenses. FSAs are only for employees whose employers choose to offer them; individuals may not contribute to an FSA on their own. FSAs are usually funded through voluntary salary reduction agreements with an employer. No employment or federal income taxes are deducted from the contribution.

If an employer does not offer health insurance and employees buy health plans through Vermont Health Connect, can the employer use an FSA to subsidize an employee's medical costs?

No. FSAs can only be offered in conjunction with group health plans. See IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>.

Can employers who offer health insurance plans through Vermont Health Connect still offer FSAs?

Yes. See IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>.

Health Reimbursement Account

What is an HRA?

A Health Reimbursement Account (HRA) allows an employer to contribute to employee's health insurance premiums and medical costs. The contribution cannot be paid through a voluntary salary reduction agreement on the part of an employee. Employees are reimbursed tax free for qualified medical expenses up to a maximum dollar amount for a coverage period. An HRA may be offered with other health plans, including FSAs.

If an employer does not offer health insurance and employees buy health plans through Vermont Health Connect, can the employer use an HRA to subsidize premiums and cost-sharing?

No. The Affordable Care Act prohibits stand-alone HRAs and requires HRAs to be integrated with primary group health plan coverage. If an employer is not offering insurance they cannot offer an HRA. See IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>.

Can employers who offer employer-sponsored plans still offer HRAs with their health plans purchased through Vermont Health Connect?

Yes. See IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>.

Cafeteria Plan

What is a cafeteria plan?

A cafeteria plan provides participants an opportunity to receive certain benefits on a pretax basis. It is a separate written plan maintained by an employer for employees that meets the specific requirements of and regulations of section 125 of the Internal Revenue Code.

Employers use cafeteria plans to offer their employees a choice of benefits, including health coverage.

If an employer does not offer health insurance and employees buy it through Vermont Health Connect, can the employer use a cafeteria plan to subsidize premiums and cost-sharing?

No. If the employee enrolls in a cafeteria plan that pays for health care coverage, the employee will be considered enrolled in employer-sponsored minimum essential coverage and therefore ineligible for financial help. See IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>.

Currently, some employers provide HSA contributions through cafeteria plans. An employer who does not offer health insurance and contributes to an HSA through a cafeteria plan may jeopardize the employee's eligibility for financial help from Vermont Health Connect.

Can employers who offer employer-sponsored plans still offer cafeteria plans with their health plans purchased through Vermont Health Connect?

Yes. See IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>.

Employer Payment Plans

What is an employer payment plan?

An employer payment plan is a vehicle that employers who do not offer health insurance can use to reimburse premiums on a pre-tax basis (for the employee).

If an employer does not offer health insurance and employees buy health plans through Vermont Health Connect, can the employer use an employer payment plan to subsidize premiums and cost-sharing?

No. If the employee enrolls in an employer payment plan that pays for health care coverage, the employee will be considered enrolled in employer-sponsored minimum essential coverage and therefore ineligible for financial help. See IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>

Can employers who offer employer-sponsored health insurance through Vermont Health Connect offer employer payment plans?

Yes. See IRS Notice 2013-54 <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>.

Sources:

Department of Health and Human Services, 45 CFR Parts 147, 155, and 156, Patient Protection and Affordable Care Act; Standards Related to Essential Health Benefits, Actuarial Value, and Accreditation <http://www.gpo.gov/fdsys/pkg/FR-2013-02-25/pdf/2013-04084.pdf>

Health Affairs Blog, Implementing Health Reform: Health Reimbursement Arrangements And More, January 25th, 2013, <http://healthaffairs.org/blog/2013/01/25/implementing-health-reform-health-reimbursement-arrangements-and-more/>

Internal Revenue Service, 26 CFR 601.602: Tax forms and instructions., Administrative, Procedural, Miscellaneous, <http://www.irs.gov/pub/irs-drop/rp-13-25.pdf>

Internal Revenue Service, Notice 2013-54, Application of Market Reforms and other Provisions of the Affordable Care Act to HRAs, Health FSAs, and Certain other Employer Healthcare Arrangements, <http://www.irs.gov/pub/irs-drop/n-13-54.pdf>