# Addressing FSA, HRA, HSA Questions for Employers

**March 26, 2020**

We are closely monitoring employee benefits changes related to COVID-19 and are focused on how to best serve clients and participants to make correct and appropriate decisions. Here are some frequently asked questions:

## Flexible Spending Accounts (FSA)

**How should Health FSA elections be treated for employees that are being laid off or furloughed?**

If the employee is being laid off and considered a terminated employee, they should be treated like all other normal employment termination situations. FSA COBRA must be offered if the Health FSA account is considered underspent. A terminated employee who is rehired within thirty (30) days, must return to their prior election. However, if the employee returns to work after thirty calendar days (30), a new election may be made. In either situation, claims incurred while terminated will not be considered qualifying expenses unless Health FSA COBRA was elected.

If an employee is considered on **furlough/non-FMLA unpaid leave of absence,** coverage will cease unless the employee elects to continue benefits coverage. Employer's policies for providing such benefits when an employee is on a non-FMLA leave should be taken into account. If the employee chooses to continue coverage, payments may be made as follows:

A) "Pre-pay" - Employee pays contribution before the leave begins. This may occur pre-tax. **Note:** Contributions pre-paid in one plan year cannot be applied to a new plan year.

B) "Pay-as-you-go" - Employee pays contributions during leave of absence. These contributions are usually paid after-tax, but may occur pre-tax if the laid off employee is receiving compensation from sick days or vacation days. **If the employee stops making contributions, Health FSA benefits cease.**

C) "Catch-up" - Employee pays contributions when they return from leave. These contributions may occur pre-tax.

**Note:** "Pre-pay" may **NOT** be the only option offered to laid off employees.

**If employee has a reduction in hours can the Health FSA deduction be changed?**

If the reduction in hours is significant enough that eligibility requirements as outlined in the Plan Document are no longer met (typically the same hour requirement as the group medical plan), the participant loses eligibility for the Health FSA. In order to use up existing funds, FSA COBRA must be offered for employees with an underspent account. Health FSA elections cannot be changed and coverage continues if the reduction in hours is above the minimum stated in the Plan Document. For example, an employee remains scheduled for 30 or more hours per week.

**Can a person drop their Health FSA because they can no longer afford the deduction?**

Unfortunately, lack of affordability is not a qualifying event.

**When can Dependent Care elections be changed?**

The change in status regulations have a very broad application for dependent care. Any time there is a change in provider, facility fees change or changes in hours of care occur, an election change can be made. This falls under the Change in Status event category of "Change in Cost or Coverage". Please note, if the cost of coverage is increased by a relative who is the child care provider, such situations are not considered a qualifying change.

**How should elections be handled during an FMLA leave?**

<u>Health FSA</u>:

OPTION #1: Participant may revoke coverage. Deductions will cease and no expenses incurred after the Start of Leave date will be eligible for reimbursement. The participant must be offered the option to reinstate coverage upon their Return from Leave. At that time, they can choose either prorated coverage or coverage at the previous level assuming they make-up missed payments while on leave. In either situation, expenses incurred during the leave are not eligible for reimbursement.

OPTION #2: Since the commencement or return from an unpaid FMLA leave is a qualifying event, the participant can choose to change their annual election amount(s) at that time.

OPTION #3: Participant may "pre-pay", "pay-as-you-go", or "catch-up" their Health FSA deductions. If this option is chosen, coverage will continue during the leave and expenses incurred during that time will be eligible for reimbursement.

A) "Pre-pay" - Employee pays contribution before leave begins. This may be done pre tax. **Note:** Contributions pre-paid in one plan year cannot be applied to the next plan year.

B) "Pay-as-you-go" - Employee pays contributions during leave. These contributions usually occur after-tax, but may be paid pre-tax if the employee is receiving compensation from sick days or vacation days. **If the employee stops making contributions, Health FSA benefits cease.**

C) "Catch-up" - Employee pays contributions when they return from leave. These contributions may be done pre-tax.

**NOTE:** "Pre-pay" may **NOT** be the only option offered. Also, OPTION #1 and #2 may be combined, *OR* OPTION #2 and #3 may be combined.

**<u>Dependent Care FSA</u>:**

Since the commencement or return from an FMLA leave of absence is a qualifying event, the participant can choose to change their annual election amount(s) at that time.

**When do Enrollment changes need to be submitted?**

All election changes need to submitted within 30 days of the qualifying event and be prospective.

## Health Reimbursement Arrangements (HRA)

**Will HRA coverage continue for those enrolled in the group health plan that are laid off or on furlough?**

If an employee is being laid off and considered a terminated employee, normal treatment must occur with COBRA continuation be offered. If COBRA is elected for health coverage, HRA benefits continue.

## Debit Cards and Paper Claim Reimbursements

**How will debit card substantiation be accommodated during this time?**

During this unprecedented time, HRAdministrators, Inc. will keep FSA/HRA cards active until May 31, 2020, even in non-substantiation situations.

**How can an employee most quickly expedite a reimbursement payment?**

The quickest option is for employees to complete and submit a **Direct Deposit Form** to HRAdministrators, Inc., allowing reimbursements to be directly deposited into their personal checking or savings account.

## Health Savings Accounts (HSA)

**Can an employee change their pre-tax payroll deduction to fund their HSA?**

Yes, personal HSA deductions may be changed at any time, while it is recommended changes be effective only once per month.

**Is an employer required to continue HSA contributions?**

No, employer contributions are discretionary and may be postponed as long as the change is uniform for all participants and does not favor highly compensated employees.

**Can employees continue to make contributions to their 2019 HSA?**

Yes, since the tax filing deadline has been extended to July 15th, employees can continue to make contributions until then up to the allowed maximum of $3,500 per individual and $7,000 if also covering dependents. And if age 55 or older during calendar year 2019, an additional $1,000 may be deposited using the allowed catch up provision.