Episode 3:

Benefits Accounts: Navigating the plan year runout

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Stephen Durso: What you really want to be careful about is, these are tax-favored accounts. If employees don't take the right actions at the right time, they risk losing money.

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Philip Massey: Hello. My name is Philip Massey. I've spent 21 years in employee benefit administration, and I'll be your host on this episode of Benefits, with Purpose! entitled Benefits Accounts: Navigating the plan year runout. A plan year runout is that period of time where one plan year is ending, and a new one is beginning. It can be tricky. There is some risk of employees losing the value of their pre-tax benefit if they're not careful.

But I'm not alone today. With me once again is Stephen Durso. Good morning, Stephen.

Stephen Durso: Good morning.

Philip Massey: Stephen is an Associate Director of Benefits Accounts at Willis Towers Watson. He is, likewise, a veteran of employee benefits these past 20-plus years. Stephen's here to lend his expertise and perspective on the ins and outs of that special period in the account space that we call plan year run-out or dual plan or even dualing plan year, at times.

So Stephen, in the account space, the run-out, that dual plan year period is essentially the equivalent to open enrollment in our business in terms of activity, customer interactions. So that period of 90 to 120 days maybe starting in December generates a lot of activity. So employees using new plan year while submitting claims against the prior plan year funds. So with all that in mind, if you are a plan sponsor, what are some things you'd want to consider to put your employees in the best possible position to maximize the value of their plan?

Stephen Durso: Well, so that's a great question. So really the impact is going to vary based on the account type. And with all the benefits of tax-favored accounts, I think that as an administrator, as an employer, what you really want to be careful about is these are tax-favored accounts. If employees don't take the right actions at the right time, they risk losing money, where these accounts are set up as a tax savings. So losing money completely negates that tax savings.

So first and foremost, of the different types of accounts are going to be our health care flexible spending accounts. And the big deal there is 12-31 is usually the time frame where you have to incur your expenses. So as a plan sponsor, what we would recommend is that you can't remind your employees enough about this timing because if they don't use their funds by 12-31, they could end up losing money.

Now, one thing that is great about 2020, earlier in the year as part of the CARES Act, over-the-counter items were actually expanded. So now there's more eligible items that someone could spend their funds on towards the end of the year. So that is one good thing about 2020.

Philip Massey: So yeah. Finally answered our benefits that OTCs are back. That was a relief, a welcome relief. So what are some design options? What can employers do, just design-wise with their plans to help avoid forfeitures?

Stephen Durso: Yeah. So there's a couple different options that employers have when they're designing their plans. So the first one to touch on would be grace period. So if an employer adopts grace period, they can do that with their health care FSA as well as their dependent care reimbursement accounts. What that basically does is it gives their population an extra 2 1/2 months to incur expenses towards the plan. So that would take them out and make it so that they get more than 12 months to actually incur expenses.

I will say, though, if an employer is offering this type of plan and they also have an HSA offering, those two can collide. And they don't necessarily play well together. For instance, if someone changes from a health care FSA into an HSA plan the following year, if they have access to that grace period, it may prevent them from contributing to HSA until 4-1 of the following year. So something to keep in mind.

There's another option out there that actually does play well with HSA, and it is something that more employers have been considering over the years and has become more popular, is the carryover option. So back a number of years ago, the government rolled out a $500 carryover option on health care FSAs. Recently, this year, that was actually extended to $550. And what that does for employees is it gives them a margin of error when they're planning what to contribute to their plan for the year because they can be off by up to 20%. So if they don't utilize all of their funds, as long as they have less than $550, it would all carry over into the next year.

We've seen a large number of employers adopt the carryover provision. It also plays very well with HSA in the fact that you can put the carryover funds into a limited purpose FSA. So if someone switched to an HSA plan that would protect their ability to start contributing to HSA as of 1-1. So that's why we generally find that employers who offer an HSA lean towards the carryover versus the grace.

Philip Massey: OK. Yeah. So heard a couple of key decision points in there. Both sounds like would help your forfeitures potentially, but you really have to think about what, design-wise, what else is in your book of plans that an employee could enroll in. So it has a little different interaction with the HSA based on whether you have the $500 carryover, the 2 1/2-month grace period.

Now, what about debit cards? How do they play into this? They're certainly convenient, but do they come with issues of their own?

Stephen Durso: Yeah. So that convenience, Phil, is the first thing that I would say. It is a great benefit to have a debit card because ultimately that means that employees don't have to pull money out of their own pocket. They have a debit card that's hooked directly to their account, and they don't have to spend money out of their own pocket.

But that can come with some drawbacks or some things that employees must do in order to maintain that debit card. So the first thing that I would say is that for health care flexible spending accounts, for HRAs, when you spend funds on that debit card, you will need to substantiate the expenses. So generally, that requires documentation to be submitted to the administrator. And people have through the end of the run-out period in order to actually send in that documentation.

So for employers, that's another reminder opportunity. What we see a lot of employers do is they will send out a reminder 30 days prior to that end of the run-out so that people can get their documentation in. So you might ask, well, what happens if people don't send their documentation in?

Well, in that case, what most employers would do is they may deem the expenses ineligible and add back to earnings for that employee as taxable income. So employers can do that in the current or prior year. Most do it in the current year, so employees still get that full run-out period to submit their documentation from their card transactions.

Philip Massey: So the ultimate end there unfortunately would be an individual employee would spend the year submitting claims, and absent the appropriate documentation, they lose that pre-tax savings if it's added back into their income ultimately.

Stephen Durso: That's right.

Philip Massey: So I think all this brings us to the point that plan sponsors really should take some time to reflect on their forfeiture data, almost working backwards from it, thinking about things like their plan design, their communication plan, and figure out if they're really meeting their plan goals. Would you agree with that, Stephen?

Stephen Durso: Oh, definitely.

Philip Massey: So the things that come to my mind are an employer asking themselves, are the results within an acceptable range? What's my percentage of forfeiture? What are the dollars? How many participants? What percent of my total population?

And then sort of the flip side of that is, how is the enrollment trending, right? One can have an impact on the other. And I think looking at forfeiture data, you really have to, as an employer, ask your administrator, how do I stack up? Am I leading the pack? Am I doing better than average? How does it look against my industry?

Retail, financial, each business sector will have its own different results that are their own trend based on turnover and income and those sort of things. So if an employer finds the results of the plan fall into sort of an outlier type of range, it's really time to take a look at design communications, to look at all that holistically and ask, is everything working together in a manner that's going to help my employees maximize the benefit and mitigate any potential loss or forfeiture? There may be an opportunity there to better position participants, employees for success and continued enrollment year over year, which ultimately is the goal.

So switching gears, so we talked about the plans where you're really at that forfeiture risk. Let's talk about HSAs. They're more than a little bit different, but they do still have a number of considerations come year-end, don't they, Steve?

Stephen Durso: They sure do, Phil. So I think the first thing I would say is that we're not dealing with forfeitures. There's no rush at the end of the year to try to spend your funds because HSAs don't come with that same forfeiture that a health care flexible spending account would. What the emphasis and things that really need to be considered at the end of the year is more on the contribution side.

So with HSA, there is a contribution limit each year. However, those contributions don't need to all be made within the calendar year. So what an employee could actually do is if they have not met the maximum for the year, even if they're past 12-31, the end of the year, they have that entire period in the beginning of the year through the tax filing deadline to actually contribute to their prior year HSA. So that is something that they can do in order to maximize that contribution.

Additionally, if they've gone over the excess contribution limit, they have that same time period to remove that excess contribution in order to not have negative tax consequences. So the government gives some leeway with the contributions and removing excess contributions through tax time. Now of course, this year, tax time actually fell on July 15, so we don't know what will happen in 2021, but it's currently slated for April 15 in 2021.

I think a couple other things that I would say is HSAs are employee-owned, and they're typically not in a cafeteria plan or subject to ERISA. So while that means it's really on the employee, there are still some things that an employer should consider or at least be aware of. So the main one is going to be tax forms. Tax forms are going to be sent from your HSA administrator. However, it's important that the employer knows the timing of when those will be sent.

Because if for whatever reason there's a problem with getting them out on time, they will certainly get questions from employees, and they want to be in the know. The different types of tax forms that are sent, there is form 1099-SA for distributions, then there's 5498s for contributions. All of these come from the HSA custodian, and then the employee's responsible for their 8889 filing.

Another thing as an employer that you can be aware of is to do a year-end reconciliation of payroll deductions versus the amounts funded. So by doing that, you're really ensuring the accuracy of the tax forms, W-2s and 5498-SAs. So I know some employers do this on a regular basis, monthly, quarterly, but at a minimum, it should be done at least annually to try to make sure that the data is clean.

One last thing that I would say is that we should remember that employees can make direct contributions to HSA outside of payroll. So if that has happened, those two forms won't always match, and it's entirely on the employee to ensure the proper filing for taxes as they are the owner of the account.

Philip Massey: So that's a lot. I mean, just like a night and day difference between FSAs, HRAs, and HSAs. So I imagine it can be a bit of an adjustment for employees moving from HSA or moving into the HSA, I should say, for the first time, to navigate that year-end period. Would you agree?

Stephen Durso: I would. It's very true because it just comes with that territory of that employee being the owner of the account as opposed to other accounts they may have been used to with more employer involvement.

Philip Massey: Yes. Very true. So in the interest of fairness, I'm going to give a little time to the other side of the aisle, accounts-wise. There are additional reimbursement-type plans that an employer may offer outside of the traditional FSAs and HSAs, and they all have a little bit of consideration for year-end, let's say.

So thinking about your HRAs that are playing your base, thinking about wellness-type plans. It may be reimbursement accounts, gym membership reimbursements or however they may be configured for an employer. If these are plan-year based with a balance that needs to be spent in a given period of time, then most employers we see usually mirror the FSA runout to try and make it as streamlined as possible to give employees a single target.

Now, the grace period and the $500 carryover may change some of those considerations, but at the same time, the more you can focus your employees in on a single point in time, the better off ultimately we find that they are. Tuition reimbursement plans have their own nuance in order to maximize that pre-tax $5,250 annual pre-tax benefit. The reimbursement itself has to occur in the taxable year. So employers really need to work with their administrators, whether this is with a third party or being handled in-house, to make sure that the processing lines up appropriately with the payroll calendar for that last pay cycle in December. Because again, it has to get on that last December paycheck to count toward that year's $5,250.

For commuter, probably the furthest outlier from a plan year-type of consideration but at the same time commuter having a month-to-month maximum still changes periodically year over year. So another thing for employers to be mindful of and to be following up with their administrators to ensure that they

are set to go when the new rates come out each year is that new monthly maximum. It's usually released at some point in quarter four of the current year for the coming year. This year, fortunately, there was no change. It remains $274 pre-tax parking and transit going into 2021.

Stephen, anything else come to mind?

Stephen Durso: Yeah. So one thing about 2020, we can't discuss 2020 without talking about the impact of COVID-19. So just a reminder, national public health emergency was recently extended by the Department of Health and Human Services to January 21. So the reason that there is an impact there is to the plan year-end for year 2019 plan year. So earlier this year, there was an ERISA-mandated extension of any 2019 plan year that fell within this national emergency period.

It can get a little bit tricky because the Department of Labor and Treasury issued those regulations in May 2020 related to a few different things. So HIPAA special enrollment rights, COBRA rights, and claims procedures. So where this is going to impact accounts is you're going to find it with health care flexible spending accounts and HRAs. So ultimately, what employers had to do was they had to allow submission of 2019 incurred expenses throughout this period. And they have not been able to close the books.

So we do get questions all the time about well, when can we finally put 2019 in the past? And it looks like with this last extension that the end is in sight. So there is also section 518 of ERISA, which allows for extensions up to one year. And based on our current guidance, what that would suggest is that 2-28 of 21 is the furthest that calendar year 2019 plans can be extended without additional guidance.

But the only thing I would say here is if 2020 has taught us one thing, everything is subject to change. So if there is additional guidance that comes out before that, this timing could change. And this is something that employers should keep their eye on as it is definitely a developing situation.

Philip Massey: Oh, the irony that we sit here talking about plan year close and plan year that wouldn't end. But regardless, thanks, Stephen. We do encourage plan sponsors to look holistically at their annual results from enrollment to forfeiture and think about the design elements again.

Think about communication plans, specific work location strategies, because those can change for a nationwide organization and vary from location to location, population to population, even within your own employee base. But again, the idea is to maximize the results for employees. Increase that satisfaction with the plan year over year. Remember, reimbursement accounts are a quote unquote "benefit" to employees. And they should perceive them as such.

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This concludes our episode for today. I do want to thank our Benefits, with Purpose! listeners for joining us.

Stephen Durso: Yeah. And make sure you subscribe to join us for future episodes. Phil and I both want to wish you all safe and happy holiday season.

Philip Massey: Be well, everyone.

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