CONCORDIA PLANS

2022 EMPLOYER GUIDE TO PERSONAL SPENDING ACCOUNTS

Three kinds of accounts

This guide provides an overview of three types of personal spending accounts:

- Health savings account.
- Health reimbursement arrangement.
- Flexible spending account.

Each type of account has different features and benefits, but all provide tax advantages that can help workers deal with rising medical costs.

Are they right for your organization and workers?

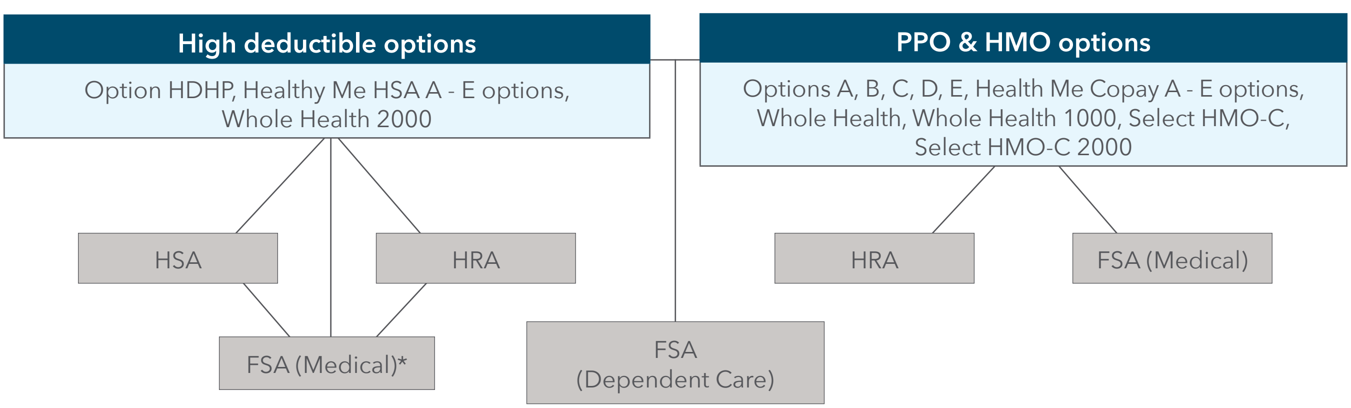
PSAs can help workers budget and save for major and everyday health care and/or dependent care costs, as well as save for future expenses. Workers will also appreciate knowing their employer is contributing to help offset their expenses. PSAs offer tax benefits that typically keep more money in your workers' pockets. Because workers manage the funds in the accounts themselves, PSAs can also encourage informed decisions when it comes to choosing cost-effective care.

How do they work?

PSAs let workers use pre-tax dollars for eligible out-of-pocket medical, prescription drug, dental and vision expenses. They're financial accounts that offer a way for workers to pay for health care expenses not reimbursed by their health plan. Depending on the type of account, it may be funded by the worker, the employer or both. The money is typically contributed pre-tax, and withdrawals are always income tax-free if used for eligible expenses. In addition, a dependent care FSA allow workers to use pre-tax dollars for eligible dependent care expenses.

An HSA — one type of PSA — offers attractive ways to save for future medical expenses. By allowing balances to accumulate year after year, earning interest or providing investment opportunities, workers can watch their accounts grow.

Plan options & PSAs



**When paired with HSA, FSA must be post-deductible or limited.*

PSAs at a glance

	HSA	HRA	FSA
What is it?	An HSA is a tax-advantaged account used to pay qualified medical, prescription drug, dental and vision expenses for the account holder and dependents.	An HRA is a tax-advantaged account established and funded entirely by the employer for its workers' and their dependents' qualified health plan expenses.	An FSA is a tax-advantaged account usually offered as part of a Cafeteria Plan. Funds can be used toward qualified medical, prescription drug, dental and vision expenses or dependent care expenses depending on the type of FSA.
What is eligible?	Medical expenses according to Internal Revenue Code Section 213(d).	Health plan eligible expenses (copays, deductibles, coinsurance), dental or vision expenses as directed by the employer.	**Medical FSA:** Medical expenses according to Internal Revenue Code Section 213(d). **Dependent care FSA:** Dependent care expenses according to Internal Revenue Code Section 129.
Who owns the account?	Worker.	Employer.	Employer.
CHP option compatibility/ requirement?	Option HDHP, Healthy Me HSA A, Healthy Me HSA B, Healthy Me HSA C, Healthy Me HSA D, Healthy Me HSA E and Whole Health 2000.	Can be used with any health plan option.	Can be used with any health plan option.
Who contributes?	Employer and/or worker. The account can be funded by the employer and the worker.	Employer only. The account is funded entirely by the employer.	Generally, worker. This account is typically funded by the worker, although the employer can contribute as well.
Balance rolls over?	Yes. The balance does roll over from year to year.	Employer decision. Money in the account at the end of the year can be rolled over if the employer designates.	No. If money is not used by the end of the year, the remaining dollars are forfeited to the employer, unless the employer elects to allow a rollover of up to $550 in funds.
Portable?	Yes. The account is fully portable.	Employer decision. Employer can allow terminated workers to spend remaining funds in the account.	No. The account is not portable if the worker leaves the organization.
Investment opportunities?	Yes. The account will earn interest and workers can also invest balances over a certain threshold.	No.	No.
Who holds the funds until a claim is received?	In the member's account with the administrator (e.g., HealthEquity and Lutheran Church Extension Fund).	Employer.	Employer.

What you need to know about an HSA

A health savings account is a tax-advantaged account owned by the worker that can be used to pay for qualified health care expenses. An HSA also has the added benefit of long-term savings potential for workers to use for future medical expenses. Workers can only access funds that are in their accounts; they cannot withdraw their annual contribution amount before the funds have been deferred or deposited. Contributions remain in the HSA account from year to year until they are used. There is no "use it or lose it" provision.

Who is eligible?

The IRS mandates that an HSA can only be used with a qualified high-deductible health plan; therefore, only those workers enrolled in CHP Option HDHP, Healthy Me HSA A, Healthy Me HSA B, Healthy Me HSA C, Healthy Me HSA D, Healthy Me HSA E and Whole Health 2000 can open and contribute to an HSA. In addition, to be eligible to contribute to an HSA, the worker cannot be:

- Covered by any other health insurance (including a spouse's medical FSA) except another qualified high-deductible plan.
- Entitled to or enrolled in Medicare. (You are entitled to Medicare if you have filed to receive Medicare Part A and your name is in the system or your application has been processed.)
- Claimed as a dependent on someone else's tax return.

How is an HSA funded?

- Employers and/or workers can contribute to an HSA. Employers will need to set up a Cafeteria Plan in order for workers to fund all or a portion of their HSA through pre-tax payroll contributions. Workers' payroll deductions can be changed at any time.
- Employer contributions must be equitable and meet either non-discrimination testing under Internal Revenue code (IRC) Section 125 or the comparability rules under IRC Section 4980G.
- Post-tax contributions can be made through a one-time payment or periodic contributions by the worker directly to the HSA administrator. Workers who contribute post-tax dollars can deduct those amounts from their income when they file their tax returns.
- An HSA may also be funded through a tax-free rollover from another HSA. A one-time IRA rollover is available, but unlike other rollovers, the IRA rollover counts toward the worker's annual maximum contribution for the year in which the funds are transferred.

HSA investment options

A key advantage of the HSA is that it lets workers build their accounts for future medical expenses. The interest or other earnings added to the account balance are not taxable. When account balances reach certain thresholds – determined by each account administrator – account holders may have the option to invest a portion of their account dollars into available mutual funds. Depending upon your account administrator, you may have the option to automatically transfer account dollars into selected mutual fund(s). An HSA typically offers a wide range of investment options with varying levels of expected risk and return to accommodate individual investor preferences. Tools and resources may also be offered to help guide workers through making their investment elections. Monthly, quarterly or annual investment fees may apply.

As with all investments, mutual funds involve risk. Investments are not FDIC insured and may lose value.

Limits to HSA contributions

There is no minimum amount that must be contributed. However, the IRS does set maximum dollar amounts that can be put into an HSA. This amount is subject to change each year; for 2022 the government-imposed maximum contributions are $3,650 for individuals and $7,300 for families.

Anyone over age 55 or who will be 55 before the end of the year may contribute extra money, or "catch-up" contributions. The maximum catch-up contribution is $1,000 for 2022.

Visit **IRS.gov** for information on expenses, annual limits, and other details about an HSA, HRA and FSA.

IRS reporting

HSA contributions and withdrawals are both reportable transactions, regardless of whether they are made by the worker or the employer. Workers must report their HSA contributions and distributions on their tax returns. Account administrators, such as HealthEquity and LCEF, will report contributions to the IRS with Form 5498-SA and will report distributions to the IRS with Form 1099-SA.

What you need to know about an HRA

A health reimbursement arrangement is essentially a "promise to pay" by the employer. The employer designates a specified amount of tax-free dollars to reimburse workers for their eligible medical plan expenses (copays, deductibles and/or coinsurance), dental or vision expenses, as directed by the employer. Employers don't deposit money into an account upfront. Instead, claims are paid as they're incurred. Workers can access the entire annual amount at any time during the year, if necessary. If workers don't use all of the dollars allocated to their accounts by the end of the year, the employer can choose whether the balance will roll over into the next year's account or will remain with the employer. Employers can also choose whether the account remains with terminated workers or with the employer.

Who is eligible?

Employers can establish an HRA and offer it to all workers enrolled in any of the CHP options.

Workers hired mid-year

The employer can choose to allocate funds to a worker's account in 1/12 increments (the prorated amount will be added to the worker's account beginning with the month in which they are enrolled in the CHP) or fund the HRA at 100%.

Workers' status changes

If the employer funds a greater amount for workers with "family" status, and the worker moves from "individual" to "family" status during the year, the full family funding will be added effective the month the change was reported. If the worker's status changes from "family" to "individual," the employer's funding amount should not change until the following year.

*(**Note:** A husband and wife enrolled in the CHP together will have one HRA with family funding. A husband and wife enrolled in the CHP separately will each have their own HRA with single funding. Changes made to these situations in the middle of the year can negatively affect how the HRA is funded. Before making changes mid-year, please contact Concordia Plans for additional information on the funding impact.)*

HRA flexibility

HRA pays first

When the HRA pays first, the employer funds the HRA balance up to a certain amount. As eligible medical plan expenses are incurred, the HRA pays with the employer funds until they are depleted. Then the worker pays out of pocket for any remaining expenses.

Worker pays first

When the worker pays first, he/she pays out of pocket as medical plan expenses are incurred — until a preset amount has been paid. When this amount is reached, the HRA pays eligible expenses until the balance is depleted. The worker then pays out of pocket for any remaining deductible, coinsurance and copay expenses.

Claims reimbursement

By requesting reimbursement from an HRA, a worker is filing a claim from his/her employer's commitment to pay. A worker can request tax-free reimbursements for eligible medical plan expenses up to 12 months (timeframe determined by employer) after the end of the plan year. A member may also receive reimbursement through the claims crossover process, a process in which the carrier sends the members' claims to Health Equity. Funds are then automatically sent to the member either though direct deposit or a check.

HRA reimbursement options

Employers can customize their HRA. They may just want to cover medical deductible expenses or they can include copay and coinsurance expenses. They also have the option to include prescription drug, vision and dental expenses.

What you need to know about an FSA

A flexible spending account is a tax-advantaged account. An FSA allows workers to set aside pre-tax dollars to use toward qualified health care or dependent care expenses. Employers can contribute to the account as well. The amount which may be contributed to an FSA each year is subject to IRS maximum limits. For 2021, workers contributing to a dependent care FSA could elect to contribute up to $10,500 per household ($5,250 if married and file separate returns). These limits are significantly higher than normal, due to COVID relief that is set to expire at the end of 2021 if no further legislative action is taken to extend the increased limits. Workers contributing to a medical FSA in 2021 will have $2,750 maximum limit per account (not per household). These limits are subject to change each year. Also, employer contributions to a worker's medical FSA do not count towards the $2,750 limit, but other restrictions may apply under the Affordable Care Act. *(Note: Employers establish the maximum, not to exceed $2,750, when they set up an FSA. Also, the IRS typically releases 2022 FSA maximum limits in November.)*

How an FSA is funded

Employers must set up a Cafeteria Plan **(see page 7)** in order to gain the tax-advantaged status. Workers contribute to their FSA through payroll deduction. It is important that they carefully estimate their potential expenses for the upcoming plan year because generally the contribution amount cannot be changed during the year and funds left over at year-end are forfeited to the employer, unless the employer has elected to allow a rollover of up to $550 for the accounts (employers can opt to remove the $550 cap for the 2022 plan year due to COVID legislation). Mid-year changes are only allowed when the worker has a status change.

Two types of FSAs

There are two types of FSAs — medical and dependent care. These accounts are completely separate. Money from one account cannot be used to pay for the other account's expenses, nor can funds be transferred between the two. A dependent care FSA can be used for eligible day care and elder care services. A medical FSA is used for qualified health care expenses.

- **Medical FSA.** The medical FSA is an unfunded account. This means workers are reimbursed for eligible medical expenses up to their annual election, even if that amount hasn't yet been contributed.
- **Dependent care FSA.** This is a funded account, so workers must have contributed the money via payroll deduction before they're reimbursed for eligible expenses.

Unused FSA dollars

Money in an FSA is "use it or lose it" for workers. Funds can be used by workers for expenses incurred during the plan year and submitted up to three months after the end of the year. Any money left in the FSA at the end of this period reverts back to the employer, unless the employer has elected to allow a rollover for the accounts.

Note: There may be a grace period in which workers can incur out-of-pocket expenses in the new plan year and be reimbursed with money left over from the previous plan year. The grace period, if selected, must be less than or equal to 2.5 months.

However, allowing a grace period on an FSA may impact HSA eligibility. Members who have grace period funds to spend cannot contribute to the HSA until the grace period is completed.

Employers can choose either a grace period, rollover **or** neither. It must be administered uniformly for all workers.)

Do FSAs work with other spending accounts?

A dependent care FSA can be offered with any other spending account. A member is not required to enroll in a CHP medical option in order to participate in a dependent care FSA.

A medical FSA can be offered with an HRA. When a worker is enrolled in both an FSA and HRA, one of the following options, selected by the employer, will apply to reimbursement:

> **HRA worker pays first option** – The worker pays for expenses out of pocket until he/ she has paid a preset amount called a "threshold." The threshold amount is designated by his/her employer. An FSA can be accessed to reimburse the member for these expenses (provided there are FSA funds available). When this threshold is reached, the HRA reimburses the worker until the HRA balance is depleted. Any expenses after the HRA has been depleted must be paid by the worker who may access the FSA for reimbursement (provided there are FSA funds available). The worker is responsible for all payments to the medical provider or pharmacy.
>
> **HRA pays first option** – The employer funds the HRA up to a set amount. As the worker incurs eligible expenses, his/her HRA reimburses him/her the amount he/she owes the provider with employer funds. The worker is responsible for paying the provider. Once the HRA balance is depleted, the worker pays for any remaining out-of-pocket expenses with his/her FSA.

A post-deductible medical FSA can be offered with an HSA. Until the health plan deductible has been satisfied, only vision and dental expenses can be reimbursed under the post-deductible medical FSA. Once the health plan deductible has been satisfied, the FSA can be used for all qualified health care expenses.

Workers' status changes

Generally, the amount of money contributed to an FSA must be decided when the worker enrolls, either during open enrollment or when he/she first becomes eligible (e.g., as a new hire). However, the IRS defines certain "qualifying events," such as marriage, divorce, birth or adoption, death of a dependent, or significant change in a spouse's employment or health coverage, as family status changes which allow for workers to change their contributions.

Cafeteria Plans

A Cafeteria Plan is a written plan maintained by an employer for its workers that's administered in compliance with the requirements and regulations of Section 125 of the Internal Revenue Code. A Cafeteria Plan must be established so that workers can have deductions taken from their paychecks on a pre-tax basis.

There are two types of Cafeteria Plans:

- A **Premium-Only Plan** allows workers to have their portion of health plan contributions paid through pre-tax payroll deduction. The worker saves federal and state income tax, if applicable, on the deduction amount. The worker and employer both save Social Security and Medicare taxes on the pre-tax payroll deduction. A Premium-Only Cafeteria Plan document is available at no cost. Search **ConcordiaPlans.org** for document number "11074." This type of plan document does not permit offering PSAs.
- An **FSA/HSA Cafeteria Plan** is required to collect workers' contributions (through payroll deduction) for an FSA or HSA on a pre-tax basis. Contributions to these accounts can be used to pay for qualified medical (FSA or HSA) or dependent-care (FSA) expenses with pre-tax dollars.

Only one Cafeteria Plan is needed, even if you offer both an FSA and an HSA, with or without a Premium-Only Plan option.

The PSA administrator will help you understand and provide the Cafeteria Plan document for you.

No annual fee for the employer

There will be no annual fee charged to the employer for Cafeteria Plan documents provided by PSA administrator.

Establishing a Personal Spending Account with HealthEquity

Step 1: Authorize HealthEquity as your PSA administrator.
An email will be sent form HealthEquity with a request to complete a form to authorize HealthEquity as your PSA administrator. Once the authorization is complete it will kickoff the implementation process.

Step 2: Schedule your implementation kickoff call with HealthEquity.
A HealthEquity Implementation Manager will send you an email asking you to select a meeting time using the Calendly scheduling platform. After you select a convenient date and time on Calendly, the Implementation Manager will send you a meeting invitation for the implementation kickoff call.

Step 3: Complete setup with HealthEquity.
During the implementation kickoff call, the HealthEquity Implementation Manager will guide you through the setup process, including the completion of HealthEquity's "Reimbursement Account Application" where you can design your specific plan details and desired funding method. You'll also be able to request Non-Discrimination Testing and plan documents at this time (**free of charge**).

Step 4: Educate your members about the benefits and features of their new account(s).
HealthEquity has supplied Concordia Plans with many helpful educational resources, including digital PDF flyers for each plan type being offered. The HealthEquity Learn Site is another great educational resource for your workers: **https://learn.healthequity.com/concordiaplanservices/**

Step 5: Complete enrollment.
Your workers will submit their elections online during the Concordia Plans open enrollment period using the member portal. Concordia Plans will then securely send the election data for your workers to HealthEquity, which will generate worker accounts in HealthEquity's system.

Step 6: The HealthEquity experience for your members.
In mid-December the workers will have access to their HealthEquity Member Portals. HealthEquity welcome kits and debit cards will also be mailed.

Step 7: Keep your account up-to-date.
Terminations and newly added accounts can be sent to HealthEquity from Concordia Plans. If you have questions regarding managing your account please contact HealthEquity at 866-382-3510.

Step 8: Sign and retain your plan documents.
Keep your plan documents for future reference.

Resources for Questions

Concordia Plans and HealthEquity representatives are available to help you with your account administration and answer any questions you may have.

Concordia Plans
Employers with general questions about PSAs and CHP options should contact Concordia Plans at 888-927-7526. Hours are 7 a.m. to 5 p.m. CT, Monday-Friday.

Concordia Plans Account Management Team
For more detailed information on how PSAs can work with the CHP options, call the Account Management Team at 888-927-7526, ext. 6020.

For ongoing support, once your account is set up, contact:

HealthEquity

- Employer Services: 866-382-3510 (7 a.m. to 7 p.m. CT, Monday-Friday)
- Member Services: 866-346-5800 (24/7/365 support)

QUESTIONS?

CALL 888-927-7526 EMAIL info@ConcordiaPlans.org

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