

Are You Keeping Compliant with Ever-Changing Healthcare Reform Requirements?

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Many small business owners throughout the United States participate in a Section 105 Health Reimbursement Arrangement (HRA). Based on Section 105 of the Internal Revenue Code, an HRA is a way for small business owners to deduct 100% of family out-of-pocket medical expenses as business tax deductions. This includes insurance premiums for health, long-term care, vision, dental and all out-of-pocket medical expenses. On average, families are able to save just under \$5,000 a year (depending on the family's medical expenses) on their taxes with a Section 105 HRA.

SIMPLE Cafeteria Plans offer a solution to small employers with non-family member employees

With the passage of the *Patient Protection and Affordable Care Act (PPACA)*, an employer with non-family member employees became eligible to sponsor a Section 125 Simple Cafeteria Plan and avoid discrimination testing by making a uniform contribution of 2% of compensation or with a matching contribution.

The section of *The Patient Protection and Affordable Care Act* that opened the door to SIMPLE Cafeteria Plans went into effect immediately after the acts passage; however, other sections of the act were designed to be implemented later and will begin affecting you now or in the very near future.

Changing regulations require you to distribute of a Summary of Benefits and Coverage (SBC)

A new requirement for insurers and plan sponsors of self-funded plans to distribute a uniform explanation of coverage or Summary of Benefits and Coverage (SBC) to Section 105 HRA Plan participants was recently implemented by the Departments of Treasury, Labor, and Health & Human Services (HHS) as a part of the Patient Protection & Affordable Care Act. There is a list of specific criteria for how the document should be formatted, what needs to be included and when it needs to be sent out. Keep in mind that the objective of the SBC provision is to allow members of companies to understand their health coverage, so there is no need to overcomplicate the document. According to the regulations, this new requirement goes into effect for the first open enrollment period that commences on or after September 23, 2012.

Itemized medical expense deductions increase from 7.5 to 10% of AGI in 2013

The ability to take an itemized deduction for medical expenses that exceed 7.5% of adjusted gross income (AGI) will be increased to 10% of AGI starting January 1, 2013. For example, if you had an AGI of \$40,000 and deductible healthcare expenses of \$5,000 in 2012 you would be able to have a \$2,000 deduction (\$5,000 minus \$3,000 where \$3,000 is 7.5% of your AGI). In 2013 the same expenses would net a \$1,000 deduction (\$5,000 - \$4,000). There is an exception to this rule, Tax Payers or their spouses that turn 65 or older before the close of the tax year between the years of 2013 – 2016 will remain at the 7.5%. However, in 2017 everyone's deduction will be based on 10% AGI. It

should be noted that an extremely small percentage of American's could deduct their medical expenses without an HRA plan BEFORE this change. These numbers will decrease even more after the percentage change.

Flexible Spending Account cap goes into effect

A \$2,500 limit will be placed on medical Flexible Spending Account contributions. This regulation impacts SIMPLE Cafeteria Plans. The limit is on a per employee basis, meaning spouses are able to have separate Flexible Spending Accounts and allot \$2,500 to each account. *This change affects plans that start on or after January 1, 2013.*

2013 FICA tax rate

The Temporary Payroll Tax Cut Continuation Act of 2011 reduced the Social Security payroll tax rate by 2% on the portion of the tax paid by the worker through the end of February 2012. The Middle Class Tax Relief and Job Creation Act of 2012 extended the reduction through the end of 2012. Under current law, this temporary reduction expires at the end of December 2012.

<i>FICA Tax Rate</i>	<i>2012</i>	<i>2013 (tentative)ⁱ</i>
Employee	5.65%	7.65%
Employers	7.65%	7.65%
Self-employed	13.3%	15.3%

Source: Social Security Administration News Release (October 18, 2012)

Patient-Centered Outcomes Research Institute (PCORI) fee

As required by PPACA, the Patient Centered Outcomes Research Institute (PCORI) was established to assist patients, clinicians, purchasers and other in making informed health decisions by advancing comparative clinical effectiveness research. The "Institute" will be funded in part by fees paid by issuers of certain health insurance policies and sponsors of self-insured health plans. This fee will be based on the average number of lives covered by the plan. Although TASC may agree to assist in calculating and/or remitting the payment, the responsibility ultimately rests with the issuer or plan sponsor.

For more information about the affects of healthcare reform on Section 105 HRAs or on a SIMPLE Cafeteria Plan, contact Todd Kuehn at TASC at 800-422-4661 Ext. 8875 or by e-mail at todd.kuehn@tasconline.com.

ⁱ Congress is unlikely to act prior to the November elections, but uncertainty remains as to whether Congress will take any action following that.