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Dear Clients and Friends:

The following is an important tax development that has occurred in 2019 that may affect you.

Final regulations permit integrating HRAs with individual health insurance plans or Medicare. Final regulations have been issued allowing health reimbursement arrangements (HRAs) and other account-based group health plans to be integrated with individual health insurance coverage or Medicare, if certain conditions are satisfied (an individual coverage HRA). An account-based group health plan is an employer-provided group health plan that reimburses medical care expenses, subject to a maximum fixed-dollar amount of reimbursements for a period (e.g., a calendar year). An HRA is a type of account-based group health plan funded solely by employer contributions that reimburses employees solely for medical care expenses of employees or qualifying family members, up to a maximum dollar amount for a coverage period. The reimbursements are not taxed to employees.

Under the new regulations, an employer-funded individual coverage HRA reimburses employees for their (and eligible family members') medical care expenses. The employer can allow unused amounts in any year to roll over from year to year. Employees must enroll in individual health insurance (or Medicare) for each month the employee (or the employee's family member) is covered by the Individual coverage HRA. But the individual health insurance cannot be short-term, limited-duration insurance (STLDI) or coverage consisting solely of dental, vision, or similar "excepted benefits." There are other important requirements as well.

The new regulations also increase flexibility in employer-sponsored insurance by creating another, limited kind of HRA that can be offered in addition to a traditional group health plan. These "excepted benefit HRAs" permit employers to finance additional medical care (for example to help cover the cost of copays, deductibles, or other expenses not covered by the primary plan) even if the employee declines enrollment in the traditional group health plan.

Employers can start offering individual coverage HRAs and excepted benefit HRAs on January 1, 2020.

Next year's inflation adjustments for health savings accounts. The IRS has provided the annual inflation-adjusted contribution, deductible, and out-of-pocket expense limits for 2020 for health savings accounts (HSAs). Eligible individuals may, subject to statutory limits, make deductible contributions to an HSA. Employers as well as other persons (e.g., family members) also may contribute on behalf of an eligible individual. Employer contributions generally are treated as employer-provided coverage for medical expenses under an accident or health plan and are excludable from income. In general, a person is an "eligible individual" if he is covered under a high deductible health plan (HDHP) and is not covered under any other health plan that is not a high deductible plan, unless the other coverage is permitted insurance (e.g., for worker's compensation, a specified disease or illness, or providing a fixed payment for hospitalization).

For calendar year 2020, the limitation on deductions is $3,550 (up from $3,500 for 2019) for an individual with self-only coverage. It's $7,100 (up from $7,000 for 2019) for an individual with family coverage under a HDHP. Each of these amounts is increased by $1,000 if the eligible individual is age 55 or older. For calendar year 2020, an HDHP is a health plan with an annual deductible that is not less than $1,400 (up from $1,350 for 2019) for self-only coverage or $2,800 (up from $2,700 for 2019) for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, not including premiums) do not exceed $6,900 (up from $6,750 for 2019) for self-only coverage or $13,800 (up from $13,500 for 2019) for family coverage.

If you have any questions regarding these tax changes, please call our office. We are here to assist you.

Very truly yours,

Thomas, Zurcher & White, P.A.