

Individual Coverage Health Reimbursement Arrangements (ICHRAs) and Health Savings Accounts (HSAs) can be a perfect consumer-oriented match, or they can be totally incompatible, depending on the design. For this reason, careful design and consumer education is paramount to maximize consumer benefits and avoid compliance conflicts.

Pair Health Savings Accounts – the best tax saving vehicle the IRS allows – with an HSA-Qualified health plan to encourage wise healthcare spending and saving. HSAs allow consumers to save and invest tax-free for medical expenses when paired with an HSA-Qualified High Deductible Health Plan (HDHP) with strict limits updated annually by the IRS (see AskMrHSA.com for updated limits).

HSAs are the only investment in the U.S. that allows consumers 1) to *deposit* money tax-free and free of payroll taxes, 2) to *save or invest* in the account and have it grow tax-free, and 3) to *withdraw money tax-free* for qualified medical expenses in the current year or anytime for the rest of their lives. In exchange for this extraordinary tax benefit, the paired HSA-Qualified health plan must expose the individual to a minimum level of out-of-pocket cost and is disqualified if any medical expenses other than preventive care are paid under the deductible.

ICHRAs can be fully compatible with HSAs or can be totally incompatible with HSAs, depending on how they treat reimbursement of expenses beyond the premium of the individual health plan chosen by the individual.

ICHRA and HSA – an ideal synergy of consumer choice with an eye toward the future with monetary help from your employer today – Both HSAs and ICHRAs promote consumer choice and engagement in the health care system. Studies show that when employees have control over their monetary choices, they engage more deeply in their health care decisions.

The potential long-term savings and tax advantages of an HSA can drive changes in the type of plan chosen today to begin viewing the consequences for future health care beyond this year's coverage decision. The presence of employer contributions and government-provided tax breaks improve the buying power of the individual. It is possible to employ cafeteria plan features in an ICHRA arrangement that further boosts the synergy of the HSA/ICHRA alignment, such as providing an employer

contribution to an HSA account – if the employee chooses one – giving further incentive to choose a plan that will be beneficial now and in the future.

All systems go - Premium-only ICHRAs – If the ICHRA is limited to reimbursing the premium of the individual health plan and no out-of-pocket medical expenses, it is fully compatible with an HSA and will not prevent HSA account holders from making tax-free contributions to the account. Premium-only ICHRAs are a common configuration in today's market.

HSA danger zone - ICHRAs allowing Reimbursement of 213-d Expenses – If the ICHRA allows the individual to also reimburse medical expenses per IRS section 213-d, like an FSA or HSA, it will bar, in most cases, HSA account holders from contributing to their HSA accounts as long as the ICHRA is in effect.

An individual can always select an HSA-qualified health plan with their ICHRA contribution, but the normal advantage of tax-free savings in the HSA account for the deductible and other out of pocket expenses will be lost as long as that ICHRA plan is in effect. This prohibition is in effect even if the ICHRA participant does not actually reimburse 213-d expenses; the mere fact that the plan *allows them to do so* disqualifies HSA contributions during the ICHRA coverage period.

Exceptions to this rule would be if the ICHRA plan is configured as a **Limited Purpose ICHRA** (covers only Dental, Vision and Preventive expenses) or a **Post-Deductible ICHRA** (covers expenses only after the statutory deductible limit for an HSA plan is reached). A post-deductible ICHRA requires coordination with the health plan selected, which can present an additional burden in the ICHRA environment in which employees each choose their own health plan.

