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Quick Alert

OCA's Best Practices

How Furloughs Will Effect Employee Benefit Accounts

The economic recession brought about by the COVID-19 crisis has led many companies to furlough their employees. Many employers now question what this means for health savings accounts (HSAs), flexible spending accounts (FSAs), health reimbursement arrangements (HRAs) and more. Here, we offer some insight, as well as best practices for handling any administrative changes.

What is the typical process with tax-advantaged accounts during furlough?

Under ordinary circumstances, furloughed employees lose coverage for all benefits because they no longer meet the minimum hours of service. COBRA becomes available for group health benefits that include medical, prescription, dental, vision, HRAs and potentially healthcare FSAs. Other benefits generally end at some point between the last day worked and the end of the month in which the furlough began, depending on the specific plan terms. HSA contributions cease in conjunction with compensation.

How has COVID-19 changed furlough processes?

Due to the extenuating circumstances of the COVID-19 pandemic, the following processes have become more common:

Medical coverage continues for a 60- to 90-day period during the furlough without the need to elect COBRA. In many cases, health plans have adopted this policy unilaterally and will not challenge eligibility if premiums are paid. Other insurers, including stop-loss for self-insured plans, will generally agree to this if requested and may request an amendment to the plan document. Before committing to extended coverage unilaterally, we highly recommend employers check with the applicable insurer for their rules. Employers typically decide whether and to what extent they will continue subsidizing the cost of medical coverage during the furlough based on the resources

available, but it is common for employers to continue funding the cost of coverage on the same basis as active employees.

Many employers agree to carry the full cost of medical coverage during a furlough, viewing it as a reasonable trade-off for reducing overall payroll costs and to ensure furloughed employees continue to receive the right care. For employers that choose not to extend medical coverage during a furlough, COBRA would become available to those employees.

HRA coverage typically continues during furlough because they are traditionally integrated with the medical coverage. Because HRA coverage is generally self-insured without stop-loss, employers do not need approval to continue the coverage. If HRA coverage ends due to the furlough, COBRA would become available.

HSA contributions typically continue if the employer extends medical coverage to employees during the furlough, treating them as active employees. However, this depends upon employer resources and preference. If employers make contributions to their employees' HSAs, they have an obligation to continue this practice during the furlough. Employees, on the other hand, generally stop making contributions to their HSA due to their reduced or eliminated compensation. All amounts previously contributed to an employee's HSA (that has not been withdrawn) will continue to be available to them during the furlough.

Healthcare FSA coverage typically ends during the furlough. Although this means employees won't receive reimbursement for expenses incurred during the furlough, it also eliminates an employee's obligation to make contributions and an employer's exposure to account overspending. Furloughed employees who have not overspent their healthcare FSA may elect COBRA.

If employers prefer to continue healthcare FSA coverage during a furlough, they can do so with an adjustment to the plan language on eligibility. However, they should consider how employees will make contributions with their compensation reduced or eliminated during the furlough.

Dependent care FSA coverage typically ends because furloughed employees oftentimes no longer incur dependent care expenses. If employers prefer to continue dependent care FSA coverage during a furlough, they can do so with an adjustment to the plan language on eligibility. However, they should consider how employees will make contributions if their compensation is reduced or eliminated during the furlough.

Other health and welfare benefits such as dental coverage, vision coverage, supplemental insurance, life insurance and disability insurance typically end during a furlough, although some employers will seek to extend eligibility for group term life insurance (approval required by the health plan). Employees can elect COBRA for dental and vision coverage on a case-by-case basis.

If you have any questions, please feel free to contact us at or call 855-622-0777. To view today's operational status, please go to <http://oca125.com/covid19actions/>.

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OCA, 3705 Quakerbridge Road, Suite 216, Mercerville, NJ 08619

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