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It can be argued that employer-provided health insurance is the single most important fringe benefit for employees. Certainly, it may be viewed as an essential part of an employee's compensation package. Although the landscape has changed in the wake of the Affordable Care Act (ACA), the massive healthcare legislation law known informally as Obamacare, this is still a prime consideration.

Under the ACA, employers are generally required to provide at least minimal essential coverage to full-time employees. Beginning in 2016, the employer mandate applies to employers with 50 or more employees. (Smaller businesses are exempt.) The penalty for failing to meet this requirement is generally equal to \$2,000 for each full-time equivalent worker.

[This is [part of a series on fringe benefits](#) by our resident tax expert, Ken Berry, J.D., on the “sweet 16” fringe benefits on the books for 2016.]

In the past, employers often paid the full tab for employees participating in its group health insurance plan, but this hasn't been the norm for years. Typically, the costs of a group health plan will be shared between the employer and its employees, based on figures stated in the plan. The employer selects the plan and may use a third party, such as a broker, to facilitate the arrangement. Depending on the plan, coverage may be extended to dependents of the employees.

The types of plans vary widely. For instance, an employer may use a plan featuring HMO (Health Maintenance Organization), PPO (Preferred Provider Organization) or POS (Point of Service).

The immediate tax breaks are obvious. As a general rule, the health insurance

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Two popular options are Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs).

1. HSAs: With an HSA, amounts contributed on a pre-tax basis become the property of the employee. These contributions may be used to pay current or future medical expenses for the employee, his or her spouse and any qualified dependent. The medical expenses can't be reimbursed by any other source.

To qualify for an HSA, the individual must be covered by a high deductible health plan (HDHP) and generally can't have another comparable health insurance plan. For 2016, the HDHP must:

- Have a deductible of at least \$1,300 for self-only coverage or \$2,600 for family coverage; and
- Limit annual out-of-pocket expenses of the beneficiary to \$6,550 for self-only coverage and \$13,100 for family coverage.

The HSA effectively allows the employee to call the shots. Any amount that isn't used by the end of the year is carried over to the next year.

2. FSAs: FSAs are comparable to HSAs but there are some significant differences. If an employer implements these arrangements, an employee can contribute up to \$2,500 on a pre-tax basis to a the FSA per year. Prior to Obamacare, there was no annual limit on contributions to an healthcare FSA. However, unlike an HSA, employees don't have to be covered by an HDHP.

The employee may choose to make payments during the year for qualified expenses. These distributions are exempt from tax.

Although amounts remaining in the FSA at the end of the year may be forfeited under

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