



Dermody, Burke & Brown, CPAs, LLC

Business Owner's Perspectives

Trends and Strategies for Owners
of Closely Held and Family Businesses

Summer 2024

Health Savings Accounts

How HSAs Can Help Win the War for Talent

Since spiking to nearly 15% during the spring of 2020, the nation's unemployment rate has remained below 4% for nearly three years now. This has resulted in a fierce competition for talent in many industries that's sometimes referred to as the "war for talent."

In this environment, businesses are looking for any advantage they can find to help them gain a recruiting edge over their competitors, such as offering a robust employee benefits package. One desirable benefit among many employees today is a health savings account (HSA). Seventy percent of large employers now offer HSA-qualified health plans, and there are currently 28 million HSAs covering nearly 72 million individuals.

HSAs offer enticing advantages to both employees and employers. One of the biggest is the tax treatment of HSAs. Businesses can deduct contributions made to employees' accounts as a business expense, while employees receive a triple tax break: contributions are made pre-tax, earnings accumulate tax-free, and withdrawals are tax-free if they are used to pay for qualifying medical expenses.

How HSAs Work

A health savings account is like a 401(k), but its funds are specifically reserved for healthcare. Employees typically contribute money to their account on a pre-tax basis via payroll



deductions, and employers can make matching contributions just like with 401(k)s. Eight out of 10 businesses that offer an HSA make matching contributions, according to the Plan Sponsor Council of America.

HSAs are offered alongside high-deductible health plans (HDHPs), health insurance plans with relatively high deductibles but low premiums. The minimum HSA deductibles in 2024 are \$1,600 for individuals and \$3,200 for families, while the maximum out-of-pocket expenses for account holders are \$8,050 for individuals and \$16,100 for families.

HSA funds typically can't be used to pay health insurance premiums. However, employees can use the money to pay for practically any

healthcare expense, including:

- Deductibles, coinsurance, and copays associated with health insurance
- Dental and vision care
- Long-term care
- Preventive care, including annual physicals and routine health screenings
- Physical therapy, rehabilitation, and acupuncture
- Counseling and mental health services
- Prescription and over-the-counter medications
- Medical equipment, including wheelchairs, braces, bandages, and crutches
- Feminine hygiene products

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The Benefits of Using Finance as a Service

During times of economic uncertainty, it is not uncommon for businesses to outsource noncore functions that don't directly add value to the bottom line to a third-party specialist. This includes finance and accounting, which now the second most outsourced business function.

Four out of 10 U.S. businesses outsource finance and accounting, which ranks ahead of payroll and customer service and trails only information technology. This includes businesses that utilize Finance as a Service, or FaaS, which provides a comprehensive approach to accounting and finance outsourcing.

What is FaaS?

Finance as a Service provides businesses with an outsourced staff, suite of software, and services that manage financial and accounting operations. This includes accounting and transactional bookkeeping, compliance and reporting, Financial Planning and Analysis (FP&A), and CFO advisory services.

FaaS uses a subscription-based pricing model instead of a fixed-fee or time and materials model. By using FaaS, you and your staff can stay focused on core competencies instead of spending valuable financial and human resources on noncore activities that could easily be automated. These frees up executives and employees to focus on strategic initiatives that can directly boost the bottom line.

Other potential benefits of FaaS include:

- **Cost Efficiency** — FaaS eliminates the need to recruit, hire, and train in-house finance and accounting staff. This can save up to 40% compared to the fully loaded costs associated with staffing an internal finance department.
- **Scalability** — Since you only pay for the finance and accounting services you actually need, you can easily scale up or down as your needs change.



- **Better Decision-Making** — Standardized reporting allows you to quickly assess and better understand financial metrics, leading to faster and better financial decisions.
- **Improved Financial Compliance** — Many companies are subject to strict compliance regulations. Access to real-time data and insights from a FaaS provider can help you remain in compliance with federal and state regulations that affect your industry.
- **Deeper Market Understanding** — FaaS providers will perform detailed analyses of market data that can uncover key trends, leading to new growth and profit opportunities. This includes market and competitive analyses to help you stay ahead of the competition.
- **Enhanced Internal Controls** — Fraud and embezzlement are serious concerns for many businesses today. FaaS providers utilize industry best practices designed to improve internal controls to uncover and prevent fraud before it occurs.
- **Improved Cash Flow** — More companies fail due to poor cash flow than slow sales or a lack of profits. FaaS providers can implement the latest financial technology, including bank cash management tools, to shorten the cash flow cycle and boost overall cash flow.

Choosing a FaaS Provider

If you decide FaaS could be helpful for your business, look for a provider with practical experience in strategic

financial management, preferably within your industry. Try to gauge the provider's approach to financial management and consider how it meshes with yours. In addition, it's important to assess whether or not the provider will be a good cultural fit with your company since they will become an integral member of your team.

To maximize the value of your relationship, set clear goals and expectations with your FaaS provider from the outset. This includes the scope of work, specific deliverables, lines of authority, and reporting frequency. Clear communication is critical to success so schedule regular meetings (virtually or in person) between your finance executives and the provider to discuss goals and challenges.

Lastly, make sure that your FaaS provider is leveraging the latest financial and accounting technology tools. This includes technology and software that can help with cash forecasting and budgeting, accounting automation, reporting, and cash flow management.

Focus on Core Competencies

With economic uncertainty on the rise, now might be a great time to consider using FaaS to outsource your finance and accounting functions. Doing so could save money and allow you to focus more time and attention on your core competencies.

Please give us a call if you have any questions about Finance as a Service.

Health Savings Accounts

How HSAs Can Help...

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In addition, HSA funds can be used by retirees to pay Medicare Part B and Part D premiums, as well as premiums for employer-sponsored health insurance purchased by retirees 65 years of age or over. Participants can also use HSA funds to pay healthcare expenses for their spouses and dependents.

HSAs and Cafeteria Plans

Health savings accounts are typically offered as part of a Section 125 cafeteria plan that enables employees to contribute tax-deferred money to their HSA via payroll deductions. Employers choose the HSA provider (usually a financial institution, such as a bank or credit union) and set up and manage employees' accounts for them, including verifying their participation eligibility.

While enrolled in a HDHP, employees cannot simultaneously be enrolled in any other type of health plan (including Medicare) or be claimed as a dependent on anyone else's tax return. While HSA contributions are no longer allowed once individuals enroll in Medicare, funds can still be withdrawn by enrollees to pay qualified healthcare expenses that Medicare doesn't cover.

Total annual HSA contributions (employee and employer combined) in 2024 are limited to \$4,150 for individuals and \$8,300 for families, with a special \$1,000 catch-up contribution allowed for employees 55 years of age or over. Spouses working for the same company can open and contribute to separate HSAs and use money in each other's accounts to pay their medical expenses.

Benefits of HSAs

HSAs offer a number of potential benefits to both businesses and employees. For starters, they can be a powerful recruiting and retention tool for businesses since many employees today want to work for companies that offer this kind of health coverage.

Employers' contributions are tax-deductible as a business expense, and companies also avoid paying federal income, Social Security, Medicare, and unemployment taxes on contributions.

One of the biggest advantages for employees is the triple tax benefits: pre-tax contributions, which lower current taxable income, along with tax-free earnings and withdrawals if the funds are used to pay for qualifying medical expenses.

Aside from the tax benefits, HSA savings are portable, so employees can take the money with them if they change jobs or retire. In addition, unlike traditional 401(k)s, there are no required minimum distributions (RMDs) for HSAs. Employees use a

debit card to pay for medical expenses through their HSA, so tapping account funds is quick and easy.

HSA funds can be invested to earn market returns, just like 401(k) funds. This can help employees accumulate a sizeable account they can use to pay out-of-pocket medical expenses in retirement that aren't covered by Medicare (see sidebar: HSAs and the Retirement Gap).

Gain a Competitive Edge

Health savings accounts could give your company the competitive edge you need to win the war for talent. Talk to your management team about the potential benefits of offering HSAs to your employees.

HSAs and the Retirement Gap

A number of studies have determined that many Americans today aren't saving enough money to retire comfortably. This has resulted in a "retirement gap" that could reach \$137 trillion by 2050, according to the World Economic Forum.

HSAs could play a vital role in closing the retirement gap. Unlike flexible spending accounts (FSAs), unused HSA funds roll over from one year to the next, so there are no "use it or lose it" consequences for employees. As a result, employees can build up a healthy nest egg over

time they can use to cover healthcare expenses in retirement.

This is critical when you consider that the average couple today will need between \$301,000 and \$390,000 for out-of-pocket healthcare expenses in retirement that aren't covered by Medicare or Medicare Supplemental Insurance policies, according to the Employee Benefits Research Institute (EBRI). This includes Medicare premiums and deductibles as well as Medicare Parts B and D, dental, vision, hearing, and long-term care.



We use our expertise to help our clients grow and prosper.



Dermody, Burke & Brown, CPAs, LLC

Our mission is to empower our clients and our people to “live well” by providing valued advice and innovative solutions in an atmosphere that is professional, enjoyable and community minded.

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Top Treasury Management Tools for Your Business

Cash is king! This might be a cliché but it's true: Effective cash management is critical to long-term business success.

One way to improve cash management is to take advantage of treasury management tools offered by your bank. In addition to boosting cash flow, they can also help you improve financial forecasting, increase operational efficiency, boost automation, lower fraud risk, and enhance data integration with your bank.

Here are four treasury management tools with the potential to benefit your business:

1. Electronic Funds Transfer (EFT)

— Most EFTs take the form of payroll direct deposits, federal and state tax

payments, and electronic debits and credits and debits. Transferring funds electronically via the Automated Clearing House (ACH) is far more efficient and less expensive than mailing paper checks. For example, it costs an average of \$1.22 to process a paper check but just pennies to process an ACH transaction.

2. Lockbox — Instead of mailing checks to your business, customers mail them to a special post office box where the bank deposits them immediately. This improves receivables collections by reducing mail float, thus accelerating cash availability, and also eliminates the need for employees to make deposits at the bank.

3. Remote Deposit Capture (RDC) — With RDC, you can deposit checks

right from your office using a special scanner and software. Similar to lockbox, this boosts cash flow and also eliminates employee trips to the bank, improving productivity.

4. Positive Pay — This service has become more important as the threat of check fraud has grown. You provide the bank with a list of checks issued, which the bank compares against checks presented for payment. If any checks have been presented that don't match the list, you're alerted and decide whether to pay them or not.

ACH Positive Pay is similar: If any electronic payments are initiated that don't match your vendor list, you are alerted and can approve or reject the funds transfers.



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