

HSA Overview for Employers

Health Savings Accounts (HSAs) are helping to lead the way in assisting employers with rising health insurance costs.

Here you will find a wide range of information on Health Savings Accounts, how they can benefit you as an employer and what steps need to be taken to implement a Health Savings Account to your employees.

Advantages to Employees

- Unused funds are rolled over every year for your employees (No Use It or Lose It)
- Contributions are invested in interest bearing accounts
- Employees control withdrawals

Advantages to Employers

- Reduce medical premiums
- Continued Tax Breaks
- Less administration

Overview

What are Health Savings Accounts?

Health Savings Accounts (HSAs) are the newest, most innovative approach to the ever increasing cost of health care!

HSAs are tax-favored trust accounts that eligible employees who are covered by a qualified High Deductible Health Plan (HDHP) can establish to pay for covered medical expenses of the eligible individuals, their spouses and/or their tax dependents.

Who is Eligible?

Generally, any tax-paying individual with qualifying High Deductible Health Plan coverage is eligible to establish and contribute to an HSA as long as the individual does not have any other disqualifying health coverage. There are some employees who will not be eligible even if they do have a qualified HDHP. These employees include:

- An employee who can be claimed as a tax dependent
- An employee who is enrolled in Medicare
- An employee who has a spouse with non qualified HDHP coverage that covers the employee. This will include employees whose spouse has a

General Purpose FSA or HRA that covers your employee even if you offer a Limited-Purpose FSA.

Who is Eligible?

Entitled to Medicare Versus Eligible for Medicare

Employees who are Entitled (eligible and enrolled) to Medicare may not participate in Health Savings Accounts. On the other hand, employees who are Eligible may participate in Health Savings Accounts. The difference between Eligible and Entitled is simple:

- Eligible: Individuals who are eligible to participate in Medicare but do not.
- Entitled: Individuals who are eligible and participating in Medicare.

Who is Eligible?

When is an employee Eligible?

An employee's eligibility status is determined as of the first of each month; however, there are different requirements for the qualifications.

For instance, if an employee enrolled in Medicare during the tax year in which the employee was contributing to an HSA, the maximum the employee could contribute would be limited. The contribution amount would be prorated based on the number of months the employee was an eligible individual.

Beginning in 2007 (Tax Relief and Health Care Action of 2006), the employee who enrolls in a qualified HDHP by the first day of December of any year will be treated as though they were an eligible individual for the entire year and would be able to contribute the maximum allowed for that tax year. Prior to 2007 tax year, if an employee enrolled in a HSA qualified HDHP in any month other than January 1 the maximum that could be contributed would also be limited to the number of months that the employee was enrolled in the HDHP.

The employee must remain an eligible individual for 12 months following the end of the year in which they become an eligible individual, or the portion of HSA contributions attributable to the months that the individual was not actually HSA eligible will be included in gross income and subject to a 10% additional tax penalty. To avoid the potential tax implication prorating is the best option.

Employees who are no longer eligible to contribute to an HSA can still receive distributions from their account.

What is HDHP?

What is a High Deductible Health Plan (HDHP)?

A qualified High Deductible Health Plan is a health plan that meets the requirements below for annual deductibles and out-of-pocket expenses. High Deductible Health Plans typically do not have co-pays for doctor visits or prescription drugs. However, these plans could be “network plans”.

Coverage	Annual Deductible 2010/2011	Annual Out-of-Pocket Expenses
Individual	\$1,200 minimum	Not more than \$5,950
Family	\$2,400 minimum	Not more than \$11,900

These amounts are effective for the 2010 and 2011 tax years. Amounts are indexed annually.

Embedded deductibles in family health plans are allowed in qualified High Deductible Health Plans only when the individual embedded deductible is at least \$2,400.

Some qualified plans may have a first-dollar benefit or low-deductible benefit for preventive care only. Preventive care includes the following:

- Periodic health evaluations, such as annual physicals (and the tests and diagnostic procedures ordered in conjunction with such evaluations)
- Well-baby and/or well-child care
- Immunizations for adults and children
- Tobacco cessation and obesity weight-loss programs
- Screening devices

IRS Guidelines state: “preventive care generally does not include services or treatments intended to treat an existing illness, injury or condition.”

For the High Deductible Health Plan to be an eligible plan, prescription drugs must be covered under the deductible. A prescription drug discount program can apply. Consult your insurance carrier for a qualified High Deductible Health Plan.

Funds Contribution

Who can contribute?

Contributions can be made by an HSA account holder, on behalf of the HSA account holder or by employers. The following guidelines apply when making contributions:

The maximum annual contribution allowed in a tax year is the maximum established by law. For 2010 and 2011, the maximum contribution amounts are \$3,050 for self-only coverage and \$6,150 for family coverage.

An individual, who meets the eligibility requirements in a month other than January, can make the maximum HSA contribution for the given tax year. The individual must remain an eligible individual 12 months following the end of the year in which they became an eligible individual, or, the amount which could not have been contributed except for this provision will be subject to income taxes and a 10% additional tax.

An Example:

Individual obtains a HDHP Self-Only Coverage Effective: 09/01/10

Maximum Contribution Amount: \$3,050 for self-only in 2010

Period of Coverage Requirement: 09/01/10 to 12/31/11

If the individual were not to be covered under a qualified HDHP or remain an eligible individual effective 03/01/10, then all contributions attributed to 01/01/10 through 08/31/10 (8/12 of \$3,050 or \$2,033.33) would be subject to income taxes and a 10% additional tax penalty.

The income taxes and the 10% additional tax will not apply if the individual becomes disabled or dies after the distribution during the 12-month period.

To avoid contributions being subject to the period of coverage requirement and possible income taxes and penalties, the contributions can be pro-rated based on the number of months the individual is covered by a qualified HDHP. To take the example above, an individual would calculate the maximum contribution as follows: \$3,050 divided by 12 months = \$254.16 x 4 months of HDHP coverage (09/01/10-12/31/10) = \$1016.66, the maximum contribution for 2010.

** These amounts are effective for the 2010 and 2011 tax years. Amounts are indexed annually.*

Catch up contributions can be made by eligible individuals who are age 55 and older to build up account balances to be used during retirement years (until Medicare eligible). For HSA-eligible individuals who have attained age 55 by the end of the taxable year and have been HSA-eligible for the entire tax year, catch up contributions are not pro-rated. Catch up contributions are pro-rated for the number of months eligible if the individual has not been HSA-eligible for the entire taxable year.

Year	Maximum Catch up Contribution
2010 & after	\$1,000

It is important to remember that contributions cannot exceed the sum of the “monthly limitations” for all eligible months within the individual’s taxable year. These contributions limits apply to any eligible contributor.

Funds Contribution

All Contributions are Nonforfeitable

Once contributions are made to the Health Savings Account, either by the employee or the employer, the funds become the property of the employee. This is very important to remember when planning the HSA contribution schedule. When funding an HSA in full within the first month the employer runs a risk of losing these funds if the employee terminates employment prior to the end of the year resulting in excess contributions. As an employer it is important to look at making contributions on a monthly or other periodic basis.

Funds Contribution

Contributing to an Employee's HSA

Employers must make comparable contributions to all HSAs for comparable participating employees. Comparable participating employees are eligible employees under an HDHP and share the same plan coverage category.

The IRS looks at only two types of HDHP plan coverage: Self Only and Family. When setting up contributions, the amounts contributed to the Self Only coverage must be the same for all HSA eligible self coverage employees. This amount may differ from the Family coverage contribution but must remain the same within the Family coverage plan.

Beginning in 2007, an employer can contribute higher amounts for non-highly compensated employees without violating the comparability rule, but must still comply with the comparability rules with respect to contributions made to HSAs of highly compensated employees and with respect to contributions made to HSAs of non-highly compensated employees.

For example: ABC Company can decide to make contributions as follows:

For all employees who select self-only HDHP coverage:

- \$500 to all its highly compensated employees.
- \$700 to all its non-highly compensated employees.

For all employees who select family HDHP coverage:

- \$1,000 to all its highly compensated employees
- \$1,200 to all its non-highly compensated employees

If the HSA is placed under a Section 125 plan, the employer comparable contributions do not apply. However, the employer's Section 125 Plan must still pass the non-discrimination testing.

The Tax Break

Employers that contribute to an HSA and/or that offer an HSA under a Section 125 cafeteria plan can receive a deduction for those contributions. The employer's contributions to the HSA are treated as employer-paid coverage for medical expenses under a health plan or an accident plan. These contributions are excluded from an employee's gross wages and exempt from FICA, FUTA and RRTA.

Funds Distribution

Distributions of HSA Funds

Distributions from an HSA are solely up to the employee (account holder). For the employee to receive complete tax breaks on the HSA funds the distributions must be for an eligible expense and must be for eligible expenses incurred after the date the HSA is established. The employee may use the funds for reimbursement outside of eligible expenses, but these funds are subject to taxes and a 10% additional tax penalty on the amount. Since the account is owned by the employee, the employer is not subject to any penalties or other taxes.



American Fidelity offers 3 options to make distributions easy for your employees:

1. HSA debit card
2. Request distribution on-line on the web 24/7, and
3. Through submission of the [HSA Distribution Form](#) that can be mailed or faxed

Qualified Expenses

What is a Qualified Medical Expense?

Qualified Medical Expenses are outlined in the same code used for the Unreimbursed Medical Expenses, IRC Section 213(d). Outside of IRC Section 213(d) eligible expenses, employees may also use HSA funds for the following:

- COBRA coverage;
- A qualified long-term care insurance contract;
- Any health plan maintained while the individual is receiving unemployment compensation under federal or state law; or

- For those age 65 or over (whether or not they are entitled to Medicare), any health insurance (e.g., retiree medical coverage) other than a Medicare supplemental policy.

Flexible Spending

Do I still need to offer Health Flexible Spending Account to my employees who choose an HSA?

A “General Purpose” Health FSA is considered to be “other health plan” coverage and would disqualify your employees from participating in an HSA.

On the other hand you may choose to offer a “Limited-Purpose” Health FSA which limits reimbursements to dental and vision expenses only and would allow your employees to participate in both an HSA and a Limited-Purpose FSA. Since dental and vision expenses are qualified expenses under an HSA, your employee could not take reimbursement from both accounts for the same expense.

Dependant Daycare Accounts are eligible in conjunction with an HSA.

As of 2007, contributions to an employee’s HSA from a FSA/HRA is allowed but must be the lesser of the balance in the health FSA/HRA as of September 21, 2006, or the balance in the health FSA/HRA as of the date of the distribution; and, must be contributed directly to the employee’s HSA before January 1, 2012. The rollover is not includible in income and does not count against the maximum tax deductible contribution.

For employers who are using AFA’s Section 125 services and have bought the insurance, AFA cannot support the FSA rollover.

For more information contact us and an AFA HSA specialist will contact you personally.