



Making the Most of HSAs

Presented by Statz and Associates General Agency, Inc.



Introduction >

➤ Agenda

- HSA Basics
- Eligibility
- Contributions
- Distribution Rules



HSA Basics

› What is an HSA?

A medical savings account that is:

- Set up with a trustee or custodian
 - Owned by an individual (not employer)
 - Contributed to by the eligible individual (or anyone else, including employer)
 - Used to pay current and future medical expenses (tax free)
 - Paired with a high deductible health plan (HDHP)
 - Subject to strict tax rules
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➤ HSA Advantages



HSAs are a popular benefit option because:

- They are a **powerful tax savings tool**
 - Funds **roll over** from year-to-year
 - Accounts are **individually owned**
 - HDHP/HSAs typically have **lower monthly premiums**
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➤ Tax Savings

Three-tiered federal tax savings:

Contributions reduce taxable income



Interest/earnings accumulate tax-free



Distributions for medical expenses are tax-free

* Two states have different tax rules for HSAs (California and New Jersey)



Eligibility >

➤ Key Eligibility Rules

Must be an “eligible individual”

- To establish an HSA and make contributions
- Loss of eligibility does not affect existing funds

Eligibility is determined monthly

- Exception: full-contribution rule for individuals eligible on Dec. 1

No income limits

➤ Who is HSA-eligible?

**To be
HSA-
eligible
for a
month,
individual
must:**

- Be covered by HDHP on 1st day of month
- Not be covered by other health coverage *(with certain exceptions)*
- Not be enrolled in Medicare
- Not be a tax dependent

➤ What is an HDHP?

A health plan that provides significant benefits and satisfies requirements for **minimum deductibles** and **out-of-pocket (OOP) maximums**

- Can be insured or self-funded
 - Family coverage or self-only coverage
 - Except for preventive care, no benefits can be paid until annual deductible is met
 - Prescription drugs must be subject to deductible (unless for preventive care)
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> HDHP Design

Type of Coverage	Minimum Annual Deductible	Annual OOP Maximum
Self-only	\$1,400 (\$1,400 for 2021)	\$6,900 (\$7,000 for 2021)
Family	\$2,800 (\$2,800 for 2021)	\$13,800 (\$14,000 for 2021)

- IRS adjusts limits annually for changes in cost-of-living
- Non-calendar year plans – adjusted limits for calendar year in which plan year begins can apply to entire plan year

➤ Impact of ACA Cost-sharing Limit

- The ACA imposes OOP max on essential health benefits, which is higher than HDHP OOP max

Type of coverage	HDHP OOP Max	ACA OOP Max
Self-only	\$6,900 (\$7,000 for 2021)	\$8,150 (\$8,550 for 2021)
Family	\$13,800 (\$14,000 for 2021)	\$16,300 (\$17,100 for 2021)

- HDHPs must comply with the lower limits

➤ HDHP Preventive Care

HDHPs can pay for preventive care before deductible is met

What is preventive care?

- Periodic health exams, such as annual physicals
- Routine prenatal and well-child care
- Child and adult immunizations
- Obesity weight loss programs
- Screening devices and tests (for example, cancer screenings)
- Tobacco cessation

Does not include:

- Treatment of existing injury, illness or condition
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➤ Impermissible Coverage

General Rules

- Cannot have health coverage other than HDHP coverage
- Certain types of non-HDHP coverage will not prevent HSA eligibility

Permissible Types of Coverage

- Preventive care
 - Permitted insurance
 - Permitted coverage
 - EAP or wellness program
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➤ Special Rules – COVID-19 Outbreak

- HDHPs can pay for **COVID-19 testing and treatment** before deductibles have been met (IRS Notice 2020-15)
 - HDHPs may cover **telehealth services without a deductible** (effective for plan years beginning before Jan. 1, 2022)
 - These changes can be retroactive to **Jan. 1, 2020** (IRS Notice 2020-29)
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➤ Permitted Insurance and Coverage

Permitted Insurance

- Liability insurance
- Insurance for specified disease or illness
- Insurance that pays a specific amount per day of hospitalization

Permitted Coverage

- Accidents
 - Disability
 - Dental or vision care
 - Long-term care
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➤ Health FSA or HRA Coverage

General purpose health FSA or HRA

- Coverage will prevent HSA eligibility
- Applies to employee and anyone else whose expenses can be reimbursed

Grace Period

- Will be disqualified during grace period, unless zero balance at end of plan year

Carryover Feature

- Carryover from prior year will disqualify for current year, unless:
 - Carryover is to HSA-compatible FSA
 - Declined or waived carryover
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➤ HSA-compatible FSA/HRA Designs

Limited purpose FSA/HRA

- Reimburses permitted coverage, permitted insurance or preventive care (for example, dental or vision coverage)

Post-deductible FSA/HRA

- Reimburses medical expenses incurred after HDHP deductible is met

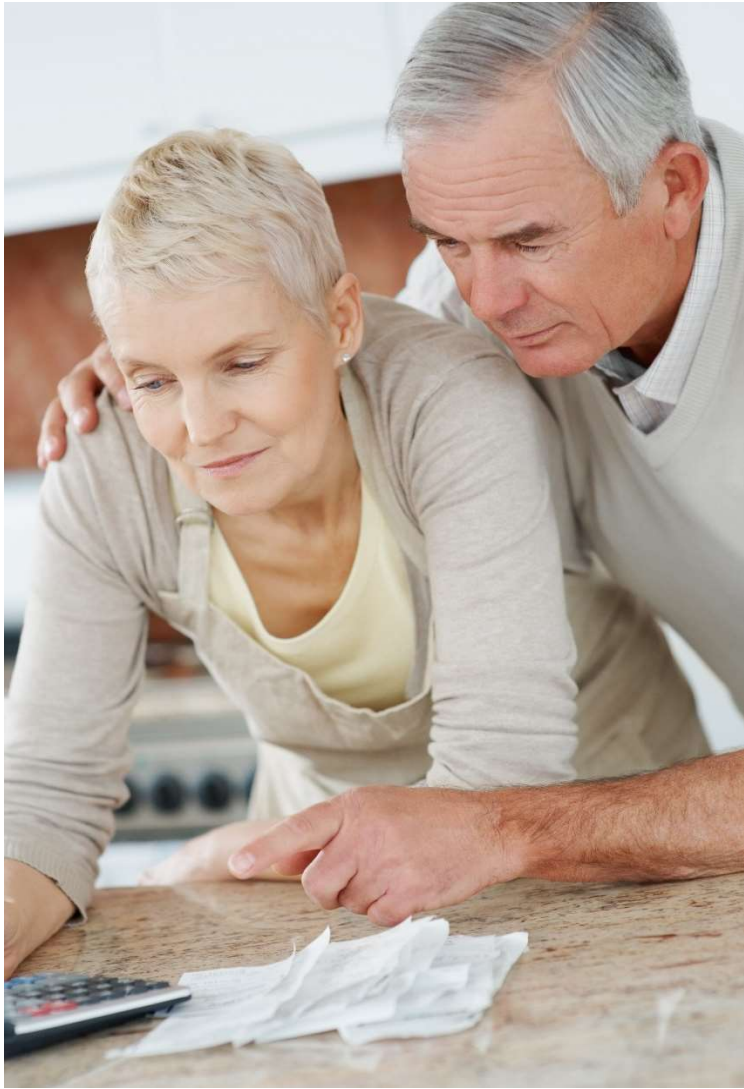
Retirement HRA

- Reimburses medical expenses incurred after retirement

Suspended HRA

- Does not reimburse expenses pursuant to election made before HRA coverage period (or only pays for preventive care, permitted insurance or permitted coverage)
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➤ Medicare Entitlement



- Individuals entitled to Medicare are not eligible for HSA contributions
- Medicare entitlement means being both **eligible and enrolled**
- Eligibility alone does not matter
- If Medicare will be retroactively effective, may need to stop HSA contributions before applying

➤ Tax Dependent



- Individuals who can be **claimed as tax dependents** are not eligible for HSA contributions
- Tax dependents include:
 - Children under age 19 (age 24 if student)
 - Household members who receive more than half of support from taxpayer and have low income

➤ Eligibility Verification

When making pre-tax HSA contributions, employer should have **reasonable belief** that employee is HSA-eligible

- Employee is primarily responsible for determining HSA eligibility
- **IRS Notice 2004-50:** Employer is only responsible for determining:
 - Whether employee is covered under HDHP (or any other health plan) sponsored by employer
 - Employee's age (for catch-up contributions)





Contributions >

➤ Contribution Sources

Contributions can be made by HSA account holder or anyone else – including employer or family member

- Employer contributions (including pretax salary deferrals) are not taxable
 - If made by HSA account holder, contributions are “above-the-line” tax deduction
 - If made by other individuals, can be deducted by HSA account holder in determining taxable income
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➤ Contribution Limits

For each month an individual is HSA-eligible, he or she can contribute one-twelfth of the applicable maximum contribution limit for the year.

Key points

- Contribution limits are updated each year
 - Monthly limit depends on type of HDHP coverage (self-only or family)
 - All contributions are aggregated (regardless of source)
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➤ Current Contribution Limits

Type of Coverage	2020 Limits	2021 Limits
Self-only	\$3,550	\$3,600
Family	\$7,100	\$7,200

Individuals age 55 or older by the end of year may contribute an additional **\$1,000 catch-up contribution**

➤ Contribution Limits – Example

Robert, age 25, has self-only coverage and is HSA-eligible for the first eight months of 2020. The annual maximum HSA contribution for self-only coverage for 2020 is \$3,550. Robert's maximum HSA contribution for 2020 is approximately \$2,366 ($8/12 \times \$3,550$)

› Full-contribution Rule

What is it?

- Exception to rule that HSA contribution limits are determined on a monthly basis
- Applies to individuals who are HSA-eligible on Dec. 1st

How does it work?

- An individual is treated as HSA-eligible for **entire calendar year** if he or she both:
 - Becomes eligible in a month other than January
 - Is HSA-eligible on Dec. 1st of that year
- Must remain eligible during 13-month testing period (with exceptions for death and disability)

➤ Special Rule for Married Individuals



- If either spouse has family coverage, both spouses are treated as having only that family coverage
 - If both are HSA-eligible, HSA contribution limit is divided between spouses
 - Rule applies even if one spouse has family and other has self-only coverage
 - Does not apply to catch-up contributions

➤ Nonforfeitable Contributions

All HSA contributions are nonforfeitable at all times

Cannot be subject to vesting schedule

Not returned if employee ends employment



Employers may want to fund on a periodic basis

➤ Contribution Timing



- HSA contributions for a year can be made in one or more payments
- Cannot be made before tax year begins
- Must be made by original tax return filing deadline (April 15th of the next year)
- Due to COVID-19 pandemic, deadline for 2019 contributions is July 15, 2020

➤ Excess Contributions

- Excess contributions are contributions that:
 - Exceed the HSA contribution limit, or
 - Are made by (or on behalf of) an individual who is not HSA-eligible
- Rules for excess contributions:

Included in
employee's taxable
income

Subject to **6% excise
tax**, unless
distributed (with pro-
rata earnings)

➤ Employer Contributions

Tax Rules

- Excluded from employee's income
- Not subject to income tax withholding or employment taxes (for example, FICA)

Comparability Rules

- Employer contributions are often made through a cafeteria plan (or Section 125 plan)
 - If employer contributes outside of cafeteria plan, employer must make **comparable contributions** to the HSAs of all comparable participating employees
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Distribution Rules

› HSA Distributions

Timing

- Individuals with HSAs can receive distributions **at any time**
- Reasonable restrictions by trustee or custodian are okay
- No mandatory distributions
- Balance carries over from year-to-year
- Do not need to be HSA-eligible

Purpose

- May be used for **any purpose**, medical or non-medical

Tax Treatment

- Depends on timing of distribution and whether the distribution is for a medical expense
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➤ Medical Expenses

HSA distributions are **tax-free** if they are used to pay for unreimbursed qualified medical expenses incurred after HSA was established

**Qualified
medical
expense**

- Expenditure for medical care, as defined in Code section 213(d)
 - For the HSA account holder and his or her spouse or tax dependents
 - Incurred after HSA was established
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➤ Eligible Medical Expenses

- Qualified medical expenses include:
 - Most medical care expenses
 - Prescription drugs
 - Over-the-counter drugs (effective Jan. 1, 2020)
 - Dental or vision care
 - Some insurance premiums
 - COBRA
 - Health insurance premiums while receiving unemployment benefits
 - Qualified long-term care premiums
 - Any health insurance premiums paid (other than for a Medicare supplement policy) by individuals age 65 and over



› Ineligible Medical Expenses

These medical expenses cannot be reimbursed from HSA tax-free:

- Most insurance premiums
 - Most cosmetic surgery or cosmetic procedures
 - General health items (for example, hand sanitizer, toiletries)
 - Expenses covered by another health plan
 - Expenses incurred before HSA was established
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➤ Non-Medical Expenses

- If an HSA distribution is not used for qualified medical expenses:

The amount of the distribution is **included in the account holder's income**

A **20 percent additional tax** also applies, except when the distribution is made after the individual **dies**, attains **age 65** or becomes **disabled**



Records and Tax
Reporting 

Recordkeeping

- Employers are NOT required to determine if an HSA distribution is used for a qualified medical expense
- No claim adjudication requirements for employers
- HSA account holders are responsible for keeping track of their distributions and reporting to the IRS (Form 8889)



➤ Employer Reporting

- Must report employer HSA contributions on employees' **Forms W-2**
 - Also includes employees' pre-tax HSA contributions made through a cafeteria plan
 - If an employer is making a contribution for a **prior year** by April 15th of the current year:
 - Must notify employees and the HSA trustee or custodian
 - Report contributions on W-2 for current year, and employees make reconciliation on Form 8889
 - Employers that violate the comparability requirements use **IRS Form 8928** to pay the 35% excise tax
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Questions? 



Thank you! 

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