Introduction to Health Savings Accounts (HSA)

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Key Factors to Consider when implementing an HSA in 2018
Minimum Health Plan Deductibles for 2018: $1,350 Single | $2,700 Family
Compliance Buzz
Tax Reform and Tax Advantaged Benefits
12/20/2017 | After months of debate on tax reform, Congress passed the "Tax Cuts and Jobs Act" (H.R. 1) to overhaul the tax code. Items of interest for tax advantaged benefits include the dependent care flexible spending account, adoption assistance, education assistance programs, transportation plans, and the individual mandate under the ACA.
With implementation starting in January, the impact of "Tax Cuts and Jobs Act" would be felt all throughout early 2018. Tax reform legislation removes the ACA's individual mandate requirement for months beginning after 12/31/18 and onward. Read more >
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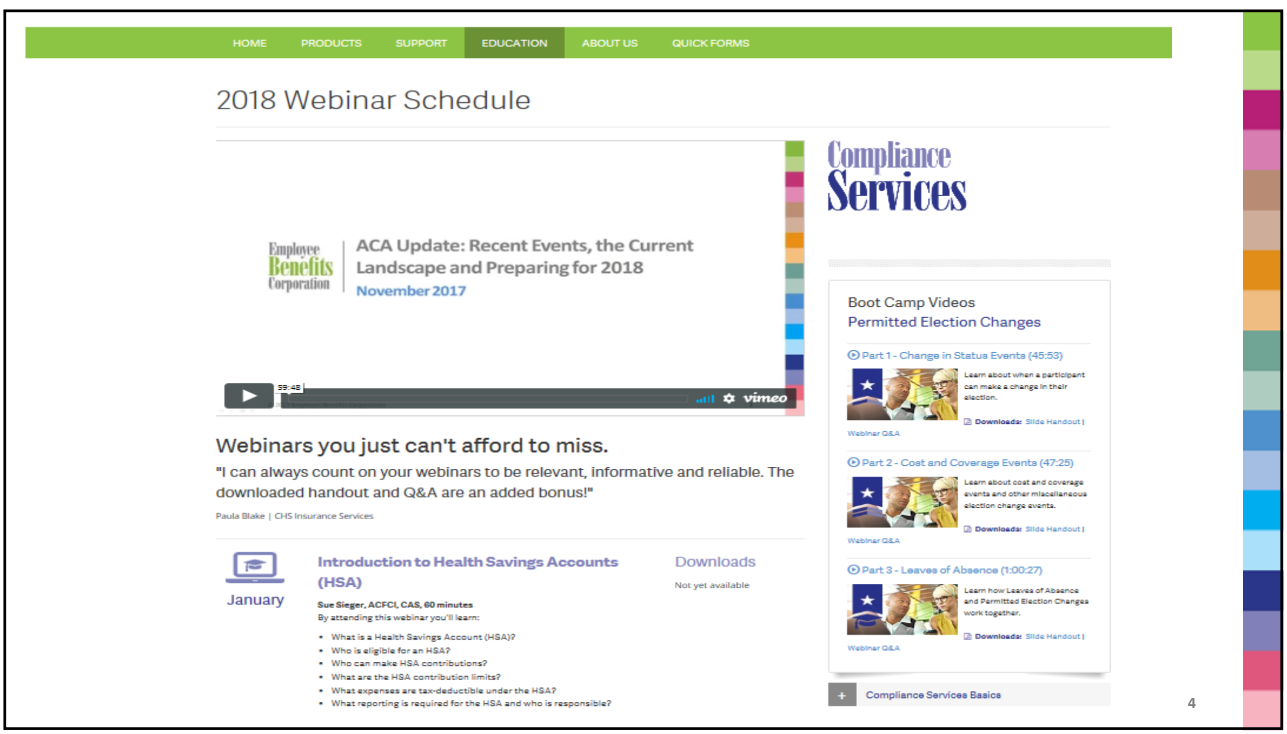
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2018 Webinar Schedule
Employee Benefits Corporation
ACA Update: Recent Events, the Current Landscape and Preparing for 2018
November 2017
vimeo
Compliance Services
Boot Camp Videos
Permitted Election Changes
Part 1 - Change in Status Events (45:53)
Learn about when a participant can make a change in their election.
Downloads: Slide Handout | Webinar Q&A
Part 2 - Cost and Coverage Events (47:25)
Learn about cost and coverage events and other miscellaneous election change events.
Downloads: Slide Handout | Webinar Q&A
Part 3 - Leaves of Absence (1:00:27)
Learn how Leaves of Absence and Permitted Election Changes work together.
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January
Introduction to Health Savings Accounts (HSA)
Sue Sieger, ACFCI, CAS, 60 minutes
By attending this webinar you'll learn:
What is a Health Savings Account (HSA)?
Who is eligible for an HSA?
Who can make HSA contributions?
What are the HSA contribution limits?
What expenses are tax-deductible under the HSA?
What reporting is required for the HSA and who is responsible?
Downloads
Not yet available
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Today's Agenda
- HSA Overview
- HSA Eligibility
- HSA Contributions
- HSA Distributions
- HSA Reporting
- Common HSA Compliance Issues
- Legislative Updates

HSA Overview

HSA Basics - Overview

- **Medicare Prescription Drug, Improvement, and Modernization Act of 2003**
- **HSAs authorized under Internal Revenue §223**
- Eligibility criteria is multifaceted
- **Contribution limits easily misunderstood**
- Distributions are self-substantiated
- **Contribution and Distribution reporting required**
- Many compliance issues can arise

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HSA Basics - Overview

- **HSA account is established in the individual's name - not the employer's**
  - Owned by the accountholder
  - Name a beneficiary
    - Transfer to spouse upon death tax free
    - Non spouse beneficiary must pay tax on market value of the HSA at death
- **HSA account must be with an IRS approved trustee to hold HSA dollars**
  - Banks
  - Investment companies
- Account balance is non-forfeitable, interest earned tax free
- **Portable with the individual – not tied to employer**
- Not a group health plan – not subject to COBRA, FMLA, HIPAA, etc.

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HSA Eligibility

Eligible Individual

Eligible to make or receive HSA contributions*

a) Not another individual's tax dependent
b) Not entitled to (enrolled in) Medicare
c) Covered by a qualified High Deductible Health Plan (HDHP)
d) Not covered by any disqualifying coverage

*HSA eligibility is determined on a monthly basis

– HSA contribution can be made if Eligible Individual has HDHP coverage as of the 1st day of the month

Eligible Individual

a) Not another individual’s tax dependent

- Income tax dependent means that you can claim that individual for income tax filing purposes

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Eligible Individual

a) Not another individual’s tax dependent (cont.)

– **Special Rules for Adult Children and Domestic Partners**
  - **Domestic partners may be covered under an employer sponsored HDHP.**
    – Domestic Partners that are covered under a partners HDHP and who are not income tax dependents of the Domestic Partner, will be eligible to open and contribute to their own HSA at the family level.
  - **Adult children can remain on parents HDHP until age 26 regardless of income tax dependent status (ACA Rule)**
    – Adult children who are not income tax dependents of the parent are HSA eligible based upon the family coverage they are enrolled in and can establish and can separately contribute to their own HSA at the family level.

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Eligible Individual

b) Not entitled to (enrolled in) Medicare

- **Refers to status of accountholder, not spouse or dependent**
  - ✓ Accountholder entitled to Medicare can no longer contribute into HSA but can use the HSA dollars for expenses
  - ✓ Spouse who is entitled to Medicare cannot contribute into own or other spouse's HSA account
- **Worker over age 65 (eligible for Medicare) not in receipt of Social Security income benefits can postpone enrollment in Medicare (is not entitled to Medicare)**
  - ✓ Can make or receive HSA contributions

Eligible Individual

b) Not entitled to (enrolled in) Medicare (cont.)

- **Worker age 62 or older in receipt of Social Security income benefits is automatically enrolled in Medicare Parts A & B at age 65**
  - ✓ Is entitled to Medicare, can waive Part B, cannot waive Part A
    - **Cannot make or receive HSA contributions**
    - **Can continue to use existing HSA for eligible medical expenses**

Eligible Individual

c) Covered by qualified high deductible health plan (HDHP)

- All expenses, except preventive care, apply to the deductible
- Minimum annual deductible
  - ✓ $1,300 for single coverage and $2,600 for other than single coverage (e.g., limited family, family, etc.) (2017)
  - ✓ **$1,350 for single coverage and an aggregate of $2,700 for other than single coverage (e.g. limited family, family, etc.) (2018)**
- Maximum out of pocket amounts under the HDHP
  - ✓ $6,550/single and $13,100/family (2017)
  - ✓ **$6,650/single and $13,300/family (2018)**
- Amounts are indexed – can be adjusted annually
  - ✓ New amounts are announced by June 1st for next calendar year

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Eligible Individual

c) Covered by HDHP (cont.)

- Example of qualified HDHP – satisfies minimum deductible, maximum out-of-pocket
  - ✓ Single: $2,000 deductible, 100% thereafter
  - ✓ Family: $4,000 deductible, 100% thereafter
- Example of non-HDHP – does not satisfy minimum deductible, maximum out-of-pocket
  - ✓ Single: $8,000 deductible, 100% thereafter
  - ✓ Family: $16,000 deductible, 100% thereafter

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Eligible Individual

d) No disqualifying coverage

- Coverage that reimburses expenses prior to satisfying HDHP minimum deductible = disqualifying coverage
- Examples of disqualifying coverage
  - ✓ **HRA that reimburses prior to satisfying minimum HDHP deductible**
  - ✓ **Health Care FSA (own, spouse's or parent's)**
  - ✓ **Health insurance that has first dollar coverage or a lower deductible than HDHP minimums**
  - ✓ **Prescription drug coverage prior to satisfying HDHP deductible (e.g., drugs covered after a co-pay prior to satisfying deductible)**
  - ✓ **Health plans that have Office Visit Copay prior to satisfying deductible**

Eligible Individual

d) No disqualifying coverage (cont.)

- Permitted coverage
  - **Coverage allowed to reimburse expenses prior to satisfying HDHP minimums**
    - ✓ Specified disease (e.g., accident, cancer insurance)
    - ✓ Preventive care
    - ✓ Stand-alone dental and/or vision coverage
    - ✓ Insurance paying a fixed amount per day for hospitalization
    - ✓ Workers' compensation, tort liability or property insurance
    - ✓ Limited Health Care FSA or Post-deductible Health Care FSA

Ineligible Individual Example

d) No disqualifying coverage (cont.)

Bob and Betty are married. Both carry single health plan coverage through their employers. Bob has an HDHP and Betty has an HMO and Health Care FSA

- ✓ Bob cannot contribute to an HSA because Bob is eligible for first dollar reimbursement from Betty's Health Care FSA – doesn't matter whether he turns in any claims for the Health Care FSA
- ✓ If Betty participated in a Limited or Post Deductible Health Care FSA, Bob could contribute to an HSA

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HSA Contributions

HSA Contributions

- Anyone can contribute to a HSA
- By individual or family member as post-tax contributions
  - ✓ Tax deduction at year-end
  - ✓ Is a $ for $ adjustment to gross income
  - ✓ Contributions can be made up to April 15th for the prior calendar year
- By accountholder as pre-tax contributions in cafeteria plan
  - ✓ Tax deduction occurs at time of payroll deduction
  - ✓ Is a $ for $ adjustment to gross pay
  - ✓ HSA Contributions **are not subject** to Permitted Election Change Rules
- By employer
  - ✓ employer's contribution reduces the maximum the individual can contribute

HSA Contributions-Employee

Pre-tax vs. Post-tax

- Pre-tax through cafeteria plan
  - ✓ Immediate tax savings
  - ✓ Automatic contributions
  - ✓ Change of election rules do not apply
    - ✓ **HSA elections are not irrevocable.**
    - ✓ **Employee can make changes to the HSA contribution monthly without a specific permitted election change event**
  - ✓ Could affect future Social Security Benefit
  - ✓ Employer and employee contributions subject included in §125 nondiscrimination testing
  - ✓ **Note:** Sole Proprietors, Partners, LLC Members, more than 2% or greater shareholder in S Corp and family members **cannot contribute** pre-tax through a cafeteria plan.

HSA Contributions-Employee

Pre-tax vs. Post-tax (cont.)

- **Post-tax outside cafeteria plan**
  - ✓ HSA contributions are made directly to the HSA custodian or post tax through payroll deduction
  - ✓ Line item adjustment on year-end tax return
  - ✓ No effect on future Social Security benefit
  - ✓ Any employer contribution is subject to Comparability rules of §223
  - ✓ No effect on §125 nondiscrimination testing

HSA Contributions-Employer

- **Any employer contributions must be included in the HSA annual maximum**
- **Through a cafeteria plan**
  - ✓ If employees can make pre-tax contributions, employer contributions are considered made through the cafeteria plan (Treasury Reg. §54.4980G-5)
  - ✓ Employer contributions and any employee pre-tax contributions are included in the IRC §125 nondiscrimination testing
- **Outside a cafeteria plan**
  - ✓ Subject to Comparability rules of § 223
    - **Comparable contributions for comparable participating employees (e.g., same dollar amount for all enrolled in single plan coverage, % of HDHP deductible, etc.)**
    - **Cannot be based on age, years of service or compensation**
    - **Cannot be matching contributions**

HSA Contributions

If employer offers pre-tax HSA contributions or makes employer contributions to HSAs, employer responsible to*:

- Amend cafeteria plan to include pre-tax employee and employer contributions
- Know that employee is covered by an HDHP offered by the employer
- Know that the employee does not have disqualifying coverage offered by the employer
- Know whether the employee is eligible for "catch up" HSA contributions

*** Employer not responsible to know what other coverage the employee might have through a spouse**

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HSA Contributions

Self Substantiating/Self Reporting

Employee is responsible to monitor that:

- Employee is an eligible individual
- Employee is not covered by any disqualifying coverage
- Employee does not over-contribute*
- Employee only seeks HSA distributions for qualified medical care expenses*
- "Shoe Box Rule"-Employee is responsible to retain all substantiation of expenses in the event of an IRS audit

*** Reported through IRS Forms 8889 (contributions and distributions) and 5329 (taxes on excess contributions)**

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HSA Contributions

HSA contribution limits – any combination of pre-tax, post-tax or employer contributions

- **$3,400 for single coverage and $6,750 for family coverage (2017)**
- **$3,450 for single coverage and $6,900 for family coverage (2018)**
- Additional "catch up" contribution up to **$1,000** allowed for individuals **55 or older** during the year
  - No prorating in year you turn 55
  - Must prorate in the year you enroll in Medicare
- **Joint limit applies to married individuals if both spouses have an HSA account**
  - ✓Limited to family maximum split between the spouses if either or both have family HDHP coverage
  - ✓Assume 50%/50% split unless agreed upon differently

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HSA Contributions

- **Annual maximum contribution is the sum of the monthly contribution limits (annual/12) for the months the individual was eligible to make contributions (IRS Publication 969)**
  - ✓ e.g., **2018 single maximum of $3,450 equates to $287.50 per month**
- **$1,000 catch-up contribution pro-rated for year turning 65**
- Excess contributions need to be removed, as taxable income, prior to tax filing; otherwise taxed as regular income plus excise tax of 6%
- **Full Contribution rule* for mid-year HDHP enrollees or coverage change allowed**

  * also referred to as the last-month rule

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HSA Contributions

Annual maximum example:

- **Bill was covered by a single plan HDHP for the first 4 months of 2018, only**
- The monthly maximum for each month is $287.50 ($3,450/12)
- **Bill's maximum annual contribution amount is $287.50 X 4 months, or $1,150**
- If he contributes more than $1,150, the excess contributions need to be removed, as taxable income, prior to filing 2018 taxes; otherwise taxed as regular income plus excise tax of 6%

HSA Contributions

Full Contribution rule

- **Contribution maximum is the greater of**
  - ✓ The annual maximum for coverage in effect December 1, or
  - ✓ The sum of the monthly maximums for the HDHP coverage that was actually in effect for each month of the year

HSA Contributions

Full Contribution rule (continued)

- **13 month testing period applies**
- Individual must remain HSA eligible from December 1 of the year the full contribution rule is used until the end of December of the following year
- **If not, any additional contributions in excess of the sum of the monthly maximums are treated as taxable income plus additional tax of 10 %**
  - ✓ Treated differently than excess contributions made during the year

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HSA Contributions

Full Contribution example #1

- **John enrolled in family HDHP coverage 7/1/18 (no HDHP coverage prior) and uses the full-contribution rule**
- John makes the full $6,900 contribution for 2018 even though he only had HDHP coverage for 6 months
- John must remain HSA eligible until 12/31/19
- **If not, he is taxed on the additional contributions of $3,450 plus an additional 10% tax of $345.00**
- John's additional contributions are $3,450 (1/2 of $6,900) because he only had HDHP coverage for 6 months in 2018 and did not remain HSA eligible through 12/31/19

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HSA Contributions

What happens if you change coverage types during the year?

- **Mary was enrolled in single HDHP coverage from January through August (8 months) in 2018**
- Mary enrolls in family HDHP September 1 through December 31
- **Maximum is prorated:**
  - The sum of her monthly maximums is $4,600 ($3,450/12 mo. x 8 mo. =$2,300) when she had single coverage + ($6,900/12 mo. x 4 mo. = $2,300) when she had family coverage

HSA Contributions

Transfer from IRA

- **Once-in-a-lifetime, tax-free, direct trustee-to-trustee transfer**
- Must be from IRA maintained by HSA accountholder
- **Transfer included in annual maximum contribution for tax year transfer occurs in**

HDHP & HSA Limits*

*** min= minimum deductible, max = out-of-pocket maximum**

- **2018 min/max**
  - Single $1,350/$6,650
  - Family $2,700/$13,300
- **2018 contribution limit**
  - Single $3,450
  - Family $6,900
- **2017 min/max**
  - Single $1,300/$6,550
  - Family $2,600/$13,100
- **2017 contribution limit**
  - Single $3,400
  - Family $6,750

HSA Contributions

Life events can affect HSA eligibility and contributions

- **Spouse's employer implements non-HDHP**
- Spouse takes job with employer that has non-HDHP coverage
- **Spouse takes job with employer that has HDHP with HSA coverage**
- Participant marries
- **Participant's spouse loses job and HDHP with HSA coverage**
- Participant's spouse loses job and non-HDHP coverage

HSA Contributions

Life events - issues to consider:

- **Does participant have HDHP coverage after the event?**
- Does participant have any disqualifying coverage after the event?
- **What effect does the event have on the participant's future HSA contributions?**

HSA Distributions

HSA Distributions

- **Distributions are withdrawals from the HSA account**
- Distributions are tax free for qualified medical expenses incurred after HSA account is established (opened)
  - ✓ Non-medical distribution is taxed plus 20% additional tax (if over 65 or upon death, taxed as regular income)
- **Distributions act as payment of expenses by the accountholder**

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HSA Distributions

- **For medical expenses of accountholder, spouse or tax dependents (eligible child rule to age 26 does not apply) incurred after HSA account was established**
- Expense is self-substantiated by accountholder
  - – IRS Publication 502 and 969 may be helpful with HSA rules
- **Qualified medical expenses the same as for a Health Care FSA (IRC § 213(d)) with exception for some premiums**

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HSA Distributions

Premiums eligible from HSA

- **Qualified long term care insurance (LTC)**
- COBRA or USERRA leave premiums
- **To pay any health plan premiums during period receiving unemployment compensation**
- If over 65, accountholder's health coverage other than Medicare supplement (e.g., premiums for retiree coverage, Medicare Part B or D or Medicare Advantage, etc.)

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HSA Reporting

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HSA Reporting

Reporting HSA Contributions

- **Trustee reports (to accountholder) and files (to IRS) HSA annual account contributions on IRS Form 5498-SA**
- Employer reports HSA contributions on W-2, in box 12, using code W, including employer and pre-tax salary contributions
- **Accountholder reports all HSA contributions from any source on IRS Form 8889**
  - ✓ Pre-tax salary deductions
  - ✓ Post-tax contributions
  - ✓ Employer contributions
  - ✓ Other sources (e.g., spouse, family member, etc.)
- **Accountholder reports excess or additional contributions using IRS Form 5329**

HSA Reporting

Reporting HSA distributions

- **Trustee provides IRS Form 1099-SA to IRS and HSA accountholder with total of HSA distributions for the tax year**
  - ✓ For distributions regardless of whether for medical expenses or non-qualified expenses
- **For distributions after death or divorce of accountholder**
  - ✓ If beneficiary is accountholder's spouse/ex-spouse, the spouse/ex-spouse can open an HSA account so that the distribution is tax free (trustee to trustee transfer)
  - ✓ If beneficiary is any other individual, the distribution is taxable to the beneficiary
- **For distributions due to excess contributions and earnings on those contributions**

HSA Reporting

Reporting HSA Distributions

- **Accountholder reports distributions on IRS Form 8889 as attachment to IRS Form 1040**
  - ✓ Non-taxable distributions (i.e., qualified medical care distributions)
  - ✓ Taxable distributions (e.g., non-qualified distributions, excess contribution distribution)
  - ✓ Additional tax
    - **20% on non-qualified medical distributions**
    - **10% on excess contributions due to failing full contribution rule**
    - **6% on excess contributions not removed by tax filing date**

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Common HSA Compliance Issues

Common HSA Compliance Issues

For Employees

- **Contributions for/by ineligible individuals**
  - ✓ Not covered by HDHP
  - ✓ Covered by disqualifying coverage
- **Not following all reporting procedures**
- **Inappropriate distributions - examples**
  - ✓ Non-medical expenses
  - ✓ Expenses incurred prior to HSA account being established
  - ✓ For child who is no longer a tax dependent (adult children)

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Common HSA Compliance Issues

For Employers

- **Not documenting pre-tax HSAs in the cafeteria plan**
- **Not documenting employer's contribution to HSAs in the cafeteria plan**
- **Contributions for/by ineligible individuals**
  - ✓ Not covered by HDHP
  - ✓ Covered by disqualifying coverage

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Common HSA Compliance Issues

For Employers (continued)

- **Not following all reporting procedures**
- Not performing due diligence on employee eligibility for HSA contributions
- **Not including HSAs in cafeteria plan nondiscrimination testing**

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Legislative Updates

Legislative Updates

- **The Health Savings Act of 2017 (2/16/17)- NOT LAW YET**
  - Senate Finance Committee Chairman Orrin Hatch (R-Utah), Senator Marco Rubio (R-Fla.) and House Ways and Means Committee member Congressman Erik Paulsen (R-Minn.) today introduced the Health Savings Act of 2017.
  - Legislation to simplify and expand Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs), health care accounts that provide Americans opportunities to save for medical costs through tax-deductible contributions.
    - **Renames HDHP to HSA qualified Health Plan**
    - **Both spouses can make catch up contributions to one account**

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Legislative Updates

- **The Health Savings Act of 2017 (2/16/17) (cont.)**
  - Additional individuals eligible for HSA:
    - **Medicare Part A**
    - **Indian Health Services plan**
    - **Health Care Sharing Ministries**
    - **Direct Primary Care Arrangements**
    - **Onsite Medical Treatment**
    - **Embedded deductible**
  - HSA improvements
    - **Reverse ACA OTC limitations for HSAs, FSAs and HRAs**
    - **Allows HDHP to be eligible expense**
    - **Fixes Establishment date**
      - Expense eligible as long as HDHP is established within 60 days

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Legislative Updates

- **The Health Savings Act of 2017 (2/16/17) (cont.)**
  - HSA improvements
    - **Clarifies Preventive Care**
      - Includes RX and OTC drugs and medicines which have the primary purpose of preventing the onset of, further deterioration from, or complications associated with chronic conditions, illnesses or diseases
    - **Reinstitutes FSA and HRA rollovers to HSA**
    - **Elevates HSA status for bankruptcy**
    - **Corrections for erroneous distributions**
    - **Reauthorizes Medicaid Health Opportunity Accounts**
    - **Increases max HSA contribution to Deductible and OOP**

Legislative Updates

- **The Health Savings Act of 2017 (2/16/17) (cont.)**
    - **IRS Code § 213**
      - Permit $1,000 tax deduction for exercise equipment and fitness program fees
      - Permit $1,000 tax deduction for certain nutritional and dietary supplements
      - Permit periodic provider fees for certain concierge medical plans

- **Tax Reform (12/22/17)**
  - No HSA provisions included
- **Affordable Care Act (ACA) provisions remain**
  - 20% penalty on non qualified distributions from an HSA
  - Potential impact of Cadillac tax in 2020

Summary

- **HSAs authorized under §223**
- Eligibility criteria is multifaceted
- **Contribution limits easily misunderstood**
- Distributions are self-substantiated
- **Contribution and Distribution reporting required**
- **Trump Administration looks favorably on HSAs, it remains to be seen if HSA improvements will happen as part of any health care reform or a stand alone bill**
- **We can answer your questions about HSAs**

Questions?

Thank you for attending!!

Any questions can also be addressed by e-mail or phone:
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