Employee FAQ:  
Health Savings Accounts

**What is a health savings account (HSA)?**
An HSA is a tax-advantaged personal savings account that can be used to pay for medical, dental, vision and other qualified expenses now or later in life. To contribute to an HSA you must be enrolled in a qualified high-deductible health plan (HDHP) and your contributions are limited annually. The funds can even be invested, making it a great addition to your retirement portfolio.

**Why should I participate in an HSA?**
Funds contributed to an HSA are triple-tax-advantaged.

1. **Money goes in tax-free.** Most employers offer a payroll deduction through a Section 125 Cafeteria Plan, allowing you to make contributions to your HSA on a pre-tax basis. The contribution is deposited into your HSA prior to taxes being applied to your paycheck, making your savings immediate. You can also contribute to your HSA post-tax and recognize the same tax savings by claiming the deduction when filing your annual taxes.

2. **Money comes out tax-free.** Eligible healthcare purchases can be made tax-free when you use your HSA. Purchases can be made directly from your HSA account, either by using your benefits debit card, ACH, online bill-pay, or check – or, you can pay out-of-pocket and then reimburse yourself from your HSA.

3. **Earn interest, tax-free.** The interest on HSA funds grows on a tax-free basis. And, unlike most savings accounts, interest earned on an HSA is not considered taxable income when the funds are used for eligible medical expenses.

**What expenses are eligible for reimbursement?**
Health plan co-pays, deductibles, co-insurance, vision, dental care, and certain medical supplies are covered. The IRS provides specific guidance regarding eligible expenses. (See IRS Publication 502).

**Am I eligible to participate?**
In order to contribute, you must be enrolled in a qualified HDHP, not covered under a secondary health insurance plan, not enrolled in Medicare, and not another person’s dependent. There are no eligibility requirements to spend previously-contributed HSA funds.

**What is a high-deductible health plan?**
A HDHP is a health insurance plan with deductible amounts that are greater than $1,300 for individual or $2,600 for family coverage and have an out-of-pocket maximum that does not exceed $6,550 for individual or $13,100 for family coverage.

**How do I contribute money to my HSA?**
Payroll deduction is most likely offered by your employer. Your annual contribution will be divided into equal amounts and deducted from your payroll before taxes. Direct contributions can also be made from your personal checking account and can be deducted on your personal income tax return.

**Can I change my contributions to my HSA during the year?**
Yes. You will not be subject to the change-in-status rules applicable to other benefit accounts. You will be able to make changes in your contributions by providing the applicable notice of change provided by your employer.

**How much can I contribute to my HSA?**
Contributions can be made by the eligible employee, their employer, or any other individual. Annual contributions from all sources may not exceed $3,400 for singles or $6,750 for families in 2017. Individuals aged 55 and over may make an additional $1,000 catch-up contributions.
Do I have to spend all my contributions by the end of the plan year?
No. HSA money is yours to keep. Unlike a flexible spending account (FSA), unused money in your HSA isn’t forfeited at the end of the year; it continues to grow, tax-deferred.

What happens if my employment is terminated?
HSAs are portable and move with you if you change employment. Your HSA belongs to you, not your employer, just like your personal checking account.

How do I access the funds in my HSA?
Your HSA is similar to a checking account. You are responsible for ensuring the money is spent on qualified purchases only and maintaining records to withstand IRS scrutiny. Payments can be made via check, ACH, online bill-pay, or debit card, depending on what is available to you.

When must contributions be made to an HSA for a taxable year?
Contributions for the taxable year can be made in one or more payments at any time after the year has begun and prior to the individual’s deadline (without extensions) for filing the eligible individual’s federal income tax return for that year. For most taxpayers, the deadline is April 15 of the year following the year for which contributions are made.

What happens to the money in my HSA if I no longer have HDHP coverage?
Once you discontinue coverage under an HDHP and/or get secondary health insurance coverage that disqualifies you from an HSA, you can no longer make contributions to your HSA. However, since you own the HSA, you can continue to use the remaining funds for future healthcare expenses.

Is tax reporting required for an HSA?
Yes. IRS form 8889 must be completed with your tax return each year to report total deposits and withdrawals from your account. You do not have to itemize to complete this form.

Can I still deduct healthcare expenses on my tax return?
Yes, but not the same expenses for which you have already been reimbursed from your HSA.

Can I withdraw the money for non-healthcare purchases?
Yes. If you withdraw the money for an unqualified expense prior to age 65, you’ll be subject to your ordinary income tax, in addition to 20% tax penalty. You can withdraw the money for any reason without penalty after age 65, but are subject to applicable income taxes.

Can I roll over or transfer funds from my HSA or Medical Savings Account (or Archer MSA) into an HSA?
Yes. Pre-existing HSA funds or MSA monies may be rolled into an HSA and will continue their tax-free status.

Can I control how the funds are invested?
Yes. Once your HSA cash account balance reaches the minimum amount required by the custodian, you can transfer funds to an HSA investment account. You can choose from a selection of mutual funds and setup and allocation model for future transfers like you would for a 401k plan.

Can I transfer funds between the cash and investment accounts?
Yes. You can transfer money between your HSA cash and HSA investment account at any time.

For more information, call 269-342-1700
Employer FAQ: Health Savings Accounts

What is a health savings account?
A health savings account (HSA) offers your employees a tax-advantaged way to save and pay for qualified out-of-pocket healthcare expenses. The employee must be covered by a high-deductible health plan to be able to take advantage of a HSA.

What is a high-deductible health plan?
A high-deductible health plan is health insurance with deductible amounts that are greater than standard insurance plans. The monthly premiums for this type of health insurance are typically less expensive because employees agree to take on more of the upfront cost of medical care. For 2016, these deductibles are at least $1,300 for individual or $2,600 for family coverage.

Is this really less expensive for the business?
Yes. High-deductible health plan premiums are much lower than the typical HMO and PPO premiums. Many businesses are finding these health plans affordable for their companies and their employees.

Do employees get a tax benefit from an HSA?
Employee contributions can be made to a HSA on either a pre-tax or post-tax basis. When employees make contributions pre-tax it is done through a Section 125 plan (also called a salary reduction or cafeteria plan), generally through direct deposit of payroll. If employees contribute funds on an post-tax basis, the amount can be deducted from their taxable income.

Does an employer have to make contributions to an employee’s HSA?
No. Employers are under no obligation to make any contributions to their employees’ HSAs. Many employers find that making a contribution to employees’ HSA accounts may help improve adoption of HDHPs and HSAs, especially if they are transitioning from a more traditional type of health coverage.

May an employer fully fund the employee’s HSA at the beginning of the year?
Yes. An employer may fully fund the employee’s HSA at the beginning of the year, however HSAs belong to the individual and not the employer and the employer has no further control over the accounts after they have been funded. As a result, many employers elect to fund employees HSAs periodically throughout the year.

Are an employer’s contributions to an HSA treated as a deductible healthcare expenses?
The tax treatment of employer HSA contributions depends on how the business is incorporated. For sole proprietors, partnerships, and S-corporations, contributions to a partner’s HSA will be treated as a distribution to the partner and included in the partner’s income and may be deductible by the partner but not by the business (see IRS Notice 2005-8 for treatment of HSA contributions in exchange for guaranteed payments of services rendered for partners and two-percent shareholder employees of S-corporations). For larger corporations, employer contributions are treated as employer-provided coverage for medical expenses under an accident or health plan.

Can employers make pre-tax contributions to their employees’ HSAs?
Yes. Employers may make pre-tax contributions to their employee’s HSAs if they have a cafeteria plan in place that provides for HSA contributions. These contributions are not subject to withholding from wages for income tax or subject to FICA, FUTA or the Railroad Retirement Act.

May employers make matching contributions?
In general, employer matching contributions would likely violate comparability testing (i.e., they must make comparable contributions for all eligible individuals with comparable coverage during the same period). However, matching contributions through a section 125 cafeteria plan are not subject to comparability testing (but section 125 nondiscrimination rules would apply).
Can you combine an HSA with an FSA?
Yes. But only a limited-purpose FSA so as not to duplicate the coverage provided by the HSA. The limited-purpose FSA is designed to complement the HSA and may be established to pay for eligible vision and dental expenses. The FSA is not permitted to cover medical expenses because the tax-favored HSA is used to fund those costs.

Is the employer responsible for reviewing medical expenses?
No, the employer is not responsible for substantiating the employee’s HSA expenses. The individual account holder is responsible for determining that their account funds are being properly used and would be required to provide supporting evidence on the use of their funds if requested under IRS audit.

How often can an employee adjust their HSA contribution when contributing through a cafeteria plan?
Employees contributing to an HSA through a cafeteria plan may make adjustments to their contributions at any time, as long as the change only affects future contributions.

As an employer, am I responsible for my employees’ HSA?
No. You do not own your employees’ HSAs, nor are you responsible for how the funds are managed by the employee. The employee fully owns the contributions to the account as soon as they are deposited, just as with a personal checking or savings account to which you would deposit their compensation.

Do I have to contribute the same amount to every employee’s HSA?
Generally, employer contributions must be comparable, that is they must be in the same dollar amount or same percentage of the employee’s deductible for all employees in the same “class”. However, with the passage of a new law in 2007, higher contributions are allowed for non-highly compensated employees. In addition, you can vary the level of contributions for full-time vs. part-time employees, and employees with self-only coverage vs. family coverage. You do not need to consider employees who have not elected the high-deductible health plan coverage because they are not eligible for HSA contributions.

How are contributions treated for owners, shareholders, or partners?
Owners and officers with greater than two-percent share of a Subchapter S corporation, or partners in a partnership or LLC, cannot make pre-tax contributions to their HSAs by salary reduction. Any contributions made to their HSAs by the company are taxable as income. However, they can make their own personal contributions to their HSAs and claim the contributed amount as a deduction on their personal income taxes.

For more information, call 269-342-1700