HIGH DEDUCTIBLE HEALTH PLANS AND HEALTH SAVINGS ACCOUNTS

HIGH DEDUCTIBLE HEALTH PLANS (HDHP)

A high deductible health plan (HDHP) is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses.

For self-only coverage in 2018, an HDHP has an annual deductible of at least $1,350 and annual out-of-pocket expenses required to be paid (deductibles, copayments and other amounts, but not premiums) not exceeding $6,650. In 2019, the minimum deductible for self-only coverage remains $1,350 and the maximum out-of-pocket goes up to $6,750. For family HDHP coverage in 2018, the minimum deductible is $2,700 and the maximum out-of-pocket is $13,300. In 2019, the minimum deductible remains $2,700, but the maximum out-of-pocket increases to $13,500.

Regardless of the deductible, the plan may not provide for any first dollar coverage such as copays for office visits. The minimum deductible and maximum out-of-pocket limits are indexed annually for inflation. Participants will pay 100% of medical expenses up to the deductible (with the exception of preventive care, which is defined in another section).

Before meeting the deductible, the participant will pay for services at the reduced rates negotiated by the carrier. After the deductible has been met, there are generally no copays for office visits or prescription drugs. Services are typically covered at 100%, but some exceptions may apply.

For coverage purposes, “Family” means any coverage election other than “Self.” When the family option is selected, the entire family deductible must be met before benefits are payable for any individual family member.

HEALTH SAVINGS ACCOUNTS (HSA)

A Health Savings Account (HSA) is a tax-exempt account for the exclusive purpose of paying qualified medical, dental, and vision expenses of the account beneficiary.

A participant in an HDHP is eligible to establish and make contributions to an HSA if:

1. The participant is covered under any qualified HDHP
2. The participant is allowed to have dental, life, vision, and disability coverage
3. The participant is allowed to participate in a dependent care FSA for dependent care expenses and/or a limited FSA to include dental & vision services only

A participant is not eligible to contribute to an HSA if:

1. The participant is covered by a low-deductible health plan (must have HDHP)
2. The participant may access funds in a general purpose health FSA belonging to the participant or the participant's spouse
3. The participant is enrolled in any Part of Medicare
4. The participant is covered under a spouse's (non-HDHP) health plan

Why Contribute to an HSA?

Consider an HSA a healthcare piggy bank that has several federal tax advantages:

1. Contributions are tax free;
2. Potential interest and investment gains accumulate tax free;
3. Distributions are tax free when used to pay for qualified medical expenses; and
4. The remaining balance rolls over from year to year, making it yours to keep regardless of job changes or retirement.

In addition to the federal advantages, most states mirror this tax-free status with state tax deductions and/or rebates.

More Opportunities to Save

Since you will keep any funds you don't use, HSAs reward you for being a smart consumer of healthcare. How you manage your healthcare expenses and save along the way will determine how much you can roll over from year to year. You keep savings for using your health plan's discounted provider network, purchasing less expensive generic prescriptions when available, and asking your physician questions about treatments and tests.

Building Your Nest Egg

Unlike other medical savings accounts, the HSA has no provision insisting you "use or lose" your account dollars at the end of the year. Any funds you do not use in a given plan year remain in your account, building a larger, interest-bearing account for future healthcare expenses.

Life Transitions with Your HSA

If you leave your company for any reason your HSA goes with you. You can continue to contribute to your account if you continue enrollment in an HDHP.

If you are no longer covered under a qualified HDHP, you cannot make any additional contributions to the HSA. However, you can continue to withdraw your funds—tax free—for qualified medical expenses for yourself, your legal spouse, or any tax dependents, regardless of the type of health insurance coverage.

Pre-65: If you withdraw funds before age 65 for non-qualified medical expenses, regular income taxes plus a 20 percent penalty may apply. Withdrawals for qualified medical expenses continue to be permitted and are still tax-free.

Post-65 or Disability: After age 65, you may withdraw your HSA funds, tax free, to pay health expenses and certain insurance premiums (excluding Medigap policy premiums). Distributions for nonmedical expenses will be treated as gross income subject to income taxes. However, distributions for nonmedical expenses will not be subject to the additional 20 percent excise tax.

FREQUENTLY ASKED QUESTIONS

Can I have specific disease or illness, accident, disability, dental care, vision care, and long term care policies?
Yes, these are allowed. You can also participate in an Employee Assistance Program (EAP), disease management, drug discount programs, and most wellness programs.

What preventive services are covered at 100%?
Preventive services include periodic health evaluations such as annual physicals, screening services such as mammograms, routine prenatal and well-child care, child and adult immunizations, tobacco cessation programs, and obesity weight loss programs.

Can I participate in a Flexible Spending Account (FSA) or Health Reimbursement Arrangement (HRA) if I have an HSA account?
Participation in a FSA (even through your spouse) or HRA may make you ineligible for an HSA unless the FSA or HRA is limited purpose (limited to dental, vision, child care or preventive care) or post-deductible (not covered until after the HDHP deductible is met). HRAs that only apply to retiree health expenses are allowed.

What if I don’t have enough money in my HSA at the time a medical expense is incurred?
You will pay the difference between the charge amount and the HSA balance out-of-pocket. As money in the HSA builds, you can make additional withdrawals to reimburse yourself.

Contributions

Who can contribute to an HSA?
The employer, the individual, or both can make contributions to HSAs. An employer may allow the employee to make HSA contributions via payroll deductions. Otherwise, an individual makes contributions as an "above-the-line" deduction.

If the employer makes contributions, it is not taxable to the employee (excluded from income).
Contributions can also be made by others on behalf of an eligible individual and deducted by the individual. All contributions are aggregated (meaning the contribution limit applies to all contributions combined).

I cover my spouse and dependent children under my employer's HDHP. My spouse contributes to a general purpose health FSA through their employer. Am I eligible to contribute to an HSA?
No. A spouse's general purpose health FSA constitutes other non-HDHP coverage that will disqualify you from establishing an HSA. This is because your spouse's general purpose health FSA funds may be used to reimburse qualified medical expenses for you. As long as your spouse has access to general purpose health FSA funds, you are not eligible to establish or contribute to an HSA.

If I am not eligible to make contributions to an HSA because I have other non-HDHP coverage (like a spouse's general purpose health FSA or Medicare), can I still receive employer HSA contributions?
No. If an employee does not meet the eligibility requirements to make HSA contributions, the employee may not receive any HSA contributions from any source, including employer HSA contributions.

How much may be contributed to an HSA in a calendar year?
An individual's HSA contribution limit is calculated on a monthly basis (1/12 of the annual maximum contribution amount).

2018

- The annual maximum contribution for an eligible individual with self-only coverage is $3,450
- The annual maximum contribution for an eligible individual with family coverage is $6,850

2019

- The annual maximum contribution for an eligible individual with self-only coverage is $3,500
- The annual maximum contribution for an eligible individual with family coverage is $7,000

Catch-up Contributions

- In addition to the maximum contribution amount, catch-up contributions of $1,000 per year may be made by or on behalf of individuals age 55 or older who are also not enrolled in Medicare.
- In the year you turn 55, you can deposit the full $1,000 catch-up amount, regardless of when you turn 55, as long as you were enrolled in a qualified HDHP for the entire year.

- In the year that you enroll in Medicare, you must prorate your catch-up contribution for the number of months you were covered by a qualified HDHP prior to the month your Medicare coverage becomes effective.
- If both spouses want to make catch-up contributions, each spouse must have a separate HSA.

Midyear Enrollment

- If you enroll in a qualified HDHP midyear, you are allowed to make a full year's HSA contribution as long as you are HSA-eligible on or before December 1 of the tax year.
- However, if you do not stay in an HSA-eligible plan (for reasons other than death or disability) from December 1 of the tax year in which the contribution is made through December 31 of the following year, the amount that could not have been contributed except for this provision will be included as income and a 10% additional tax may apply.

Can I open a joint HSA for myself and my spouse?

No. HSAs are individual accounts. Legal spouses enrolled in a family HDHP can open individual HSAs and contribute to both, as long as the collective total of both does not exceed the family contribution maximum. The other option is to open an HSA in one spouse's name and contribute up to the family maximum.

My spouse is enrolled in Medicare Part A, but we have employee + spouse coverage under my employer's HDHP. Am I eligible to establish and contribute to an HSA?

Yes. A spouse who is covered as a dependent under an employer's HDHP who is also enrolled in Medicare Part A or Part B does not disqualify an employee who is the primary enrollee under the employer's plan from establishing an HSA and making contributions. For example, Bob is 67 and enrolled in Medicare Part A. Betty, his wife, is 63 and is actively employed full-time. Betty covers both herself and Bob under her employer's HDHP. Betty has no other non-HDHP coverage. Betty is permitted to establish an HSA and make contributions up to the family maximum. See the chart at the end of this white paper for more information on HSA eligibility and contribution limits for married couples.

When may HSA contributions be made? Is there a deadline for contributions to an HSA for a taxable year?

Contributions for the taxable year can be made in one or more payments by the individual or employer at any time prior to the time prescribed by law (without extensions) for filing the eligible individual's federal income tax return for that year. For calendar-year taxpayers, the deadline for contributions to an HSA is generally April 15 following the year for which the contributions are made. Although the annual contribution is determined monthly, the maximum contribution may be made on the first day of the year.

What happens if too much money is put in the HSA account?

Excess HSA contributions are not tax deductible. Employer contributions to an HSA that exceed the annual limit are included in the employee's gross income. Additionally, there is a 6% excise tax for all excess contributions. This excise tax can be avoided if the excess contributions for the tax year (and net income attributable to those contributions) are distributed to the account holder before the tax filing deadline (April 15 of the following year).

How do I report the amount deposited into my HSA on my tax return?
You will report your HSA contributions, and any contributions made on your behalf (including employer contributions), on Form 8889 which is filed as an attachment to Form 1040. The contributions reported on Form 8889 are the total HSA contribution for the tax year in which you are filing a return.
To determine this amount, you will start with the contribution amount reported on your W-2 and subtract the total employer contribution (any money deposited by the employer or through payroll deductions) applicable to the prior tax year. You will add in any contributions for the tax year that have been deposited January 1 – April 15 of the current calendar year. This amount should be reported on Form 8889.

> ***Example…***
> *Susan has been enrolled in self-only HDHP coverage since 2013. In January 2018, ABC Corporation contributes $500 to each employee's HSA. All employees, including Susan, are notified that the contributions are for 2017. ABC Corporation contributes $250 to each employee's HSA on March 31, June 30, September 30, and December 31 of 2018 (for a total of $1,000). Susan does not make any contributions to her HSA. Susan's 2018 W-2 reports a total contribution of $1,500 in Box 12, Code W. In completing her 2018 Form 8889, Susan will subtract $500 from the amount reported in Box 12 on her 2018 W-2 since this amount is applicable to the prior tax year ($1,500 -$500 = $1,000). Susan will report $1,000 on her Form 8889.*

Distributions

How can money in the HSA be used on a tax-free basis?
Tax-free withdrawals can be made to pay for qualified healthcare expenses incurred by the accountholder, spouse, children, and other dependents. However, distributions from an HSA are only tax-free for the qualified medical expenses (see IRS Publication 502) of spouses and tax dependents. A child ceases to be a tax dependent at age 19. If the child is a full-time student, the child may be a tax dependent until age 24. While the IRS has aligned its definition of dependent for purposes of paying premiums on a pre-tax basis to comport with the age 26 eligibility requirement in PPACA, the IRS has not done so for tax-free distributions from an HSA.

Can I use my HSA funds for my spouse or dependents who are NOT covered under my HDHP?
Yes, you can use the money in your HSA for your spouse or dependent healthcare expenses, even if they are not covered by an HDHP. However, if the spouse has their own HSA, funds from both accounts cannot be used for the same healthcare expense reimbursement. Likewise, funds from an FSA may not be used to reimburse for expenses paid from your HSA or paid by health insurance. It is important to note that you can only contribute the current maximum amount to your HSA for employee-only coverage.

Can I use my HSA funds to reimburse qualified medical expenses incurred by my domestic partner?
No. Although some employers allow employees the opportunity to enroll domestic partners in an employer-sponsored group health plan, this does not mean that HSA funds may be used to reimburse expenses incurred by a domestic partner. To be tax-free, distributions from an HSA must be to reimburse the qualified medical expenses of the employee, the employee's legal spouse, and the employee's tax dependents. The IRS does not consider a domestic partner to be a spouse, although a domestic partner may be considered a tax dependent in rare circumstances. Consult with your tax advisor if you are unsure if your domestic partner qualifies as a tax dependent.

I have an adult child under the age of 26 who is no longer my tax dependent. I still cover my adult child under my company's HDHP. My adult child just started a new job and is offered an HDHP from her own employer. Can I still cover my adult child under my HDHP? Can my adult child receive tax free distributions from my HSA? Can my adult child establish and contribute to her own HSA?
If you have an adult child and your employer's plan offers coverage for dependents, you may cover them under your employer's plan to age 26, regardless of whether your adult child has full-time employment or is offered benefits elsewhere.

Generally, if you are not able to claim your adult child as a dependent on your taxes, you or your adult child may not receive tax-free distributions of HSA funds for claims incurred by your adult child. This is true even though your adult child may still be eligible for your employer's HDHP due to their age. However, your adult child may be eligible to establish and contribute to his or her own HSA. If your adult child is still covered under your employer's HDHP, your adult child may establish his or her own HSA and may be able to contribute up to the family maximum. If your adult child becomes eligible for his or her own employer's HDHP, then your adult child may establish his or her own HSA and contribute the maximum amount that corresponds to the tier of coverage elected. This event may also allow you to terminate coverage for your adult child under your employer's HDHP.

The IRS rules for tax dependents, eligibility to establish an HSA, and eligibility for tax-free HSA distributions are complex. A failure to follow the rules may result in adverse tax consequences. Please consult your tax advisor for more information or if you have additional questions.

What happens to the money in an HSA after you reach age 65?
Once you turn 65, the amounts can be used for health expenses and to pay certain insurance premiums like Medicare Parts A & B, Medicare HMO, and the employee's share of retiree medical insurance premiums. It cannot be used to purchase a Medigap policy.

If used for qualified medical expenses, the amounts come out of the account tax-free. If used for other expenses, the amount received will be taxable but no penalty will apply.

How can HSA funds be managed?

Since you are spending your own money from your HSA, work with your physician to make cost effective decisions for your care. You will find that different providers may charge different amounts and the place of service matters (inpatient, outpatient, emergency, urgent care, office). Most insurance carriers have calculators that can help you estimate the cost of care. You can also shop around and compare prices. Try to stay in-network, as this will make your money go farther.

How can I access the money in my HSA?

If you have a debit card tied to your HSA you can pay for healthcare expenses or you can reimburse yourself. There is no time limit regarding when you can reimburse yourself. You must keep documentation of how the HSA funds are used, as you can be audited by the IRS. You can decide whether to reimburse yourself or whether to save the money in your HSA for future use. Remember, the money in your HSA can compound tax-free and be saved for retirement.

What happens if you use your HSA funds for non-qualified expenses?

If you mistakenly believed the expense was a qualified medical expense, you can put the money back in the account prior to filing taxes, so by April 15 of the year following the withdrawal. Otherwise, you will pay taxes and a 20% excise tax.

What happens in the case of divorce?

Upon divorce an HSA account holder's interest in the HSA can be transferred to an HSA established for the spouse under a court order or separation agreement. This type of transfer is not taxable. If the spouse is HSA-eligible, he/she can make contributions to his/her separate HSA. This transfer is not reported as a distribution on Form 8889. The employee's annual contribution limit would be adjusted to reflect the move from family to employee-only coverage. There could be tax implications if the employee has contributed more than allowed.

What happens if I die?

At death, any remaining HSA funds will pass to your named beneficiary.

- If your beneficiary is your spouse, your spouse may assume ownership of the account. As the new owner, your spouse has the option to retain the account as an HSA, continuing contributions so long as he or she participates in an HDHP and follows all rules for eligibility.
- If your beneficiary is someone other than your spouse, the HSA ceases to be an HSA and an amount equal to the fair market value of the HSA assets (as of the date of death) is included in the beneficiary's gross income.

HSA CONTRIBUTION LEVELS FOR MARRIED COUPLES

	Husband: No coverage of any kind	**Husband:** Self-only non- HDHP coverage	**Husband:** Self- only HDHP coverage	**Husband:** Family non-HDHP coverage	**Husband:** Family HDHP coverage
Wife: No coverage of any kind	Neither person is eligible to contribute.	Neither person is eligible to contribute.	Husband is eligible to contribute to an HSA up to the self-only maximum contribution. His wife is not eligible to contribute.	Neither person is eligible to contribute.	Husband in eligible to contribute to an HSA up to the family maximum contribution. His wife is not eligible to contribute.
Wife: Self-only non-HDHP coverage	Neither person is eligible to contribute.	Neither person is eligible to contribute.	Husband is eligible to contribute to an HSA up to the self-only maximum contribution. His wife is not eligible to contribute.	Neither person is eligible to contribute.	Husband is eligible to contribute to an HSA up to the family maximum contribution. His wife is not eligible to contribute.
Wife: Self-only HDHP coverage	Wife is eligible to contribute to an HSA up to the self-only maximum contribution. The husband is not eligible to contribute.	Wife is eligible to contribute to an HSA up to the self-only maximum contribution. The husband is not eligible to contribute.	Both people are eligible to contribute to HSA. Maximum contribution for each is the self-only maximum.	Neither person is eligible, nor may he or she contribute to HSA unless the wife is not covered by the husband's family non-HDHP coverage. In that case, the wife is eligible to contribute up to the self-only maximum.	Both people are eligible to contribute to HSA. Maximum combined contribution is the family maximum to be divided between them by agreement.
Wife: Family non-HDHP coverage	Neither person is eligible to contribute.	Neither person is eligible to contribute.	Neither person is eligible, nor may he or she contribute to HSA unless the husband is not covered by the wife's family non-HDHP coverage. In that case, the husband is eligible to contribute up to the self-only maximum.	Neither person is eligible to contribute.	Neither person is eligible, nor may he or she contribute to HSA unless the husband is not covered by the wife's family non-HDHP coverage. In that case, the husband is eligible to contribute up to the family maximum.
Wife: Family HDHP coverage	Wife is eligible to contribute to HSA up to the family maximum contribution. Her husband is not eligible and may not contribute to an HSA.	Wife is eligible to contribute to HSA up to the family maximum contribution. Her husband is not eligible and may not contribute to an HSA.	Both people are eligible and are treated as having only family coverage. Combined contribution is the family maximum to be divided between them by agreement.	Neither person is eligible, nor may he or she contribute to HSA unless the wife is not covered by the husband's family non-HDHP coverage. In that case, the wife is eligible to contribute up to the family maximum.	Both people are eligible and are treated as having only family coverage. Maximum combined contribution is the family maximum to be divided between them by agreement.