Andrews University

Healthcare Savings Accounts (HSA)

And

High Deductible Health Plans (HDHP)

Andrews University HSA/HDHP

- Why?
  - A tax vehicle to set aside money for current and future medical expenses
  - The security of insurance that covers major injury and illness
  - The incentive to become better health care consumers

Andrews University – HSA/HDHP

Lower premiums:

High deductible health plans mean lower premiums.

Tax advantaged:

HSAs are triple-tax-advantaged. Contributions go into the account on a tax-free basis, earnings on contributions grow tax-free, and distributions from the account (as long as they are for qualified medical expenses) are paid out tax-free.

Andrews University HSA/HDHP

- Employee Owned
  - Contributions to the HSA may be made by the employee, family member of the employee, the employer, or all of the above. Account balances roll over without limitation from year to year. They are completely portable, so when individuals terminate employment, they take their HSA with them.

Andrews University HSA/HDHP

- No “use it or lose it rules” like Flexible Spending Arrangements (FSA)
  - All amounts in the HSA are fully vested
  - Unspent balances in accounts remain in the account until spent
  - Encourages account holders to spend their funds more wisely on their medical care
  - Encourages account holders to shop around for the best value for their health care dollars

HSA Overview

HSAs were created in Medicare legislation signed into law by President Bush on December 8, 2003

HSAs are used in conjunction with a High Deductible Health Plan (HDHP)

- Insurance that does not cover first dollar medical expenses (except for preventive care)

HSA Overview

- Accounts are owned by the individual (not the employer). The individual decides:
  - Whether he or she should contribute
  - How much to use for medical expenses
  - Which medical expenses to pay from the account
  - Whether to pay for medical expenses from the account or save the account funds for future use
  - Which company will hold the account
  - What type of investments to grow account

HSA Overview

- Employer can not restrict
  - What distributions from an HSA are used for
  - Rollovers
- HSA custodian or trustee can put reasonable limits on accessing the money in the account
  - Frequency of distributions
  - Size of the distributions

HSA Overview

- Who can be an HSA trustee or custodian?
  - Banks, credit unions
  - Insurance companies
  - Other entities that meet the IRAS standards for being an IRA trustee or custodian

- Fees
  - Can be paid from the assets in the HSA account without being subject to tax or penalty

Estate treatment of HSAs

- If married, the spouse inheriting the HSA is treated as the owner
- If not married:
  - The account will no longer be treated as an HSA upon the death of the individual
  - The account will become taxable to the recipient of it (including the estate of the individual)
    - Taxable amount will be reduced by the qualified medical expense incurred by the deceased individual before death and paid by the recipient of the HSA
    - The taxable amount will also be reduced by the amount of the estate tax paid due to inclusion of the HSA into the deceased individual's estate

HSA Account Forms

- HSA trustee must report all distributions annually to the individual (Form 1099SA)
  - Trustee not required to determine whether distributions are used for qualified medical expenses; the individual is responsible for this.
- Individual will report on annual tax return amount of distribution used for qualified medical expenses
- Account holders must file Form 8889

Eligibility

- Who is eligible for an HSA?
  - Any individual that:
    - Is covered by a HDHP
    - Is NOT covered by an other health insurance plan
    - Is not enrolled in Medicare
    - Can’t be claimed as a dependent on someone else’s tax return
      - Children can not establish their own HSA

Eligibility

- What other health coverage is allowed for you to still be eligible for an HSA?
  - Specific disease or illness insurance and accident, disability, dental care, vision care and long-term care insurance
  - Employee Assistance, disease management or wellness program
  - Drug discount cards
  - Eligibility for VA Benefits (unless VA benefits have been received in the last 3 months)

Eligibility

- What "1st dollar" medical benefits make someone ineligible for an HSA?
  - Medicare
  - Tricare Coverage
  - Certain Flexible Spending Arrangements
  - Certain Health Reimbursement Arrangements

What is a “High Deductible Health Plan” (HDHP)?

- **In the 2006/2007 plan year:**
- Health insurance plan with a minimum deductible of:
  - $1,100* (employee only coverage)
  - $2,200* (family coverage)
- All services, including prescription drugs, must be applied to deductible (except preventive care)
- Annual in-network out-of-pocket (including deductibles and co-pays) cannot exceed:
  - $5,500* (employee only coverage)
  - $11,000* (family coverage)

- ***These amounts are indexed annually for inflation**

HDHP Claim Process

- Medical service providers reserve the right to require full payment at the time of service.
- Prescription charges will have to be paid in full by the employee at the time of fill.
- Claims should be submitted to ASR for processing/reimbursement.

HSA Contribution Rules

- Contributions to the HSA can be made by the employer or the individual, or both
  - If made by the employer, it is not taxable to the employee
  - If made by the employee, it is an “above-the-line” deduction
  - Can be made by others on behalf of individual and deducted by the individual

HSA Contribution Rules

- Maximum amount that can be contributed (and deducted) to an HSA from all sources
  - Maximum specified in law (indexed annually)
    - $2,850 (employee only coverage) – 2007
    - $5,650 (family coverage) - 2007

HSA Contribution Rules

- For individuals age 55 and older, additional "catch-up" contributions to HSA allowed
  - 2005 - $600
  - 2006 - $700
  - 2007 - $800
  - 2008 - $900
  - 2009 and after $1,000
- Contributions must stop once an individual is enrolled in Medicare

HSA Contribution Rules

- Contributions to the HSA in excess of the contribution limits must be withdrawn by the individual or be subject to an excise tax
  - A pro-rata portion of earnings must be withdrawn also
  - Pay income tax on the withdrawn amount, but no 10% penalty

HSA Contribution Rules

- Employee contributions to an HSA
  - Can be made by a salary reduction arrangement through a cafeteria plan (125 plan)
    - Elections to make contributions through a cafeteria plan can change on a month-by-month basis (unlike salary reduction contributions to an FSA)
      - Remember that contributions to the HSA through a cafeteria plan are “pre-tax” and not subject to individual or employment taxes

HSA Contribution Rules

- Employer contributions to an HSA
  - Are always excluded from employees’ income (pre-tax)
  - Must be “comparable” for all employees participating in the HSA

HSA Distributions

- Distributions are tax-free if taken for “qualified medical expenses”
  - Includes over-the-counter drugs, dental, and vision expenses
- Qualified medical expense must have occurred after the HSA was established
- Tax free distributions can be taken for qualified medical expenses of:
  - Person covered by the high deductible
  - Spouse of the individual (even if not covered by the HDHP)
  - Any dependent of the individual (even if not covered by the HDHP)

HSA Distributions

- If distribution is <u>not</u> used for qualified medical expenses
  - Amount of distribution is included in income
    - And
  - 10% additional tax except when taken after:
    - Individual dies or becomes disabled
    - Individual is age 65
  - A “qualified medical expense” does not include other health insurance premiums/contributions (including premiums/contributions for dental or vision care)

HSA Distributions

- Exceptions:
  - COBRA continuation coverage
  - Any health plan coverage while receiving unemployment compensation
  - For individuals enrolled in Medicare:
    - Medicare premiums and out-of-pocket expenses (Part A, Part B, Medicare HMOs, new prescription drug coverage)
    - Employee’s share of premiums for employer-based coverage
    - Cannot pay medigap premiums

HSA Distributions

- Qualified long-term care insurance premiums
  - Premiums can be paid, tax free, through an HSA, even if amounts were contributed to the HSA through a cafeteria plan
    - FSAs cannot be used to pay for LTC insurance premiums
  - Tax-free reimbursement cannot exceed the annually adjusted “eligible long-term care premiums” in the IRS Code
    - Amount of eligible LTC premium is based on age

HSA Distributions

- Should the HSA account holder keep receipts? **<u>YES!!!</u>**
  - May need to prove to the IRS that distributions from HSA were for qualified medical expenses
    - May be required by insurance company to prove that the deductible was met under the HDHP
    - Not all medical expenses paid out of the HSA have to be charged against the deductible (e.g. dental care, vision care)

HSA Distributions

- Distributions from the HSA can be used to reimburse prior years' expenses as long as they were incurred after the HSA was established
  - No time limit on when distribution must occur
  - However, individual must keep records sufficient to prove that:
    - The expenses were incurred
    - They were not paid for or reimbursed by another source or taken as an itemized deduction

HSA Distributions

- Mistaken distributions from an HSA can be returned to the HSA
  - Clear an convincing evidence must be shown that the distribution was a mistake of fact
  - Must be repaid by April 15 of the year following the year in which the individual knew or should have known the distribution was a mistake

Treasury Assistance

- Web site
  - www.treas.gov
    - (click on “Health Savings Account HSA”)
    - Contains all Treasury guidance
    - Contains model HSA trustee and custodian forms
  - E-mail address
    - HSA Info@do.treas.gov
  - Voice mailbox
    - (202) 622-4HSA