WHAT ARE HSAs?

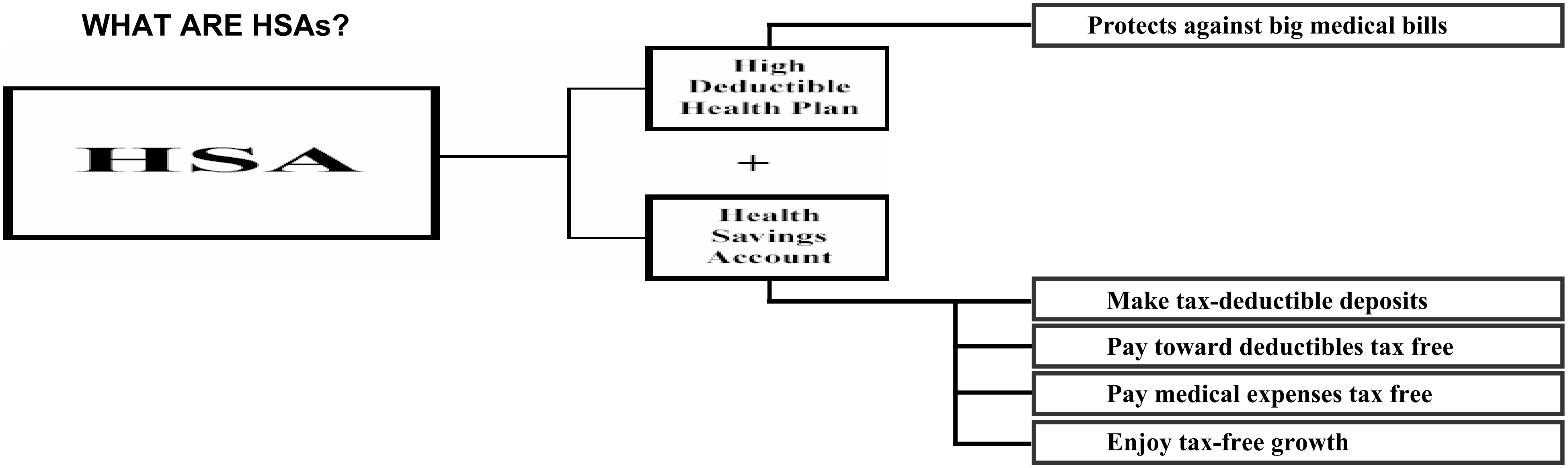

Chart from B. Lening

HSAs: WHAT AN EMPLOYER NEEDS TO KNOW

- **HSAs are tax-favored IRA-type trust accounts which allow employees to pay for certain medical expenses tax free**
- **Decrease cost of insurance / make insurance more affordable**
- **Offer employer and employee tax-savings**
- **Make employees aware of costs of providers and services**
- **Encourages employees to shop and inquire about cost of services**
- **Makes employees responsible for their healthcare spending**
- **Accounts are owned and controlled by the employee**
- **Accounts are completely portable**
- **Employees terminate, the account goes with them**
- **No "use it or lose it" rule as with FSAs**

Summary: HSAs save premium and tax dollars

COMPONENT PARTS OF AN HSA

- **Eligibility**
- **The high-deductible health plan (HDHP)**
- **Contributions/deposits into savings**
- **Distribution/spending the savings**
- **Tax savings**

WHO MAY HAVE AN HSA?

Anyone

- **Person/Family with an individual plan**
- **Employees**
- **Any eligible individual**

Who is an eligible individual?

- **Anyone covered by a High Deductible Health Plan (HDHP) as of the first day of any month**
- **Anyone not also covered by a plan that is not an HDHP**
- **Anyone who is not yet entitled to Medicare (entitled means eligible for and covered by either Part A or Part B)**
- **Anyone who cannot be claimed as a dependent on another person's tax return**

WHAT IS REQUIRED FOR AN HSA?

To be eligible for an HSA:

- **An individual or family must be covered by a qualified High Deductible Health Plan (HDHP) with a plan design specified by the law. An employee may offer an HDHP only as an option among a choice of plans**

No qualified HDHP = No HSA

WHAT IS A QUALIFIED HDHP?

FOR 2009	SINGLE	FAMILY
Minimum Deductible	$1,150	$2,300
Max. Out of Pocket	$5,800	$11,600
Max. Out of Pocket	Must include deductibles, copays & coinsurance	

The deductible and out-of-pocket amounts are to be indexed annually for inflation rounded to nearest $50

An HDHP may not have:

- **Coverage prior to satisfaction of the deductible**
  - **No copay-type coverages such as doctor visits or Rx**
  - **Exception: Certain preventive care and "permitted other coverage"**

What is "permitted other coverage?"

- **Coverage for accidents, disability, dental, vision, or long-term care**

Summary

- **To be eligible, an employee must first be covered by a qualified HDHP that fits the specific plan design the law requires, …then,**
- **a savings account is opened at an IRS-approved custodian/trustee institution**

WHO ARE IRS-APPROVED TRUSTEES/CUSTODIANS?

- **May be any bank, insurance company or other IRS- approved entity set-up to administer HSAs**

CONTRIBUTIONS (DEPOSITS) ARE MADE TO THE SAVINGS ACCOUNT

Who may contribute to an HSA?

- **Individual or employee**
- **Employer to employee's accounts**
- **Employer and employee**
- **Others on behalf of an individual / employee**

  Note: Contributions may be made only when covered by a qualified HDHP and not yet entitled to Medicare

What form may the contribution take?

- **Must be cash (not stock or other property, for example)**
- **Rollovers from an MSA or an HSA**
- **Rollovers from HRAs, IRAs or FSAs are not allowed**
- **Contributions can be made through a cafeteria plan or salary reduction**

Contributions (deposits) into the savings account may be made:

- **In one payment, on the first day of the year**
- **In any number of payments, the same amount or different amounts**
- **In one payment anytime prior to an individual's federal income-tax filing date**

HOW MUCH MAY BE CONTRIBUTED?

For 2009

- **Individual:**
    - **Up to the maximum of $3000 no matter what the deductible is on the HDHP**

- **Family:**
    - **Up to the maximum of $5950 no matter what the deductible is on the HDHP**

**** Deductible amounts / maximum contribution amounts indexed to CPI to the nearest $50. Annual adjustments announced in Spring for coming year.***

PPO CONTRIBUTION RULE

- **With a PPO plan, the amount used for contribution is the in-network deductible**

CATCH-UP CONTRIBUTIONS

- **For individuals / employees and spouses age 55 and older, an additional contribution (called a "catch-up contribution") is allowed**
- **Catch-up contribution will increase by $100 each year until 2009**

2004	=	500
2005	=	600
2006	=	700
2007	=	800
2008	=	900
2009	=	1000

Summary

- **Tax-deductible deposits called contributions are made into the Health Savings Account to pay for future medical expenses or to save toward retirement**

CONTRIBUTIONS & COMPARABILITY

- **An employer offering an HDHP must offer it to all employees**
- **If an employer is going to contribute to an employee's account, the same amount or percentage must be offered to everyone eligible**

Example		EE	Family
A	Employer contributes	$100/mo	0
	Everyone eligible must be offered	$100/mo	0
B	Employer contributes	$100/mo	$300/mo
	Everyone eligible must be offered	$100/mo	$300/mo
C	Employer contributes	50%	0
	Everyone eligible must be offered	50%	0

…and so on….

Note: Eligible means covered by HDHP and under age 65

- **If employer contributions do not satisfy the comparability rule:** ***35% excise tax applies to the <u>total amount contributed</u> by the employer to HSAs for that period plus ordinary taxation***

TAXATION OF CONTRIBUTIONS

Taxation

- **Employer contributions are treated as employer-provided coverage for medical expenses**
- **Are not included in an employee's income**
- **Are not subject to withholding and are deductible by the employer**
  Note: Employers (whether they make contributions to employee accounts or not) are not responsible for ensuring that contributions do not exceed the maximum allowable. The employee is responsible.

HSAs: HOW THEY WORK - *SUMMARY*

- **An individual is covered by an HDHP**
- **An account is set up with a trustee/custodian**
- **Deposits/contributions are made into the account**
- **Distributions are made from the account**

DISTRIBUTION

- **Distribution is the term used for spending money from an HSA account**
- **Spending HSA savings for qualified medical expenses is tax free (*excludable* from gross income)**
- **Tax free even if the individual is not currently eligible to make contributions**
  - **No longer covered by an HDHP**
  - **Is not yet entitled to Medicare**
- **Qualified medical expenses are those included in IRC Section 213(d)**
- **Money withdrawn for purposes other than qualified medical expenses is taxed (*included* in gross income) and is subject to a 10% penalty (excise tax)**

How does it work?

- **The HSA account-holder incurs a 213(d) medical expense**
- **The HSA account-holder pays the expense (must file a claim to get PPO discount)**
  - **The account-holder is responsible for determining if the medical expense is qualified and should keep records. (example of HSAs reducing our reliance on third-party payers)**

Note: Employers are not responsible for ensuring expenses paid out of the account are qualified medical expenses

Summary

- **You keep what you don't spend on Healthcare expenses (HealthCare IRA)**
- **Motivation to make wise healthcare decisions**

TAX SAVINGS

What are the tax benefits of an HSA?

Three Categories

- **Employer contributions**
- **Employee/Individual contributions**
- **Distribution/Spending the Savings**

What are the tax savings for an employer's contributions?

- **Employer Contributions are deductible to the employer**
- **Not subject to withholding from wages for income tax or subject to FICA, FUTA or RR Retirement Act.**
- **Contributions to an employee's HSA through a cafeteria plan are treated as employer contributions and deductible to the employer (therefore no withholding) and tax free to the employee**
- **Any employer or employee salary reduction contributions are exempt from employment taxes – therefore tax savings to employers**

What are the tax savings for an individual's contributions?

- **Contributions are deductible "above-the-line" (not includable in gross income)**
- **Deductible whether on not a person itemizes**
- **Employee contributions through salary reductions are not subject to withholding on the amount withheld**

Taxation of Distributions

- **Money spent from the savings account for qualified (section 213[d]) expenses is tax-free (not includable in gross income)**
    - **Money spent on anything not considered a qualified expense is added to gross income and is subject to 10% excise tax.**
- **At age 65+, HSA funds may be used for any expense**
    - **Subject to ordinary taxation**
    - **Section 213(d) expenses tax-free**

HSA TAXATION

- **HSA tax-exempt status does not apply to state taxation in California**
    - **AB2315 would to make state taxation of HSAs match federal tax-exempt status (likely won't be passed this year)**

HSA QUICK RECAP

HSAs allow people to "refinance" their current health insurance plan

- **Pay medical expenses**
- **Take advantage of tax breaks**
- **Develop a retirement account**

Health Savings Accounts: What the Employer Needs to Know© is a summary of the HSA regulation for illustration purposes. Additional regulations and details apply and are not included in this presentation. Advice about implementation of an HSA should come from your tax advisor.