



The Nuts and Bolts of Offering Health Savings Accounts

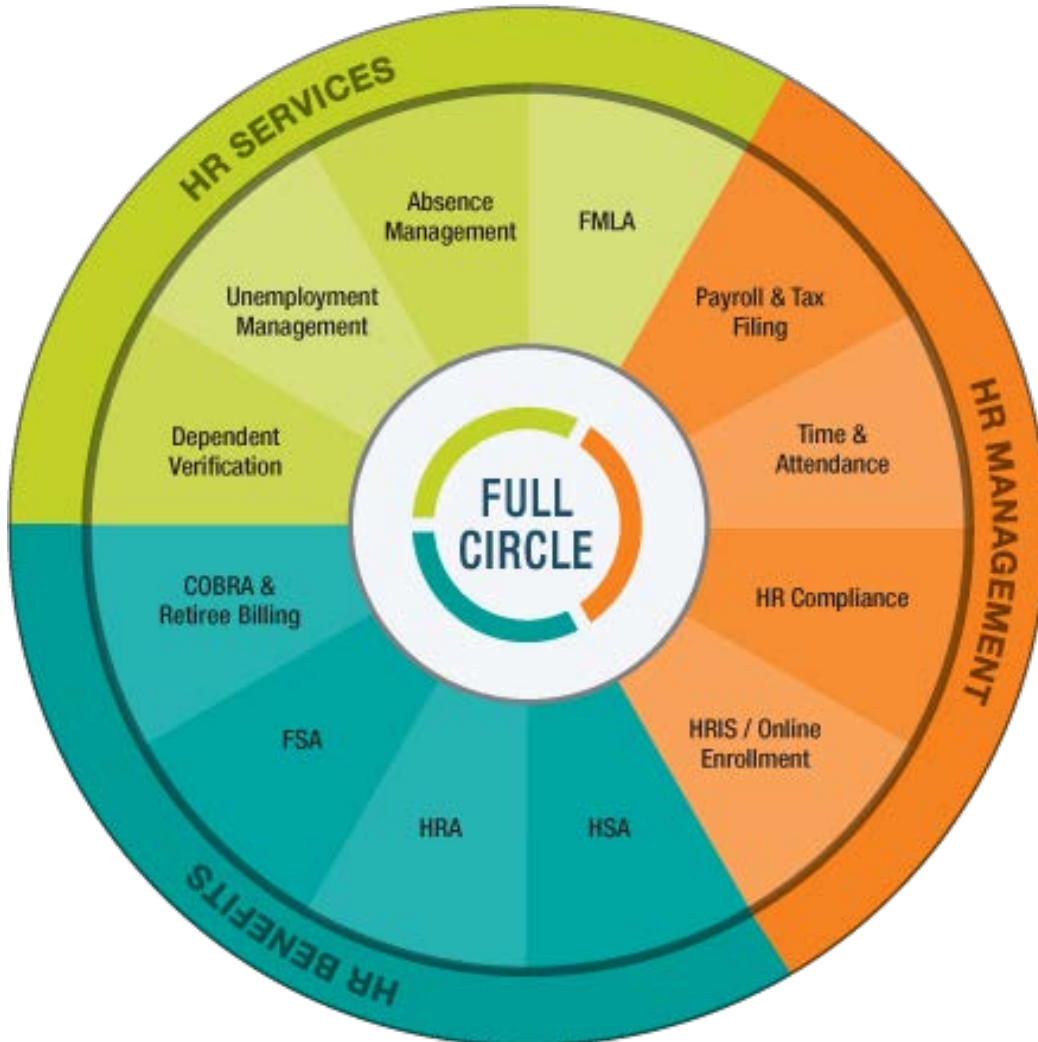
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Stephanie H. Grant



- HR Benefits
- HR Management
- HR Services

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Health Savings Accounts



What is a Health Savings Account? (HSA)



- Tax-favored IRA-type trust or custodial account
- Used in connection with high deductible health plans (HDHPs)
- Portable source of funding for qualifying medical expenses



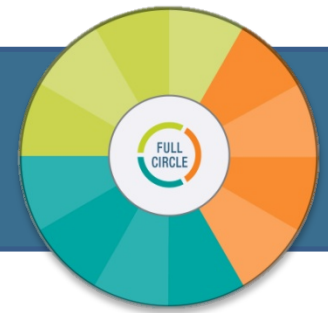
What is a Health Savings Account? Cont.



- Usually not considered ERISA plan (but HDHP might be)
- Different than health flexible spending account (FSA)
 - No use-it-or-lose it rule
 - Can make mid-year prospective changes to contributions



Who is Eligible to Establish and Contribute to an HSA?



- Must have HDHP coverage
- Cannot have other disqualifying health coverage (discussed later)
- NOT individuals entitled to Medicare benefits
- NOT tax dependents



Who is Eligible to Establish and Contribute to an HSA?



- Burden of determining HSA eligibility on employee
- Employer only needs to verify:
 - Age
 - HDHP coverage
- Employer generally not liable if employee is ineligible for HSA

Disqualifying Coverage



- Can't be covered by health plan with coverage below minimum HDHP deductible
 - 2017: \$1,300 for single and \$2,600 for family
 - 2018: \$1,350 for single and \$2,700 for family



Disqualifying Coverage Cont.



- Disqualifying coverage includes:
 - Carve-out benefits
 - General purpose health FSA (discussed later)
 - On-site health clinics (maybe)
 - Free or reduced cost “significant” medical benefits
 - Tricare
 - Medicaid
 - Employer reimbursement of expenses before HDHP deductible is met
 - VA health services within last 3 months (unless have a service-related disability)
 - Indian Health Services within last 3 months

Disqualifying Coverage Cont.



- Non-HDHP coverage that is allowed:
 - Preventive care coverage
 - Workers' compensation insurance
 - Specified disease or illness insurance
 - Fixed indemnity insurance
 - Accident, disability, dental care, vision care or long-term care
 - EAPs and wellness programs

HSA Custodial/Trust Accounts



- HSA custodian or trustee must be qualified
- Custodial or trust agreement may restrict investments
- Administrative fees can vary greatly
- Prohibited transactions could apply



Contributions



- 2017 limits

- Single: \$3,400
- Family: \$6,750
- Catch-up: \$1,000

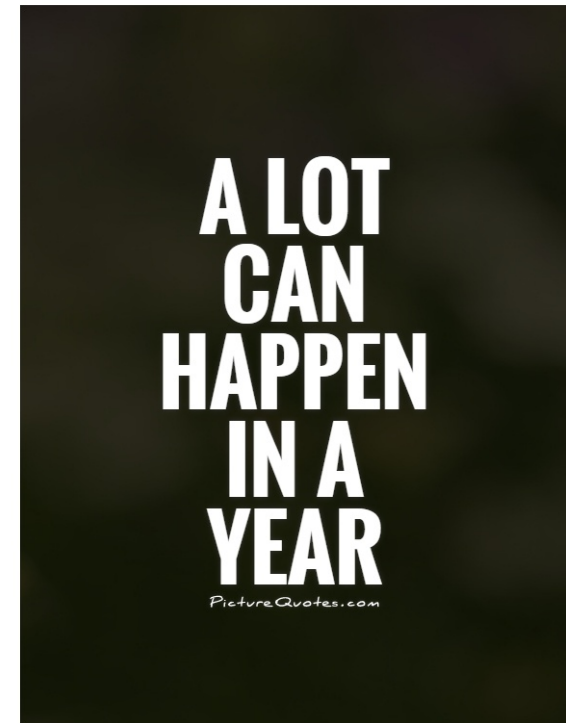
- 2018 limits

- Single: \$3,450
- Family: \$6,900
- Catch-up: \$1,000

Contributions Cont.

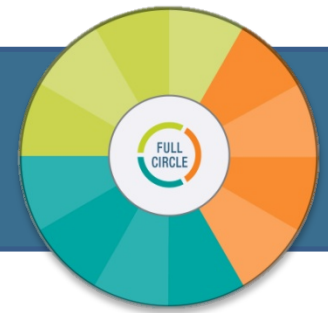


- “Last month rule” for midyear HDHP enrollees
 - Allows full year’s worth of HSA contributions
 - Must be HSA-eligible on December 1
 - Must remain HSA-eligible for 13-month testing period that begins on December 1



PICTUREQUOTES

Contributions – Tax Treatment



- Employer contributions:
 - Excludable from employee's gross wages
 - Not subject to FICA or FUTA
 - Deductible
- Employee contributions:
 - Above-the-line deduction if made outside of cafeteria plan
 - Pre-tax if through cafeteria plan (also not subject to FICA or FUTA)



Consequences of Excess Contributions



- Included in employee's income if made by employer
- 6% excise tax (assessed against employee) if not distributed by April 15

Distributions

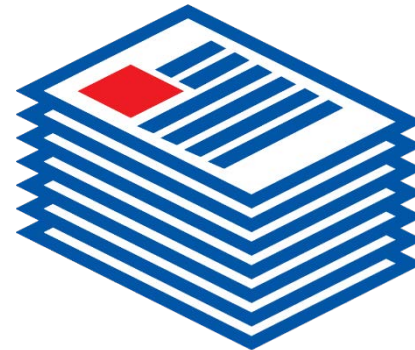


- Custodian, not employer, generally controls distributions
- Distributions can be taken at any time
 - Tax-free distributions for qualifying medical expenses
 - Additional 20% tax imposed for distributions for nonmedical expenses prior to age 65, death or disability

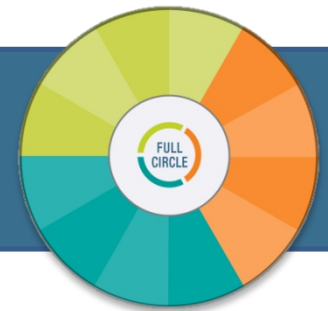
Employer Reporting Requirements



- Report HSA contributions in Box 12 of W-2, using code W
 - Includes salary reduction contributions through cafeteria plan
- Non-excludable HSA contributions reported in Box 1, 3 and 5 of W-2, and Form 940



HSA & Cafeteria Plans



- Irrevocable election rules do not apply
 - Can make mid-year election changes to contributions (prospective only)
 - Must be allowed to change HSA elections at least monthly
- HSA comparability rules do not apply, but cafeteria plan nondiscrimination rules do



Interaction with Health Flexible Spending Accounts



- Employee can't participate in HSA and general purpose FSA
 - General purpose FSA is considered disqualifying coverage
- FSA must be “limited purpose”
 - Only pays vision, dental, preventive care, and/or post-deductible medical expenses





- Options for employee's HSA eligibility if general purpose FSA has a grace period:
 - Restrict employees with general-purpose FSA balances from electing HSA contributions until first month following end of grace period
 - Provide for mandatory conversion to a limited-purpose FSA during grace period



- Options for employee's HSA eligibility if general purpose FSA has a carryover feature:
 - Allow employees to decline/waive general purpose FSA carryovers prior to beginning of next plan year
 - Allow or require that unused amounts in general purpose FSA be carried over to limited purpose FSA

Tips for Designing & Implementing HSAs



- Pre-tax salary reduction contributions through cafeteria plan is most common design
- Select HSA custodians
- Decide when to make employer HSA contributions (if any)
- Determine if existing FSAs or HRAs should be redesigned or discontinued
- Amend plans to coordinate with HSAs

The Future of HSAs



- Proposed federal healthcare bills would change HSAs
 - Increase contribution limits
 - Decrease withdrawal penalty tax





Questions



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Thank you!



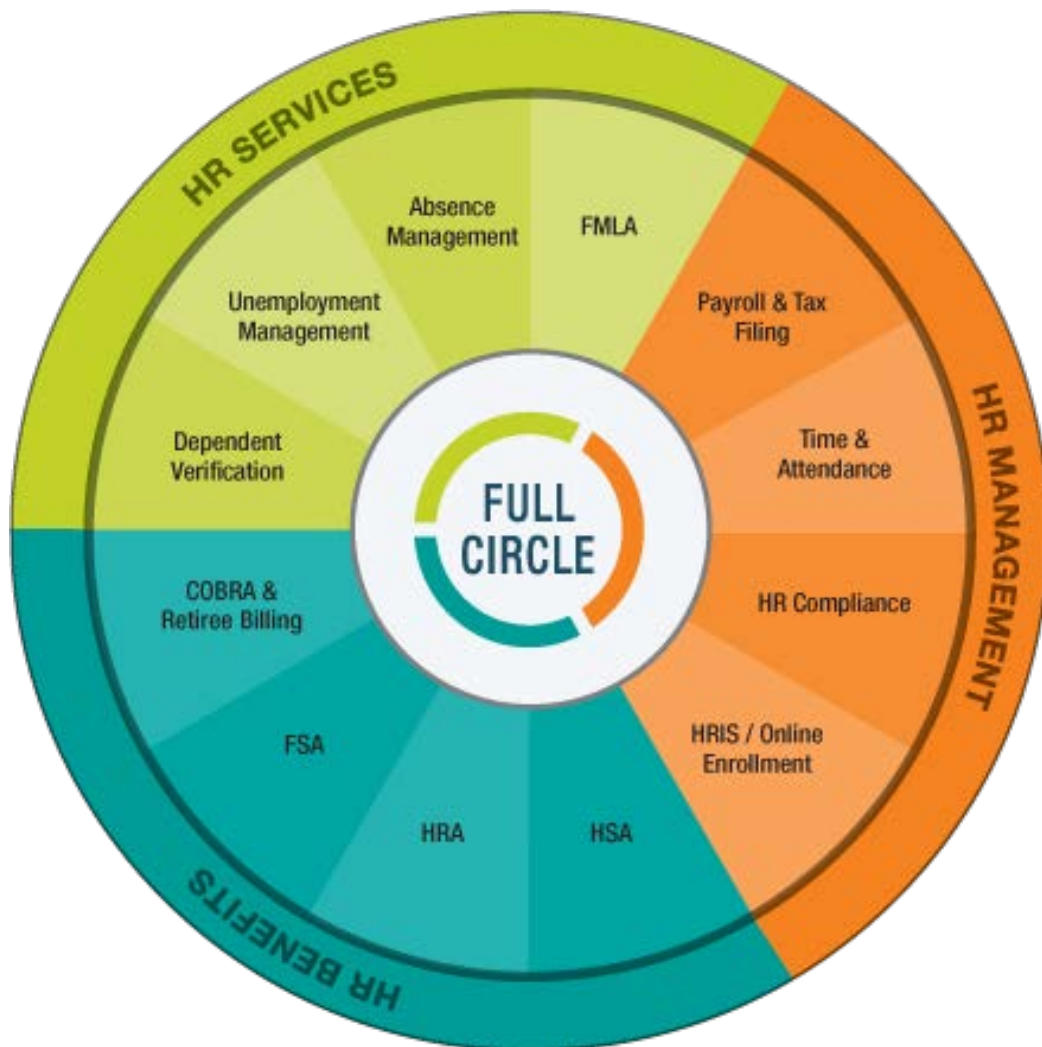
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