We’re proud to offer a full-circle solution to your HR needs. BASIC offers collaboration, flexibility, stability, security, quality service and an experienced staff to meet your integrated HR, FMLA and Payroll needs.
HR Solutions Come Full Circle

BASIC’s integrated HR solutions come full circle for employers nationwide. Consistently recognized as an Inc. 5,000 Fastest Growing Private Company, our expertise allows you to control costs, manage risks and improve staff focus and effectiveness.
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
• 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 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
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
HSAs & 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
Interaction with Health Flexible Spending Accounts – Grace Period Issues

• 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
Interaction with Health Flexible Spending Accounts – Carryover Issues

• 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
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Thank you!

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