Employer FAQ:

Health Savings Accounts

What is a health savings account?
A health savings account (HSA) offers your employees a tax-advantaged way to save and pay for qualified out-of-pocket healthcare expenses. The employee must be covered by a high-deductible health plan to be able to enroll in an HSA.

What is a high-deductible health plan?
A high-deductible health plan (HDHP) is health insurance with deductible amounts that are greater than standard insurance plans. The monthly premiums for this type of health insurance are typically less expensive because employees agree to take on more of the upfront cost of medical care. HDHPs must have a minimum deductible. And an out-of-pocket maximum. See IRS Limits here.

Is this really less expensive for the business?
Yes. High-deductible health plan premiums are much lower than the typical HMO and PPO premiums. Many businesses are finding these health plans affordable for their companies and their employees.

Do employees get a tax benefit from an HSA?
Employee contributions can be made to an HSA on either a pre-tax or post-tax basis. When employees make contributions pre-tax it is done through a Section 125 plan (also called a salary reduction or cafeteria plan), generally through payroll contributions. If employees contribute funds on a post-tax basis, the amount can be deducted from their taxable income.

Does an employer have to make contributions to an employee's HSA?
No. Employers are under no obligation to make any contributions to their employees' HSAs. Many employers find that making a contribution to employees' HSA accounts may help improve adoption of HDHPs and HSAs, especially if they are transitioning from a more traditional type of health coverage.

Can an employer fully fund the employee's HSA at the beginning of the year?
Yes. An employer may fully fund the employee's HSA at the beginning of the year; however, HSAs belong to the individual and not the employer and the employer has no further control over the accounts after they have been funded. As a result, many employers elect to fund employees' HSAs periodically throughout the year.

Can employers make pre-tax contributions to their employees' HSAs?
Yes. Employers may make pre-tax contributions to their employee's HSAs if they have a cafeteria plan in place that provides for HSA contributions. These contributions are not subject to withholding from wages for income tax or subject to FICA, FUTA or the Railroad Retirement Act.

Can you combine an HSA with an FSA?
Yes. But only a limited-purpose FSA so as not to duplicate the coverage provided by the HSA. The limited-purpose FSA is designed to complement the HSA and may be established to pay for eligible vision and dental expenses. The FSA is not permitted to cover medical expenses because the tax-favored HSA is used to fund those costs.

Is the employer responsible for reviewing medical expenses?
No, the employer is not responsible for substantiating the employee's HSA expenses. The individual account holder is responsible for determining that their account funds are being properly used and would be required to provide supporting evidence on the use of their funds if requested under IRS audit.

How often can an employee adjust their HSA contribution when contributing through a cafeteria plan?
Employees contributing to an HSA through a cafeteria plan may make adjustments to their contributions at any time, as long as the change only affects future contributions.

As an employer, am I responsible for my employees' HSA?

No. You do not own your employees' HSAs, nor are you responsible for how the funds are managed by the employee. The employee fully owns the contributions to the account as soon as they are deposited, just as with a personal checking or savings account to which you would deposit their compensation.

Do I have to contribute the same amount to every employee's HSA?

Generally, employer contributions must be comparable, that is they must be in the same dollar amount or same percentage of the employee's deductible for all employees in the same "class". However, higher contributions are allowed for non-highly compensated employees. In addition, you can vary the level of contributions for full-time vs. part-time employees, and employees with self-only coverage vs. family coverage. You do not need to consider employees who have not elected the high-deductible health plan coverage because they are not eligible for HSA contributions.

For more information, call 800-499-3539

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