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HSA Background

- **Introduced to support Consumer Driven Health Care**
  - Provide consumers greater control over health care dollars.
  - Reduce health care costs by putting consumers in charge.
  - Give employers struggling to pay health care insurance a lower cost alternative and to encourage employers that do not offer health insurance to do so.

- **Benefits to Employers**
  - Provide employers an alternative to traditional health care coverage.
  - *Lower initial cost and lower annual cost increases.*
  - Cover employees for catastrophic health issues.
  - Offer employees a health plan that gives them choices.

- **Explosive Growth so Far**
  - HSAs have experienced double digit growth in each year since their passage.
  - Millions of Americans are now eligible for HSAs with many more becoming eligible each year.
  - The Affordable Care Act accelerated the trend to move to HSAs.

- **Initial Results Positive**
  - HSA owners are more value conscious of health care expenses.
  - HSA owners engage in improved wellness behavior.
  - HSA insurance plans are not increasing in cost as much as other plans.
How does an HSA work?

HSAs work in combination with a High Deductible Health Plan (HDHP), also referred to as “catastrophic” insurance or major medical. The HSA pays for the day-to-day medical expenses while the HDHP pays for major expenses (above the deductible amount). The law is designed so that you can put roughly the amount of your deductible in your HSA – see the next slide for details.

<table>
<thead>
<tr>
<th>Deferred Savings Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Savings Account for:</td>
</tr>
<tr>
<td>• Doctors visits</td>
</tr>
<tr>
<td>• Prescriptions</td>
</tr>
<tr>
<td>• Minor medical expenses</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>High Deductible Health Plan for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Major medical expenses</td>
</tr>
<tr>
<td>• Serious illness</td>
</tr>
<tr>
<td>• Major surgery</td>
</tr>
<tr>
<td>• Post deductible expenses</td>
</tr>
</tbody>
</table>

Excess HSA funds grow tax-free to protect against future expenses

HSA contains funds for day-to-day expenses

Health plan provides insurance against significant expenses

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What’s a High Deductible Health Plan?

- **High Deductible Health Plan (HDHP).** Employees must be covered under an HDHP plan to qualify for an HSA. Ask your insurance provider if your plan qualifies. Generally, HDHPs require a minimum annual deductible and place a limit on the total out-of-pocket payments allowed:

<table>
<thead>
<tr>
<th>HDHP Requirements</th>
<th>Individual</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Deductible</strong></td>
<td>At least $1,300 for 2017</td>
<td>At least $2,600 for 2017</td>
</tr>
<tr>
<td></td>
<td>At least $1,350 for 2018</td>
<td>At least $2,700 for 2018</td>
</tr>
<tr>
<td><strong>Out-of-Pocket Max</strong></td>
<td>Not more than $6,550 for 2017</td>
<td>Not more than $13,100 for 2017</td>
</tr>
<tr>
<td></td>
<td>Not more than $6,650 for 2018</td>
<td>Not more than $13,300 for 2018</td>
</tr>
</tbody>
</table>

- **No Other Insurance allowed – Except “Permitted” Insurance.** To prevent people from obtaining the benefits of an HSA while protecting themselves with other health insurance plans, the law restricts the other coverage you may have. Listed below are some of the big exceptions:
  - Auto and life insurance
  - Accident insurance
  - Insurance for a specific disease or illness
  - Insurance that pays for a fixed amount per day for hospitalization
What are the benefits of an HDHP and HSA?

- **Lower Insurance Premiums.** Insurance premiums for high deductible plans are lower than premiums for more traditional forms of insurance because the deductible is higher, therefore the employee is taking on more of the initial cost of the insurance.
  - EX: A medical doctors office decided to see how much they could save by simply adding an HDHP to their health care plans, **this company stood to save almost $1,000 annually per individual and nearly $3,050/yr per family plan** that switched to the HDHP.

- **Broader Healthcare Alternatives.** HSAs provide employees with an unlimited choice of medical providers because they are not as locked into a particular network. Additionally, HSA funds can be used to pay for employee wellness (obesity and smoking cessation), dental, vision and even alternative care providers such as chiropractors.

- **Employee Safety Net Between Jobs.** For employees covered under a group high deductible plan, the HSA can be used to pay for COBRA while unemployed, other health insurance premiums while receiving unemployment compensation and also used to pay for medical expenses.

- **Tax Savings.** Employers that establish Section 125 plans to allow employees to make payroll contributions to their HSAs will save approximately 7.5% in reduced payroll taxes on HSA contributions (the employer half of FICA and FUTA) and employees making contributions will save between 15-40% by avoiding federal (and possibly state) income taxes as well as the employee half of payroll taxes.
Can all my employees have an HSA?

### General HSA Requirements
- Covered under an HDHP
- Not be covered under another health plan
  - For example, if spouse has a traditional plan that also covers your employee, the employee is not eligible.
- Not a dependent on another’s tax return
  - For example, children are generally not eligible.
- Under age 65 (or not covered by Medicare)
  - Employees over age 65 are generally not eligible because they enroll in Medicare.

### Eligibility Worksheet

The Eligibility and Contribution worksheet to the right can help your employees determine if they are eligible.

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### HSA Eligibility and Contribution Worksheet

#### Purpose:
Use this form to verify your eligibility for an HSA and determine the amount you may contribute. You are responsible for properly determining your eligibility and contribution amount. This worksheet is simply a tool to aid you in that effort. If you have any questions, please consult with your tax or legal counsel.

#### 1. HSA Eligibility:
You must answer “True” to each of the following in order to be eligible for an HSA.

- a. I am covered under an HDHP?
- b. I am not covered by another non-HDHP health plan other than "permitted insurance"?
- c. I am not enrolled in Medicare (age 65)?
- d. I am not a dependent on another person’s tax return?

#### 2. Contribution Amount:
Use the table below to determine your amount.

<table>
<thead>
<tr>
<th></th>
<th>Individual</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>C Total (Adj Federal Limit + Catch-Up)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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### Contribution Issues

- **Covered under an HDHP**: Not eligible
- **Not be covered under another health plan**: Not eligible if spouse has a traditional plan that also covers your employee. For example, if spouse has a traditional plan that also covers your employee, the employee is not eligible.
- **Not a dependent on another’s tax return**: Not eligible if children are generally not eligible.
- **Under age 65 (or not covered by Medicare)**: Employees over age 65 are generally not eligible because they enroll in Medicare.

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Can employers make HSA contributions?

Employers can make pre-tax contributions into employees HSAs subject to “comparability” rules. See the next slide for employee payroll deferrals.

- **Comparable Contributions.** An employer can make “comparable” contributions on behalf of all eligible employees.
- **Same Amount or % of Deductible.** Contributions are “comparable” if they are the same dollar amount or the same percentage of the deductible for the HDHP.
- **Categorize Employees.** Employers are allowed to treat different categories of employees differently:
  - Part time v. full time
  - HSA eligible v. not eligible
  - Single v. family
- **35% Penalty.** Failure to comply with these rules can result in a 35% penalty.

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HSA Employer Complemability Worksheet

1. Are You Subject to Complimability Testing? You are only subject to the comparability rules if you make pre-tax contributions to your employees outside of a Section 125 cafeteria plan. i.e., if you answer “Yes” to the following questions:
   a. Do you offer a plan to offer pre-tax contributions to your employees?
   b. Will you make the HSA contributions outside of a Section 125 plan?

2. Have You Properly Categorized Employees? Employers are allowed to treat different categories of employees differently: a. Part time v. full time b. HSA eligible v. not eligible c. Single v. family

3. Are You Making Comparable Contributions?
   a. Amount: Contributions are “comparable” if they are the same dollar amount (Example 1) or the same percentage of the deductible for the HDHP (Example 2).
   b. Timing: Employers can pre-fund HSA contributions. Pre-funding must occur in the same calendar year. Pre-funding can only be used to pay for eligible expenses in the calendar year in which the contributions were made.
   c. Calculations: The contribution amount is based on the employee’s contribution and the employer’s matching contribution. The employer’s contribution is determined by the employee’s contribution and the employer’s matching percentage.

35% Penalty for Failure to Comply. The penalty for failing to comply with the comparability rules is 35% of the aggregate HSA contributions by the employer.
Can employees contribute through payroll?

Employees can contribute through payroll deferral if you offer a Section 125 plan.

- **Pre-Tax.** With a Section 125 plan that provides for HSA contributions, the employer can allow pre-tax payroll deferral. This approach has the following advantages:
  - **15.3% FICA/FUTA Savings.** The payroll deferrals are not subject to payroll taxes.
  - **No Comparability Testing.** HSA contributions made pursuant to a Section 125 plan are not subject to comparability testing.
  - **Insurance Premiums.** A Section 125 plan will also allow employees to pay any employee portion of the insurance premium on a pre-tax, pre-FICA/FUTA basis.

- **After-Tax.** Employers can also allow payroll deferral on an after-tax basis. This method is treated the same as if you paid the employee and the employee put the money into the HSA on his or her own. The benefit to the employee is the administrative convenience and the automatic nature of savings.

- **On Their Own.** Employees can also contribute independent of the employer, by (1) simply writing a check or (2) through automatic contribution from the employee’s personal bank account.
What is a Section 125 plan?

- **Section 125 Plan Defined.** A Section 125 plan allows employers to establish a payroll deferral system where the employer is allowed to deduct the amounts contributed to an HSA without including the amount as income to the employees. A “Premium Only Plan” or “POP” allows the employees to defer a portion of their income to pay for the insurance premiums with pre-tax dollars. A POP plan with an HSA option allows employees to defer pay for the insurance premiums and also to make a contribution to an HSA on a pre-tax basis.

- **FSA Defined.** A Flexible Spending Account (FSA) is part of a Section 125 plan that allows employees to defer a portion of their income to use to pay for medical expenses. Employees are not allowed to have both an FSA and an HSA, except in limited circumstances (limited purpose FSA is the most common exception).

- **Comparison Chart.** Please see the comparison chart to see the differences between HSAs, FSAs, and Health Care Reimbursement Accounts (HRAs).
Are the owners treated differently?

- Partners/2% S-Corp Owners.
  Partners and 2% S-Corp owners are treated differently than other employees for the purposes of HSA contributions. Basically, the contributions are treated as distributions to the partner or 2% owner, and then the partner or 2% owner can take an HSA deduction on their personal tax return.

- Sole Proprietors. For sole proprietors, the HSA deduction is not taken into consideration in determining net earnings from self-employment. Instead, the deduction is an adjustment to gross income on the individual’s personal income tax return.
How do employers contribute?

- **Check.** Employers generally desire to write one check and include a spreadsheet indicating how the check should be allocated to individual employee’s HSAs. An employer may do this monthly, more frequently or less frequently as necessary (if allowing for payroll deferrals, the employer cannot hold the money longer than is reasonable).

- **ACH.** The easier way to set up employer contributions is automatically through the ACH system. Some employers that have an online banking system in place may make contributions directly into the employees HSAs. Other employers will need the assistance of the HSA custodian to pull the money electronically from the employer’s corporate checking and push it into the employee’s HSA.

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**Employee Contribution Worksheet**

Company/Employer Name: ____________________________

<table>
<thead>
<tr>
<th>Employee Name</th>
<th>Acct # (Bank will complete)</th>
<th>Employee Deferral Amount</th>
<th>Employer Contribution Amount</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

To open new employee HSA accounts, please submit a new HSA Application for each employee.

**Notes:**

1. **Add/Remove Employees.** You must inform us of new employees, terminated employees, and changes in allocation amounts each month.
2. **New spreadsheet for each contribution.** For subsequent contributions by check, please include the spreadsheet with each check to provide the correct allocations.
3. **Current Year Contributions.** All contributions will default to current year contributions.
4. **Employer Responsible for Accuracy.** You, the employer, are responsible for the accuracy of this sheet. You authorize us to allocate the contribution according to the list above. Your (Employer) payment indicates acceptance of this allocation. Please review this list carefully, you are responsible for this allocation and agree to hold the financial institution harmless for allocating the amount as directed above. You further agree that we may charge you for our time to correct mistakes you make. IRS rules limit our ability to return mistaken contributions to the employer, the contributions generally must be returned to the employee.

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How much can employees contribute?

General guidelines

- **Maximums.** HSA owners may contribute up to
  - $3,450 for 2018 ($3,400 for 2017) for individuals
  - $6,900 for 2018 ($6,750 for 2017) for families
- **Catch-Up.** Plus catch-up contributions of $1,000 for 2015 (same for 2016) for those age 55-65

Contribution Worksheet. The Eligibility and Contribution worksheet to the right can help employees determine how much they can contribute.

### HSA Eligibility and Contribution Worksheet

**Purpose:** Use this form to verify your eligibility for an HSA and determine the amount you may contribute. You are responsible for properly determining your eligibility and contribution amount. This worksheet is simply a tool to aid in that effort. If you have any questions, please consult your tax or legal counsel.

**HSA Eligibility.** You must answer “True” to each of the following in order to be eligible for an HSA. See Definitions on back for help.

- a. I am covered under an HDP
- b. I am not covered by another non-HDP health plan other than “permitted insurance”
- c. I am not enrolled in Medicare (age 65)
- d. I am not dependent on another person’s tax return

**Contribution Amount.** Use the table below to determine your amount.

<table>
<thead>
<tr>
<th></th>
<th>Individual</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>B Catch-Up (Age 55-65)</td>
<td>$1,000 (2016)</td>
<td>$1,000 (2016)</td>
</tr>
</tbody>
</table>

**Contributions**

- A. Less than Federal Limit - Eligible on December 1. If you are not enrolled in a high deductible insurance plan on January 1 of the year, you are eligible to contribute up to the Federal Limit amount for the year. If you are enrolled in a high deductible insurance plan on January 1 of the year, you are eligible to contribute up to the Federal Limit amount for the year and the remaining amount you contributed under this rule is subject to federal and state tax at the time of distribution.
- B. Less than Federal Limit - Eligible on December 1. If you are not enrolled in a high deductible insurance plan on January 1 of the year, you are eligible to contribute up to the Federal Limit amount for the year. If you are enrolled in a high deductible insurance plan on January 1 of the year, you are eligible to contribute up to the Federal Limit amount for the year and the remaining amount you contributed under this rule is subject to federal and state tax at the time of distribution.
- C. More than Federal Limit. The total contribution amount may be split among multiple HSA’s. For family coverage, the amount may be split between eligible employees.

LII SSA for HSA transfers. You may make a one time transfer of funds from your Individual Retirement Account into your HSA. This is limited to the amount you are eligible to contribute for this year and may not exceed the amount contributed in the year you entered into the IRA. The transfer cannot exceed the Federal Limit and you cannot make more than one transfer per year. You may also transfer funds from a former employer’s HSA to your HSA.

- **Catch-Up Contributions.** For individuals and families covered under the HSA plan age 55 and older, the HSA contribution limit is increased by $1,000. If you are not enrolled in a high deductible health plan, the HSA is not eligible for a HSA. You must be eligible for the HSA plan to be eligible for the increase.

**Need More Help?** If you have questions on this topic, please consult your tax or legal counsel. The information in this guide is not intended to be legal or tax advice. The information is for educational purposes only and is not a substitute for professional advice. Please consult with your tax or legal counsel for your specific needs.

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How do employees get the tax benefit?

**Contributions**
- **Payroll deductions.** Employers must report contributions on the W-2. Pre-tax amounts are not included as income as the W-2 so the employees cannot deduct the amount. (Most states also allow state tax deductions for HSAs – but not all).
- **Personal contributions.** Amounts contributed directly by employees (including after-tax payroll deferral amounts), may be taken as an “above the line” deduction (federal taxes) on the IRS Form 1040. Meaning the employees do not have to itemize to get the tax benefit. (No FICA/FUTA benefits).
- **IRS Form 8889.** All employees with HSA contributions or distributions in the year must file IRS Form 8889 as an attachment to their income tax return.

**HSA Account**
- Earnings growth in the HSA are tax-exempt.
- Distributions are tax-free when used for qualified medical expenses.

**Tax Savings Worksheet** - The Tax Savings Worksheet to the right can help your employees estimate potential tax savings.
What medical expenses are covered?

**Most medical expenses covered**
- Doctor visits
- Hospital expenses
- Prescription drugs
- Optical care
- Dental
- Note: Over-the-counter drugs are no longer eligible (aspirin, cold medicine, etc.). Non-drug over-the-counter medical items are still permissible (bandages, contact lenses cleaner, etc.)

**Who is covered**
- The employee (self)
- Spouse and dependents (regardless of whether they are covered under the HDHP insurance plan – the HSA can be used for a spouse even if covered under a different health plan)

**Qualified Medical Expense Listing.** The Listing to the right can help you employees determine which expenses are qualified and which are not.
Can the HSA be used for other purposes?

- **Savings Rolled Over.** Unused funds remain in the HSA and continue to grow, tax-free, year after year.

- **Pay COBRA If Unemployed.** Employees that separate from service may pay for COBRA insurance premiums through their HSA and can also buy other health insurance with an HSA if receiving state or federal unemployment compensation.

- **Long Term Care Insurance.** Subject to certain limitations, the HSA can be used to pay for long term care insurance.

- **Pay Insurance Premiums at Age 65.**

- **Use as Retirement Fund at Age 65.** At age 65, you can take money out of the HSA for non-medical reasons without penalty.

The Distribution Worksheet gives your employees a step-by-step guide to determine how they can use their HSA and what are the consequences.

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**HSA Distribution Worksheet**

**Purpose:** Use this worksheet to guide you in the federal income tax consequences of HSA distributions. Please consult with your tax or legal counsel. We do not provide tax or legal advice. See p. 2 for details.

1. **Is your distribution for a “qualified” medical expense?** The primary purpose of an HSA is to use the funds to pay for the health care expenses of yourself and dependents. Distributions for qualified medical expenses are tax-free and penalty-free.
   - a. Was the expense incurred by yourself or a family member? HSA funds may only be used for yourself, your spouse, and your dependents. Note: there is no requirement that you or your family member be currently eligible for an HSA (even an HSEP, Eligibility is only important when contributing to an HSA, not in being allowed to use the funds. See the Eligibility and Contribution Worksheet for details on contributing to an HSA).
   - b. Was the expense incurred after you established the HSA? You must open your HSA before you incur the medical expense. This is a good reason to open your HSA as soon as you become eligible. Once your HSA is open, you can use your HSA funds to pay for qualified medical expenses incurred now or in the future. You can even pay for current expenses out of future contributions or reimburse yourself for eligible medical expenses that you paid for with other tax-favored funds. Example: you incur a $2,000 eligible medical expense this year but only have $500 in your HSA. You can pay $500 out of the HSA and add the other $1,500 of other funds. You can then pay yourself back from future your HSA contributions (provided you remit that medical expenses are covered; see page 2 for a list of qualified expenses). Note: the HSA limitation does not affect your medical expenses for eligibility. You should save receipts and keep a tax record in case of an IRS audit.
2. **Does your distribution qualify for another tax-free and penalty-free exception?**
3. **Does your distribution qualify for a taxable, but penalty-free exception?**
4. **Fail to meet any of the above? You are subject to taxes plus a 20% penalty.**

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How does the employer administration work?

- **Limited Employer Involvement.**
  - **No Review of Claims.** The employer is not responsible to review employee receipts or claims.
  - **No Reimbursement Checks.** Employers are not responsible to reimburse employees for eligible medical expenses.
  - **No Liability for Wrongful Distributions.** Employers are not liable if an employee uses funds for non-eligible expenses.
  - **Contributions.** Employers are not required to make HSA contributions, but if you do, you do need to follow rules (see previous slides).

- **HSA Custodian Provides:**
  - Government Reporting
  - Statements to Employees
  - Account balance recordkeeping
How do employees manage their HSAs?

- **Change Personal Information.** Employees self-administer changes in name, address, beneficiary information, etc. through contact with the HSA custodian.

- **Contribution Change.** Employers maintain information regarding payroll deferral and can allow changes to the deferral amounts as frequently as monthly.

- **HSA Questions.** Employers and the HSA custodian generally share some HSA questions with the custodian helping with the following:
  - Contribution Amount
  - Tax Deduction
  - Distribution Reasons
  - Eligible Medical Expenses
  - Frequently Asked Questions
How do employees keep track of expenses?

- **Employees are responsible for their medical expenses.**

  - **Pay Directly with Check or Debit Card.** Employees pay expenses directly with a check or debit card connected to the HSA.

  - **Recordkeeping.** Employees need to keep a record for their own tax purposes. Employees should keep receipts in case they are audited by the IRS.

  - **Keep Medical Receipts Private.** Employees like this because they can keep their medical bills private – no more sending copies of receipts to the employer.

- **Qualified Medical Expense Tracking Worksheet** - The Worksheet to your right can be used to help employees keep track of expenditures.
How do employers and employees enroll?

If the employer will be making contributions for employees either directly or by allowing payroll deferral, the following steps are necessary. Otherwise, skip to step 3.

1. **Provide Contact Information and Employee Contribution Worksheet.**
   Employers provide basic information about the employer and how you will run your HSA program.

   An employee contribution worksheet collects information necessary to allocate the employer contribution to employees' HSAs. Basically, a spreadsheet showing an employee’s name, other identifying feature (account number, address, or other) and the dollar amount allocated to that employee.

2. **Have your Employees Complete Their Applications**
   Each employee needs to complete and sign an HSA Application. Note: if your employees are transferring funds from another HSA custodian they need to complete and sign a Transfer Form in addition to their HSA Application.

3. **Submit Completed Applications**
   Congratulations you're done. Send your completed documents to your custodian at the address on the application.

**Click on form for more details**