

THE DEFINITIVE GUIDE TO HSAs

How to Give Your Employees the Most Benefit
from Their Health Savings Accounts



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The term "savings" herein refers only to tax savings and actual savings are dependent on individual tax rates. No part of this document constitutes tax, financial, investment or legal advice.

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How to Give Your Employees the Most Benefit
from Their Health Savings Accounts

Second Edition

WageWorks, Inc.

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Executive Summary

Congratulations on considering a Health Savings Account (HSA) as part of your employee benefits program!

In just over a decade, Health Savings Accounts (HSAs) have evolved from a novel idea to a central component of U.S. businesses' efforts to combat escalating health benefit costs and promote employee savings. HSA-qualified, high-deductible health plans have gained traction. Check out these numbers (see Figure 1):

- 52 percent of companies with 1,000 employees or more and approximately 25 percent of small businesses are now offering an HSA-qualified, high-deductible health plan along with an HSA¹
- 24 percent of covered employees were enrolled in CDHPs in 2015, up from 13 percent in 2010

¹ The Henry J. Kaiser Family Foundation, "2015 Employer Health Benefits Survey. Section Eight: High-Deductible Health Plans with Savings Option" <http://kff.org/report-section/ehbs-2015-section-eight-high-deductible-health-plans-with-savings-option/> September 22, 2015

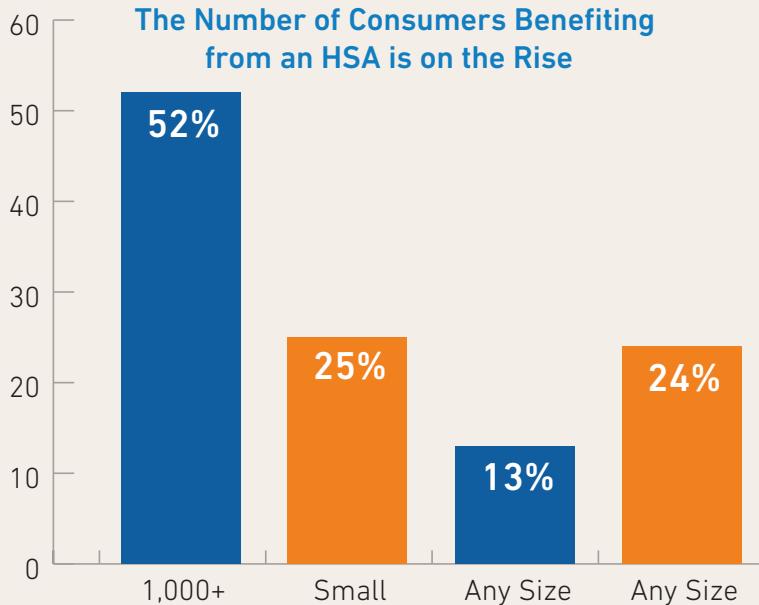


Figure 1. In large and small businesses alike, the percentage of employees eligible to benefit from the combination of an HSA-qualified, high-deductible health plan and an HSA rose from 2013 to 2014.

HSAs serve as both short-term and long-term savings tools. Combined with your HSA-qualified, high-deductible health plan, HSAs give your employees **an easy, safe way to pay less for healthcare expenses today and save more for tomorrow.**

This Definitive Guide to HSAs tells employers like you everything you need to know about HSAs—what they are, how they work, and how to successfully implement, administer, and drive employee participation in your HSA program. When you read this guide, you'll:

- **Understand the role of HSA-qualified, high-deductible health plans** and their tax implications in association with HSAs
- **Discover the advantages of HSA-qualified, high-deductible health plans and HSAs**—for both your company and employees
- **See the savings in action** for two types of employees: the Spenders and the Savers
- **Learn nine tips** for implementing your HSA program and making it a success
- **Have a comprehensive HSA reference guide** at your fingertips to answer your and your employees' questions

Having been in the Consumer-Directed Benefits business for more than a decade, WageWorks knows most employees will keep a lot more of their hard-earned paychecks by participating in an HSA-qualified, high-deductible health plan and contributing to an HSA. And we know that once they gain experience with their HSAs, participants love them. Let's explore the best ways to implement and administer an HSA program that gets your organization the best return on its benefit investment.



HSA 101:

An Introduction to HSAs

HSA 101: An Introduction to HSAs

A Health Savings Account (HSA) is a tax-advantaged savings account for funds used to pay for healthcare expenses. Just like a 401(k), HSA participants own their accounts and have complete control over how the money is used to pay for eligible expenses—regardless of whether they change plans, retire, or leave your company. Unlike a 401(k), participants can use their funds to pay for eligible expenses at any time without a penalty.

HSAs were established as part of the Medicare Prescription Drug, Improvement, and Modernization Act signed into law by President George W. Bush on December 8, 2003. The HSA benefit program was developed to replace the Medical Savings Account (MSA) system.

The number of HSAs has grown steadily since the law went into effect on January 1, 2004 and has accelerated in recent years. Devenir reports that the number of HSAs rose to 18.2 million as of June 30th, 2016, and held over \$34.7 billion in assets, a year-over-year increase of 22 percent for accounts and 25 percent for HSA assets.²

² Devenir Research, 2016 Mid-Year Devenir HSA Research Report, <http://www.devenir.com/devenirWP/wp-content/uploads/2016-Midyear-Devenir-HSA-Market-Research-Report-Executive-Summary.pdf>

The Role of HSA-qualified, high-deductible Health Plans

In order to be eligible to contribute to an HSA, employees must also be enrolled in an HSA-qualified, high-deductible health plan.

An **HSA-qualified, high-deductible health plan**, also known as a **high-deductible health plan (HDHP)**, is a healthcare product in which subscribers pay significantly lower premiums in exchange for being responsible for higher initial medical costs (deductibles) and higher out-of-pocket maximum expenses. Like all plans that are compliant with the Affordable Care Act (ACA), HSA-qualified, high-deductible health plans cover basic preventive services such as vaccinations and wellness exams—usually for free. The IRS determines the eligibility criteria of an HSA-qualified, high-deductible health plan (see Figure 2).

Does Your Health Plan Qualify for an HSA?*	If you're an...	
	Individual with coverage only for yourself	Individual with coverage for you and your family
Your plan's annual deductible cannot be less than:	\$1,300*	\$2,600*
Your plan's annual out-of-pocket expenses cannot exceed:	\$6,550*	\$13,100*

* All figures in this table reflect annual limits for 2016.

Figure 2. The IRS defines the minimum amounts of the deductibles and out-of-pocket expenses that make a health plan HSA-qualified.

A few important notes and caveats:

- There are health plans available in the market with deductibles that are actually too high to qualify their subscribers for HSAs.
- Employees are not eligible for an HSA if they are covered by a spouse's health plan that is not an HDHP, can be claimed as a dependent on someone else's tax return, or are enrolled in Medicare or TRICARE.
- The IRS maximum for out-of-pocket expenses applies to in-network care only; plans may have a higher limit for expenses incurred with healthcare providers that are not in the carrier's preferred provider organization (PPO) network.
- The preventive services that can be covered by an HSA-qualified, high-deductible health plan are specified by the **IRS Notice 2004-23**.³ Some state laws may require insurers in their states to cover preventive care that's not in the IRS definition, making these plans ineligible for HSAs.
- HSAs are indexed annually for inflation, so the limits shown in Figure 2 generally increase each year.

³ Internal Revenue Bulletin, "Health Savings Accounts—Preventive Care," http://www.irs.gov/irb/2004-15_IRB/ar10.html, April 12, 2004

The Role of Taxes in HSAs⁴

HSA contributions are exempt from federal income tax (see Figure 3). Individual states are allowed to establish their own tax treatment of HSA contributions (see Figure 4). As of the writing of this guide, there are a few states with key differences.

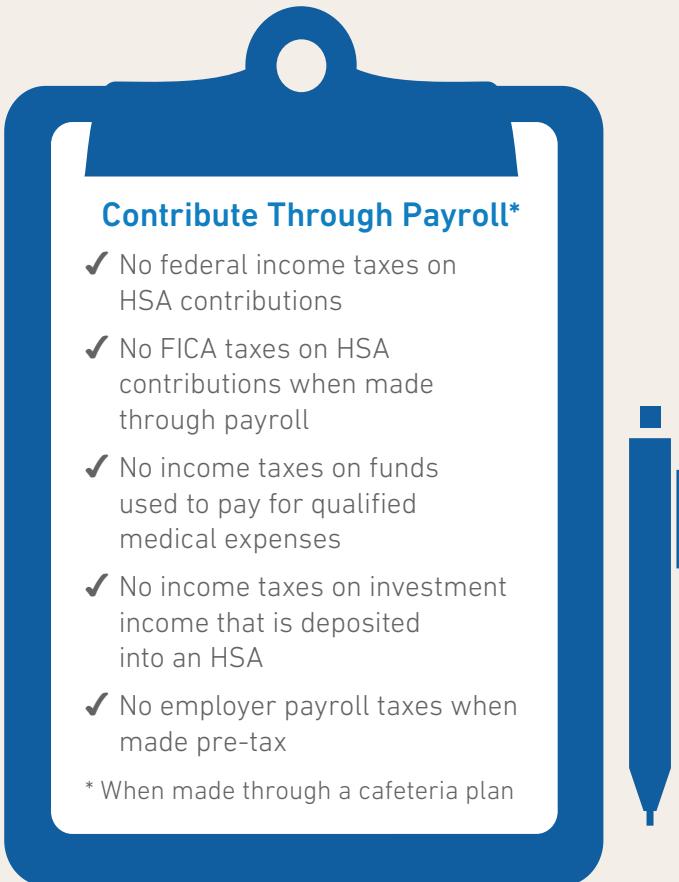


Figure 3. HSAs offer many ways for employers and employees alike to save on taxes.

⁴ No part of this document constitutes tax, financial, investment, or legal advice. Please consult your advisor regarding your personal situation and whether this is the right program for you.

How Are HSA Contributions Taxed by the States?

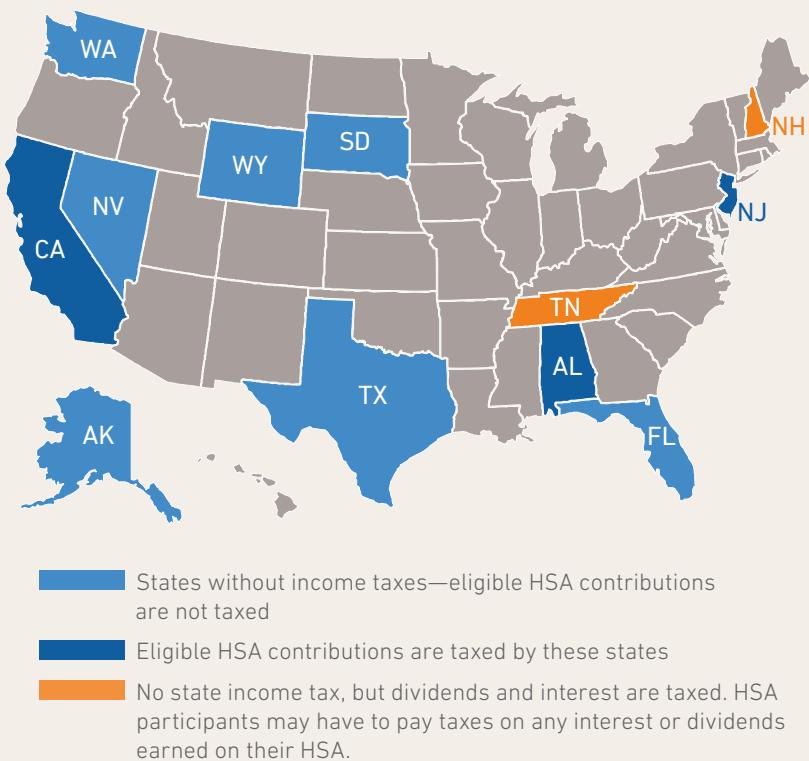


Figure 4. Several states have different tax implications for HSA contributions.



HSA-Qualified Health Plan + HSA: Advantages for Employees

HSA-Qualified Health Plan + HSA: Advantages for Employees

The combination of an HSA-qualified, high-deductible health plan and an HSA offers your employees plenty of attractive advantages.

Lower Employees' Monthly Health Insurance Premiums

HSA-qualified, high-deductible health plans typically cost much less than traditional health plans. According to the Henry J. Kaiser Family Foundation, the average cost of coverage in an HSA-qualified, high-deductible health plan was 18 percent less than in a PPO and 20 percent less than in an HMO in 2014.⁵ This difference is so big that even people who consume a relatively high amount of healthcare services can still save. Many employees use their valuable healthcare dollars more effectively by rerouting money that would be spent on premiums for higher-cost plans (essentially prepaying expenses that may never be incurred) and, instead, putting it aside for their own future expenses by establishing and contributing to an HSA.



Extend the Reach and Flexibility of Employees' Healthcare Dollars

The money you and your employees spend on healthcare premiums goes towards one thing: paying for specific medical expenses covered by your plan (plus reserves for future expenses, commissions, taxes, overhead, etc.). HSA funds, however, can be used to pay for



⁵ The Henry J. Kaiser Family Foundation, "2015 Employer Health Benefits Survey. Section One: Cost of Health Insurance" <http://kff.org/report-section/ehbs-2015-section-one-cost-of-health-insurance/> September 22, 2015

deductibles and copayments as well as other qualified healthcare expenses that may not be covered under the primary insurance plan. (We'll discuss this in more detail later.)

In some cases, employees can also use HSA funds to help with life events such as a job change or unemployment. For example, HSAs can be used to pay for COBRA coverage or premiums for long-term care. When an employee retires and enrolls in Medicare, he or she can use an HSA to pay for out-of-pocket expenses as well as Medicare premiums.

Preserve Doctor-Patient Relationships

An HSA-qualified, high-deductible health plan often uses the same healthcare networks as traditional plans. Whether your employees stay in-network or use an out-of-network provider, they can pay for the fees for which they are responsible with HSA funds.



Employees Save in Three Ways

An HSA can help employees save on taxes in three ways: 1) Annual HSA contributions are tax-advantaged; 2) Interest accrued on HSA balances is not taxable; and 3) Withdrawals for qualified out-of-pocket healthcare expenses are tax-free. An HSA is like a 401(k) for healthcare. However, unlike 401(k)s, HSA contributions made pre-tax through payroll are not subject to Social Security (FICA) or Medicare taxes. HSA withdrawals are not subject to federal income tax as long as they are used for qualified medical expenses – no matter when a withdrawal occurs. Once employees reach age 65, they can use HSA funds for non-medical expenses without penalty; but they would have to pay income tax on such withdrawals at their then-current tax rate.



Most states give HSA funds a similar tax treatment, with a few exceptions. (See Figure 4 on page 12.) You should always advise

employees to consult a tax advisor regarding their individual tax situations.



Build Employees' Healthcare Nest Eggs

Total projected health care expenses for a healthy 65-year-old couple retiring this year are expected to be \$377,412 according to HealthView Insights.⁶ This is a substantial number, so your employees need to start thinking about building up their healthcare nest eggs now as a significant component of their overall retirement savings plans. HSAs are one of the best tools available to help prepare for future needs.

Most HSAs offer competitive interest rates on cash balances, along with a number of investment options that may help grow your employees' healthcare nest eggs when their account balances exceed their immediate healthcare needs. Interest and investment income earned on HSA balances are also tax-free, allowing employee healthcare nest eggs to grow even faster. And HSAs are fully portable, meaning that employees keep their nest eggs regardless of where their careers take them.

⁶ HVS Financial, HealthView Insights, "HealthView Services: 2016 Retirement Health Care Costs Data Report," http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Report.pdf



HSA-Qualified Health Plan + HSA: Advantages for Employers

HSA-Qualified Health Plan + HSA: Advantages for Employers

HSA-qualified, high-deductible health plans and HSAs are good for your employees, and they also have significant benefits for your company.

Mobilize Employees to Help Control Healthcare Costs

The Kaiser Family Foundation reports that over the last ten years, the average premium for family coverage has increased by 61 percent.⁷ That's why healthcare costs are at the top of virtually every company's list of worries. Something needs to be done now to keep U.S. businesses competitive, and HSAs have a lot of potential to help cut costs because they align the interests of employers and employees.

HSAs give your employees strong incentives to pay careful attention to their healthcare costs and avoid unnecessary services. Several studies support their effectiveness in doing just that:

- The **10th Annual Aetna HealthFund® Study** showed that members of Aetna HealthFund plans, which include either a deductible-based medical plan with an employer-sponsored HRA or an HSA-qualified, high-deductible health plan with an HSA, spent 7 percent less on healthcare than members in Aetna's traditional PPO plans. The average Aetna HealthFund full replacement plan saved employers and employees \$12 million per 10,000 enrollees over a 6-year period.⁸

⁷ The Henry J. Kaiser Family Foundation, 2015 Employer Health Benefits Survey, <http://kff.org/report-section/ehbs-2015-section-one-cost-of-health-insurance/> September 22, 2015

⁸ Aetna HealthFund, "Results of the 10th Annual Aetna Health Fund Study," <https://news.aetna.com/news-releases/aetna-healthfund-study-results-highlight-more-than-a-decade-of-helping-employers-save-millions/>

HSAs can create a sense of shared accountability among employees that is more visible and tangible because any money saved stays in the HSA. An HSA can also be used to foster behavioral change by giving employees some skin in the game for practicing better consumerism.⁹

Sander Domaszewicz,
principal and senior
consultant with Mercer HR
Consulting's Health & Benefits

⁹ Joanne Sammer and Stephen Miller, "Consumer-Driven Decision: Weighing HSAs vs. HRAs," <https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/hsasvshras.aspx>, May 2, 2015

Save Money on Payroll Taxes

You don't pay FICA on the money that you or your employees contribute through a cafeteria plan to their HSAs. As more members of your workforce take advantage of HSAs, these savings will add up.

Attract and Retain Valuable Human Resources

Your employees know they have a hill to climb when it comes to healthcare costs. Fifty-three percent of baby boomers say they are "very concerned" about healthcare costs in retirement, according to a **study by Ameriprise Financial.**¹⁰ By providing your employees a valuable, tax-advantaged savings vehicle, you offer an important competitive benefit that can help position your organization as an employer of choice.

Prepare to Meet ACA Requirements

Companies with HSA-qualified, high-deductible health plans are more likely to avoid the pending excise tax on high-cost healthcare benefits, dubbed the "Cadillac Tax," which has been delayed until 2020 as part of the ACA. **According to Towers Watson,** 83 percent of employers expect to make changes to avoid the ACA's excise tax on high cost plans, and that percentage is expected to grow as cost increases compound.¹¹

¹⁰ Ameriprise Financial, "Health, Wealth and RetirementSM Study," http://www.ameriprise.com/content/files/AMP_HEALTH_WEALTH_RETIREMENT_STUDY_RESEARCH_REPORT.PDF, October 2014

¹¹ Towers Watson/NBGH "Full Report: 2015 Willis Towers Watson/NBGH Best Practices in Health Care Employer Survey," <https://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2015/11/full-report-2015-towers-watson-nbgh-best-practices-in-health-care-employer-survey>, Nov. 2015



HSAs in Action: Two Case Studies

HSAs in Action: Two Case Studies

HSA-qualified, high-deductible health plans and HSAs are not just for people with low healthcare costs. As the examples in this section illustrate, many types of healthcare consumers can save money and better meet their healthcare needs by enrolling in an HSA-qualified, high-deductible health plan and contributing to an HSA.

We'll look at two types of healthcare consumers: the Savers and the Spenders.

Meet the Savers

These are people—individuals, couples, or families—who don't currently use a lot of healthcare services. They may be planning for life events (such as new family members) that increase their healthcare utilization in the future, or they may be looking ahead to retirement. They save through lower premium contributions and triple tax savings, which they can use to build a healthcare nest egg.



The Harris Family

- Young family covered by Acme Corporation
- Total family income is \$140,000
- Healthcare usage: Four annual checkups, four doctor visits, two of which lead to generic prescriptions

The Harris Family's Healthcare Spending*	Acme Corp. Traditional PPO \$2,000 deductible, \$5,800 out-of-pocket max, \$25 for doctor visits, \$25 drug copays	Acme Corp. HSA-Qualified Health Plan with HSA \$4,000 deductible, \$8,000 out-of-pocket max
Insurance Premiums and HSA Contributions (pre-tax)		
Annual Employee Contributions to premiums	\$4,872 (\$406/month x 12)	\$2,772 (\$231/month x12)
Premium Savings	\$0	\$2,100
Employee Contributions to HSA	\$0	\$2,500
Employer Contributions to HSA	\$0	\$1,500
Total in HSA (money to spend)	\$0	\$4,000
Medical Expenses (post-tax unless HSA funds used)		
Preventive Care	\$0	\$0
Doctor Visits	\$100 (4 visits at \$25 each)	\$600 (4 visits at \$150 each)
Prescription Drugs	\$50	\$125
Total Medical Expenses paid from HSA	\$0	\$725
Total Cash Outflows during year (Premium, out-of-pocket medical)	\$5,022 (\$4,872 + \$150)	\$3,497 (\$2,722 + \$125 + \$600)
Total HSA funds remaining	\$0	\$3,275 (\$4,000 - \$725)
Tax benefit of using HSA at the family's marginal rate of 30%	\$0	\$750 (\$2,500 x 30%)
Expenses (outflow savings)		\$1,525
Remaining balance in HSA		\$3,275
Tax Savings		\$750
HSA ADVANTAGE FOR YEAR ONE		\$5,550

* Employee contributions to premiums are based on averages calculated in 2014 Kaiser Family Foundation Survey. The actual differential in your premiums may be higher depending on your organization's policies. No part of this notice should be construed as financial, tax, investment or legal advice.

Meet the Spenders

Spenders are people—individuals, couples, or families—who have relatively high current healthcare expenses due to life events or chronic conditions. They save by taking money that would normally go to premiums and setting it aside for their own expenses when needed—tax free.



The Smith Family

- Young family covered by Acme Corporation
- Total family income is \$87,000
- Healthcare usage: Four annual checkups, four doctor visits, two of which lead to generic prescriptions, one branded medication for allergies, one badly broken arm in June that requires surgery

The Smith Family's Healthcare Spending*

Acme Corp. Traditional PPO
 \$2,000 deductible,
 \$5,800 out-of-pocket max, \$25 for doctor visits, \$25 drug copays

Acme Corp. HSA-Qualified Health Plan with HSA
 \$4,000 deductible,
 \$8,000 out-of-pocket max

Insurance Premiums and HSA Contributions (pre-tax)

Annual Employee Contributions to premiums	\$4,872 (\$406/month x 12)	\$2,772 (\$231/month x12)
Premium Savings	\$0	\$2,100
Employee Contributions to HSA	\$0	\$6,750
Employer Contributions to HSA	\$0	\$0
Total in HSA (money to spend)	\$0	\$6,750

Medical Expenses (post-tax unless HSA funds used)

Preventive Care	\$0	\$0
Doctor Visits	\$100 (4 visits at \$25 each)	\$600 (4 visits at \$150 each)
Doctor and Hospital fees for broken arm (\$6,200)	\$2,000	\$4,000
Prescription Drugs	\$330	\$405
Total Medical Expenses paid from HSA	\$0	\$5,005
Total Cash Outflows during year (Premium, out-of-pocket medical)	\$7,302 (\$4,872 + \$2,430)	\$7,777 (\$2,772 + \$5,005)
Tax benefit of using HSA at the family's marginal rate of 30%	\$0	\$2,025 (\$6,750 x 30%)
Expenses (outflow savings)		-\$475
Remaining balance in HSA		\$1,745
Tax Savings		\$2,025
HSA ADVANTAGE FOR YEAR ONE		\$3,295

* Employee contributions to premiums are based on averages calculated in 2014 Kaiser Family Foundation Survey. The actual differential in your premiums may be higher depending on your organization's policies. No part of this notice should be construed as financial, tax, investment or legal advice.



How to Implement Your HSA Plan: Nine Tips for Success

How to Implement Your HSA Plan: Nine Tips for Success

As you prepare to introduce an HSA benefit plan to your employees you should work through the following steps with your benefits team, HSA provider, broker, and consultant. Employee benefits are not one-size-fits-all, and HSAs are no exception.



Tip 1: Be Clear on the Value

Particularly if you are offering your HSA-qualified, high-deductible health plan/HSA option side-by-side with a PPO or HMO option, you will need to give your employees tools to help them compare the HSA-qualified, high-deductible health plan/HSA option with the real costs of their traditional PPO or HMO plans. You will also need to educate employees about the benefits of building a healthcare nest egg. (We'll cover communication and education in depth later in Tips 8 and 9.)

To set the stage for introducing an HSA, you need to communicate the basics:

- Escalating costs are a reality in the healthcare market.
- These costs are likely to continue to rise in the future.
- Healthcare costs are one of the most significant expenses that employees will have in retirement.
- The combination of an HSA-qualified, high-deductible health plan and an HSA helps employees better manage health care costs now and in retirement.

Six Questions that Employees Should Ask When Making Healthcare Coverage Decisions

You can use these questions both to guide your employees on their current benefits selection and to get them thinking beyond premiums to the bigger picture of how best to manage their healthcare expenses.

1. How variable are my healthcare expenses? Is this year likely to be the same as the next, or do one-time incidents crop up from time to time?

Most years, many people never reach their deductibles. Then, a torn ligament or a minor surgery generates a big chunk of deductible and coinsurance payments in a short period of time. If an employee's expenses vary from year to year, an HSA generates a cushion during the uneventful years to reduce the impact of unexpected expenses in the eventful ones.

2. How much healthcare do I use today? Do I have any chronic health conditions to manage?

While an HSA-qualified, high-deductible health plan initially appears most attractive to people who don't have ongoing healthcare expenses, people with chronic conditions still save through lower premiums and the ability to spend their healthcare dollars when and how they're needed. Instead of paying premiums to an insurance carrier, they are paying directly for services with tax-free dollars.

3. Do I want to build a healthcare nest egg to protect myself and my family?

Healthcare expenses are now the top cause of personal bankruptcy and among the top expenses in retirement. An HSA-qualified, high-deductible health plan that covers catastrophic events that exceed out-of-pocket maximums, combined with a healthcare nest egg in an HSA, can be an important safety net. Total projected health care premiums for

a healthy 65-year-old couple retiring this year are expected to be \$377,412 in today's dollars according to HealthView Insights.¹² How prepared are your employees? Would an additional savings option make them better prepared?

4. *How much of my current paycheck should I realistically put aside for future healthcare expenses, both short-term and long-term?*

The hardest time to have an HSA-qualified, high-deductible health plan/HSA is at the very beginning of its life when there are no reserves to cushion participants from expenses before their initial deductible is met. When looking at how much to put aside, it's important to note that the risk of depleting an HSA can be a short-term issue that disappears in the second year once the participant has a chance to set funds aside. But during that first year in particular, it's helpful for participants to save a bit extra early in the year (or receive an employer contribution, which is discussed later in Tip 6.)

5. *Should I use in-network healthcare providers for all services?*

If you want to be able to go out-of-network for some healthcare services, you will have more control over how your expenses are paid if you have an HSA. If you stay in-network, you still have choices—so you can get the best care while controlling healthcare costs. It's worth noting that some healthcare providers are beginning to offer significant discounts to patients who are willing to pay for services up front.

6. *What if I change jobs?*

HSAs are fully portable, while primary insurance most likely changes with each new employer. Another advantage of HSAs

¹² HVS Financial, HealthView Insights, "HealthView Services: 2016 Retirement Health Care Costs Data Report," http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Report.pdf

for frequent job-changers is that you can use them to pay for COBRA coverage or other healthcare coverage while you're unemployed and receiving unemployment compensation.



Tip 2: Consider the Degree of Change You Want to Introduce

As we have shown, HSA-qualified, high-deductible health plans combined with HSAs are a win for almost every company. However, your implementation approach still has to meet the needs of your business and your employees. This is where your broker or consultant, with support from an HSA provider like WageWorks, can really help you.

Historically, WageWorks has seen employers (particularly larger ones with more than 5,000 employees) evolve towards an HSA-qualified, high-deductible health plan/HSA as their only healthcare option. While it is possible to implement a "full replacement" strategy, where everyone moves to the HSA-qualified, high-deductible health plan/HSA in year one, many organizations have found a gradual process to be more effective because they can take a longer-term approach to employee communications. However, with the health benefits excise tax looming on the horizon (projected to go into effect in 2020), many organizations are moving forward with HSA implementations in order to be prepared.



Tip 3: Think About Your Real Starting Point

HSA-qualified, high-deductible health plans and HSAs represent a big change from how most employees manage their healthcare today. Not only do employees need to understand the HSA value proposition, but they also need to make behavioral changes. This level of communication and education is difficult for most companies to achieve during open enrollment and even over a longer pre-open enrollment period. (After all, we have “trained” our employees to only pay attention to benefits information one month out of the year!) Furthermore, you’ll need to take into account the reality that 86 percent of consumers say they don’t understand HSAs, according to a recent survey by InsuranceQuotes.com.¹³



Tip 4: Determine Your Transition Strategy

In determining the right speed for your HSA-qualified, high-deductible health plan/HSA transition, you should ask yourself these questions:

- How similar or variable is your employee population in age, education level, compensation ranges, etc.?
- Do you have union employees?
- How well have you been able to communicate benefits changes to employees in the past? For most organizations, one to two years of a repeated message has a much deeper impact than a few months of frequent communications.
- How much of the burden are employees currently shouldering with respect to your traditional healthcare plans?

¹³ Jack Craver, “Consumers still don’t understand HSAs and HRAs” <http://www.benefitspro.com/2015/07/29/consumers-still-dont-understand-hsas-and-hras?slreturn=1459899303> July 29, 2015

- Are they aware of the magnitude of healthcare premium increases in recent years, or has your company absorbed most of the cost and minimized the visibility of macro healthcare changes?
- To what extent will your organization be affected by the ACA's "Cadillac Tax," which is scheduled to go into effect in 2020?

The Advantages of a Gradual Replacement Strategy

With a multi-year step approach, you introduce the HSA-qualified, high-deductible health plan/HSA and offer it as an option for one to two years before replacing the older plans entirely. In the first year, you signal that the HSA-qualified, high-deductible health plan/HSA is the future direction of the company, communicating during open enrollment and offering education throughout the year. The HR team encourages employees to get in on the ground floor and gain experience with HSAs now. Not everyone will opt for the HSA, but those employees who do jump in will become the early adopters that pave the way for their colleagues in subsequent years.

The Advantages of a Full Replacement Strategy

For some organizations, an immediate full replacement strategy in a single year makes sense. Over the last decade, WageWorks has found that organizations with these characteristics are the best candidates for a successful full replacement strategy:

- Take a forward-thinking, strategic approach to their people strategy
- Have a track record of successfully communicating past benefits transitions
- Focus on accelerating their employees' savings
- Supplement their HSA benefits with related benefits like incentive accounts and HSA-Compatible Flexible Spending Accounts (FSAs) (see Tip 7)

As HSAs become more popular and consumer awareness grows, more companies will be successful with a full-replacement

HSA-qualified, high-deductible health plan/HSA strategy or a shorter transition period. As shown in Figure 5, full replacement strategies are becoming more popular. While 17 percent of employers currently offer HSA-qualified, high-deductible health plans, the **Towers Watson 2015 Emerging Trends in Health Care Survey** estimates nearly 50 percent of employers will offer full-replacement HSA-qualified, high-deductible health plans by 2018.¹⁴

The Growth of HSA-Qualified Health Plan Full Replacement Strategies

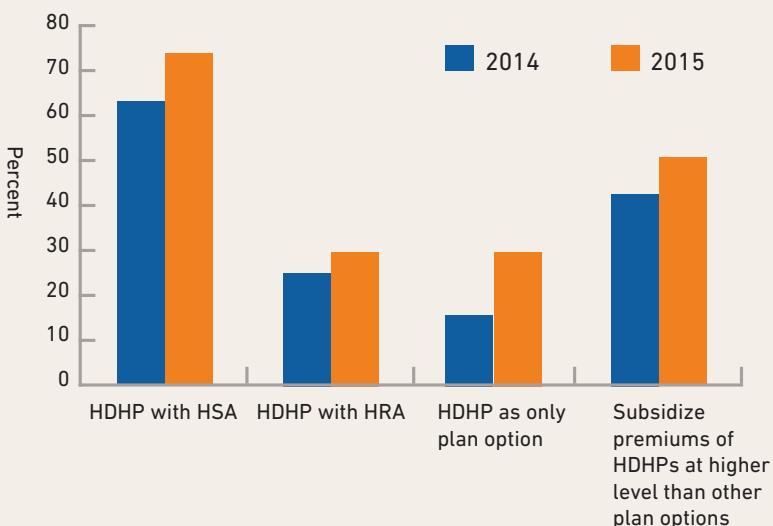


Figure 5. HSA-qualified, high-deductible health plans are gaining popularity.

¹⁴ <https://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2015/04/2015-emerging-trends-in-health-care-survey>



Tip 5: Set the Right Cost Differentials for Your Employees

Ensuring that employees can quickly identify the value difference between plans is a key driver of HSA-qualified, high-deductible health plan adoption among companies offering multiple healthcare plan options. The differential in premium contribution should at least be the difference in deductible amounts. The differential that will make your HSA-qualified, high-deductible health plan a “no brainer” depends a lot on the nature of your employee population and the extent to which they have contributed to the cost of their individual or family premiums in the past. You should take these factors into account—in addition to the ones listed in the previous section—when setting the overall premium contributions for your plans.

What Does the Typical HSA-Qualified Health Plan Look Like?

The Kaiser Family Foundation publishes an annual survey of private and non-federal public employers with three or more workers. Here are the averages from the 2015 survey:¹⁵

For HSA-Qualified Health Plans	Single Coverage	Family Coverage
Average total annual premium	\$6,251	\$17,545
Average annual employee contribution	\$1,071	\$4,955
Average deductible	\$3,350	\$4,955*
Annual Out-of-Pocket Maximum	\$6,550	\$13,100**

* This is the aggregate deductible for the entire family. There may also be individual deductibles for family members.

** Aggregate out-of-pocket maximum; the survey found a very wide variation across plans

15 The Henry J. Kaiser Family Foundation, 2015 Employer Health Benefits Survey, <http://kff.org/report-section/ehbs-2015-summary-of-findings/>, September 22, 2015



Tip 6: Consider Seeding Your Employees' HSAs

Seeding your employees' accounts with an initial employer contribution has proven to be an effective way to entice employees to open an HSA (and move to the HSA-qualified, high-deductible health plan/HSA option). It's also a good tool for easing the pain of a full replacement HSA-qualified, high-deductible health plan/HSA strategy. If you decide to go down that path, particularly if the contribution is made at the beginning of the year, employer contributions can mitigate some of the risk of moving to an HSA-qualified, high-deductible health plan. An employee being burdened with a medical bill before he or she has a chance to build up funds in the HSA is an example of this.

In addition, organizations are increasingly using HSA contributions as repositories for wellness incentives. For example, employers could contribute funds for employees who abstain from tobacco, participate in health-risk assessments, meet biometric standards (for example, weight control or blood pressure management), talk to a health coach, or participate in fitness activities.

A final approach—which, if properly communicated, can be as effective as seeding—is to use contribution matching. It's a model that's familiar to employees since it's often used with 401(k)s, and it reduces the negative impact of turnover early in the year. The only real drawback to contribution matching is that it's difficult to budget for, particularly in the early years of your program. While contribution matching is not as widely used today as seeding is, it will likely become more popular in the future as companies gain experience with administering HSAs (see Figure 6).

Employers' 2014 HSA Contribution Strategies*

Percentage of companies with an HSA-qualified, high-deductible health plan that contribute money to an HSA via a contribution strategy.

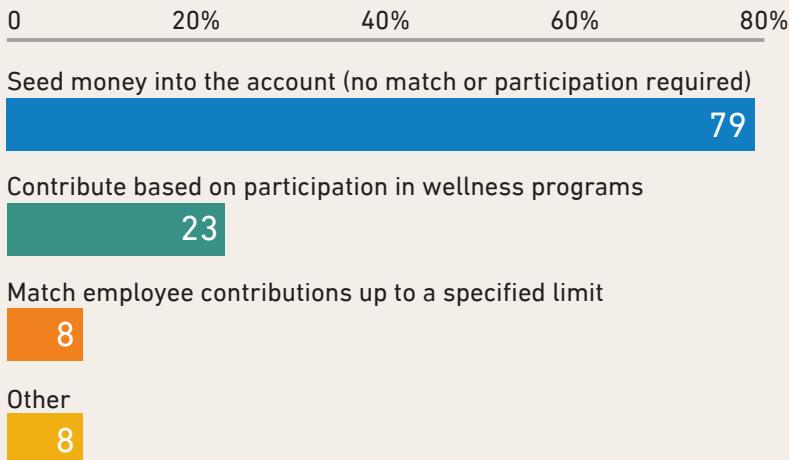


Figure 6. Of companies that contribute money to their employees HSAs, the majority today use a seeding strategy.

*Source: Towers Watson/National Business Group on Health Findings on Employers' 2014 HSA Contribution Strategies

Where Does an HRA Fit?

HRAs can be a great option for businesses that want to transition to a consumer-directed health strategy by giving employees a simple way to save, manage, and spend employer-provided healthcare funds. With an HRA, your company determines an annual limit for employees to use to pay for hundreds of eligible healthcare expenses. The funds are non-taxable for your employees and tax deductible for your business.

In order for employees to be able to contribute to an HSA and participate in an HRA, the HRA needs to be HSA-qualified, otherwise known as a Limited-Purpose HRA.

An HSA-qualified, high-deductible health plan (whether it is an HRA or group health insurance plan) must not provide coverage before the statutory deductible is met (e.g., \$1,300 in 2016 for individual coverage) other than:

- Health insurance premiums for the employer's HSA-qualified, high-deductible health plan
- Vision care
- Dental care

Important caveats:

- In some markets, certain carriers do not allow HRAs associated with their products.
- Employers can determine which expenses are eligible for reimbursement from a "standard" HRA, such as a portion of the deductible.
- Some "grandfathered" HRAs are subject to certain limitations under the ACA, although all HRAs that are integrated with an underlying group health plan are preserved. See the WageWorks Compliance Briefing Center¹⁶ for details.
- An "enhanced" Limited-Purpose HRA pays vision and dental.

Let's consider this example: For the 2016 plan year, Meredith selects self-only HSA-qualified, high-deductible health plan coverage under her employer's major medical plan, which is otherwise HSA-eligible. She is also covered by her employer's HRA, which reimburses vision and dental expenses that are not covered under the health plan, and does not reimburse expenses incurred before the statutory minimum HSA-qualified, high-deductible health plan deductible (\$1,300 for individual coverage in 2016) has been satisfied. Is Meredith still eligible for an HSA?

Yes, because the HRA is a Limited-Purpose HRA, her HRA coverage will not interfere with HSA eligibility.

¹⁶ See <https://www.wageworks.com/employers/employer-resources/compliance-briefing-center/healthcare/healthcare-reform/2014/hras-and-fsas-post-aca-be-sure-your-plan-is-on-track/>



Tip 7: Supplement Your HSA with an HSA-Compatible FSA

The HSA-Compatible Flexible Spending Account (FSA) is a companion tax-advantaged account that allows participants to set aside pre-tax dollars specifically for qualified dental and vision expenses. (It's also known as a Limited-Purpose or Special-Purpose FSA.)

Supplementing your HSA with an HSA-compatible FSA offers several advantages over an HSA alone:

- **Your employees can increase the total amount that they save.** Employees can contribute an additional \$2,550 (in 2016) to an HSA-Compatible FSA and use it to pay for dental, orthodontic, or vision expenses incurred by themselves or their dependents. This preserves HSA funds to pay for other qualified medical expenses.
- **Employees can still use FSA funds for some medical expenses.** Once an employee has met the IRS minimum annual deductible for an HSA-qualified, high-deductible health plan (or in some cases, the FSA plan document may require participants to first meet the full insurance deductible), he or she may switch the HSA-Compatible FSA to a standard or post-deductible Healthcare FSA that can be used for any qualified medical expenses, not just dental and vision. This allows them to reserve the funds in the HSA for use in the future.

HSA-Compatible FSAs are less flexible than HSAs due to stricter IRS Regulations (all purchases must be validated as eligible) and because some employers haven't elected carryover for their plans. The carryover feature allows up to \$500 of an employee's unused FSA dollars to be carried over to the next plan year, and is a great benefit to offer.

WageWorks has found that the average dollar amount lost or forfeited without carryover is less than \$300, so carryover eliminates the risk of losing unspent funds in most cases. Since HSA-Compatible FSAs are not portable, leaving one's employer will eliminate the benefit.

It may seem like having two savings accounts would confuse employees, but WageWorks has found that there is no issue as long as both benefit plans are communicated thoroughly and appropriately. The basic message is quite simple: If you have significant dental, orthodontic, or vision expenses, an HSA-Compatible FSA is a very compelling benefit. Additionally, companies like WageWorks offer smart debit cards that know the right account to tap at the right time. This smart card technology simplifies the management of two accounts.

Employers can also opt to offer a Limited-Purpose HRA. HRAs are employer-funded accounts and can be customized to only reimburse for dental, orthodontic, or vision expenses. This is another option for employers that are looking to strengthen their benefits packages beyond the HSA.



The basic message is quite simple: If you have significant dental, orthodontic, or vision expenses, an HSA-Compatible FSA is a very compelling benefit.”



Tip 8: Deliver the Right Message to the Right Employees at the Right Time

The key to a successful HSA-qualified, high-deductible health plan/HSA rollout is a comprehensive communications plan that covers both the short-term needs of open enrollment and a longer-term vision of consumer-directed healthcare. Overall, your communications plan should:

- Support the natural buying behavior of your employees
- Convey how your benefits strategy is positive for them
- Reach beyond open enrollment periods

Sample Employee Communications Plan

Figure 7. An example of an employee communications plan.



Work through the following steps in partnership with your HR consultant or broker and your HSA provider.

Step 1: Set Your Open Enrollment Goals

If you're implementing an HSA for the first time, you may already have some goals that you hope to achieve. If not, Figure 8 shows some ranges for your Year 1 adoption goals that you may want to set.

Sample Year 1 Adoption Goals

HSA Adoption Goal	High	Medium	Low
Full-replacement strategy	100%	90%	80%
1-2 year step replacement strategy	60%	50%	40%
HSA-qualified, high-deductible health plan as a side-by-side benefit option	40%	20%	10%

Figure 8. Some example ranges for setting your Year 1 adoption goals.

As part of the goal setting process, you may also want to consider:

- Setting goals for contribution levels. As a benchmark, 90 percent of HSA-qualified, high-deductible health plan enrollees contribute sufficient funds to cover their deductibles
- Targeting enrollment by specific employee segments
- Targeting enrollment by specific departments
- HSA awareness goals, particularly if you are implementing a step replacement strategy
- Cost effectiveness of the campaign
- Environmental impact (shift to online vs. paper communications)
- Enrollment support concerns

Step 2: Take a Look Back

You can learn a lot from your past open enrollments, regardless of whether they included an HSA. It is critical to audit and evaluate what efforts have and have not worked. This baseline information gives direction on what should change and what should stay, even if the HSA is a new offering.

Sample questions to explore include:

- What do employees ask about most?
- What are the most common challenges, expected or not?
- Which communications resonated, which ones didn't?
- What is the current level of understanding of your various benefits?

- What were you able to measure last year?
- What do you wish you had measured?

Step 3: Understand Your Audience

With employees being the target audience for open enrollment, it is essential to find out as much as possible about their needs for education and their preferences for how to be reached.

Think about your employee segments. Segments may include union vs. non-union parts of the employee population, or they could be structured by location or department, or by experience with the benefit. This last segment is one that often comes up in larger populations, as it relates to the familiarity levels with the benefit, specifically the use history.

Determining how you want to segment your employee community is a key step to complete before building a communications plan since it will influence how you reach your employees and the message you want to convey. Each audience segment will have different message requirements and for each segment you will need to:

- Speak to the needs of the specific populations
- Address main questions and concerns
- Highlight benefits particularly important to that segment

With HSAs, it's important to know how healthcare costs fit into each employee segment's compensation package and in their lives. Also, try to get a baseline of their HSA knowledge. For example, companies can often identify behavioral segments with respect to the adoption of newer benefits like HSAs. Figure 9 outlines sample questions to ask to better understand your audience.

Identify and Segment Your HSA Target Audience

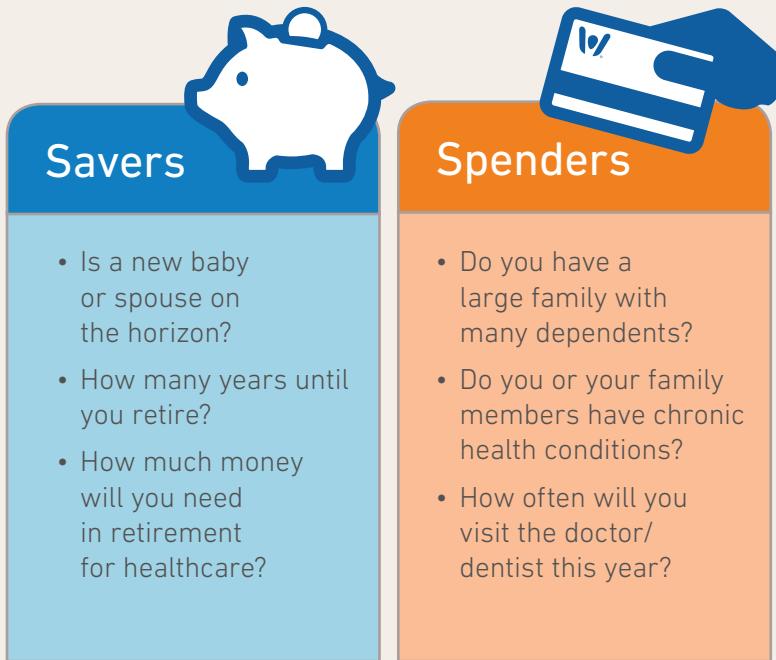


Figure 9. Identify behavioral segments within your employee population to develop messages that resonate with specific audiences.

Step 4: Develop Key Messages

Open enrollment can be a confusing, stressful time for employees. They have many decisions to make, based on big life issues—health and healthcare, how best to care for family members, and how to pay for it all. In addition, HSAs are complex in nature and many people will intuitively avoid additional complexity. Thus, the messages need to be relevant, easy to understand, and compelling.

This guide contains a lot of content that you can use, but you'll want to refine it to align with your employee populations, their needs and preferences, and your company's culture and program goals. As discussed earlier, you'll also want to tailor messaging to different employee segments.

Your key messages should communicate the value of the HSA and HSA-qualified, high-deductible health plan as well as address the perceived risks. They should also cover:

- Program awareness, why and how to enroll/re-enroll
- Ease of using the benefits, mobile app, debit card
- Addressing concerns, finding help easily
- Calls to action: what your audience should do next

Figure 10 shows a few sample messages and topics to cover.

Sample Message Categories and Topics

Savings	Low Risk	Easy to Use	Growth
<ul style="list-style-type: none">• Lower monthly premiums and put more dollars in your pocket• Pay for healthcare with pre-tax dollars• Leverage the HSA-Compatible FSA for more savings	<ul style="list-style-type: none">• Low risk thanks to employer contributions• The money you contribute is yours to keep• Plan ahead for future healthcare needs easily• Lower total out-of-pocket maximum	<ul style="list-style-type: none">• Less hassle than FSA• No need to spend by end of plan year• Direct access to funds as needed• Easy access to help and support• Mobile app and online access for easy account management	<ul style="list-style-type: none">• Ability to invest your funds• Benefit from a top 5 custodian bank• Lifestyle funds for right-time investing• Easy access to BNY Mellon from your WageWorks account

Figure 10. Organize your key messages by topic, and then develop a set of supporting messages to drive the main message home.

Step 5: Select Your Channels

Not everyone researches their benefits in the same way, nor do employees all learn the same way. By offering employees different choices on how to absorb information and exploring a variety of communications channels to deliver the messages, you will increase the share of your employees you'll reach and

increase your rate of success. The exact channel mix will further incorporate your budget and environmental goals, and general feasibility considerations.

Your communication channels may include:

- Email
- Your company intranet
- wageworks.com
- Videos
- Webinars
- Printed collateral, including flyers and posters
- Your company benefits handbook
- Virtual and physical benefit fairs
- Conference calls and recorded voicemail messages
- Live meetings, workshops, lunchtime brown bag sessions

Particularly with respect to HSAs, WageWorks recommends that you use a combination of traditional and digital communication vehicles and create a regular cadence of communications.

You'll educate and engage more employees, and you'll be more effective in reinforcing your key messages.

Step 6: Structure Your Communications Flow

Deciding on benefits is possibly the single largest buying decision a consumer—your employee—makes all year. Therefore, it follows a buying cycle: the natural decision making process anyone goes through when purchasing an item (or in this case enrolling in a benefit). Your communications flow needs to map to this buying cycle (see Figure 11); otherwise, it will miss the mark.

The Buying Cycle From the Employee's Viewpoint

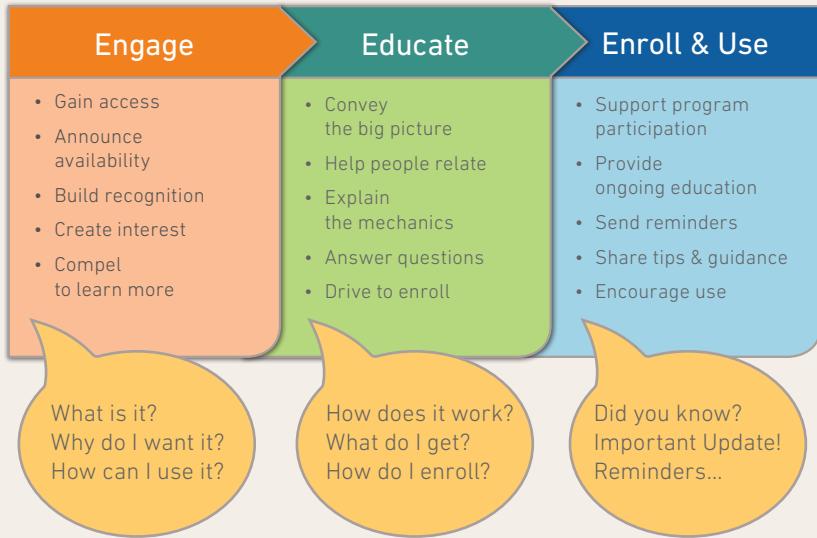


Figure 11. Your communications should map to your employees' buying cycle.

Step 7: Create Your Campaign

Now it's time to start reaching out to your employees. A few tips:

- Set a cadence for your communications well in advance of open enrollment
- Explore a mix of traditional offline and digital communications
- Establish a rhythm of communications that drive employees to enroll
- Think about how this mix applies to key employee segments you have identified
- Identify a clear call to action for each campaign (attend a webinar or benefits fair, try out the cost calculator on our provider's website, enroll now, etc.)
- Include contact information in every campaign so employees know how they can get their questions answered
- Track the results of each campaign so you know which tactics work best



Tip 9: Focus on Ongoing Education

Given the low level of HSA knowledge among most employees, ongoing education should be part of every employer's HSA program. There's a lot to know about HSAs, so just-in-time learning (for example, cheat sheets, podcasts, lunch-and-learn sessions, webinars, etc.) is likely to be much more effective than a lengthy document that gets filed away unread. Nevertheless, make sure that employees have a comprehensive online resource for getting answers when they need them, along with access to expert one-on-one support.

Additionally, the savings growth benefit should be promoted. As with 401(k)s, employees should be encouraged to invest and contribute the maximum. The long-term gain is very positive and promoting the savings and investment options should be encouraged.



The Towers Watson/NBGH 2015 Employer Survey states as employer adoption of account-based health plans (ABHPs) becomes pervasive, the use of full replacement ABHPs continues to grow. Eighty-two percent of companies have an ABHP in 2015, and another 4% expect to add an ABHP for the first time in 2016.¹⁷ ”

¹⁷ 2015 Willis Towers Watson/NBGH Best Practices in Health Care Employer Survey, <https://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2015/11/full-report-2015-towers-watson-nbgh-best-practices-in-health-care-employer-survey>, November 2015

Healthcare Cost Transparency Tools Are a Valuable Complement to HSA-Qualified Health Plans and HSAs

Healthcare transparency tools have recently been garnering more attention from employers and consumers. These web-based tools make employees more strategic buyers of healthcare by giving them a much better understanding of costs and likely outcomes.

Mercer reports that 77 percent of large employers (more than 500 employees) now offer transparency tools to their employees,¹⁸ and these tools are especially important with an HSA since employees have a direct financial interest in making informed decisions.

If you're implementing an HSA-qualified, high-deductible health plan with an HSA, you should not only offer transparency tools but also encourage their use. A report by the Business Roundtable, *Driving Innovation in the Health Care Marketplace: A CEO Report*, contains a number of case studies that illustrate leading employers' tactics.¹⁹

¹⁸ Beth Umland, "The Multi-Billion Dollar Question About Health Cost Growth," <http://ushealthnews.mercer.com/article/290/the-multi-billion-dollar-question-about-health-cost-growth>, December 11, 2014

¹⁹ Business Roundtable, "Driving Innovation in the Health Care Marketplace A CEO Report," <http://businessroundtable.org/health-care-innovation>, September 2014



Administering Your HSA: The Basics

Administering Your HSA: The Basics

Let's now address some of the most common questions and issues that companies have about administering their HSA plans.

HSA Eligibility Requirements

To be eligible to participate in and contribute to an HSA, your employees must meet these specific eligibility requirements:

- They must be enrolled in an HSA-qualified, high-deductible health plan with the minimum deductible and maximum out-of-pocket expenses on the first day of the month in which they want to contribute to an HSA.
- They must not be covered under another, non HSA-qualified, high-deductible health plan. This includes being covered under a spouse's Healthcare FSA or other plans—such as separate prescription drug plans or hospital indemnity plans—that overlap with the employee's HSA-qualified, high-deductible health plan and can invalidate HSA eligibility.
- They must not be covered under Medicare or TRICARE. (This includes Social Security Disability Insurance [SSDI] benefits.)
- They must not be claimed as a dependent on someone else's tax return.

Please note this is eligibility to contribute. Generally the same rules are used to determine eligibility to open an account as well, since a person would not typically open an account if they cannot contribute to the account. If an individual no longer meets the eligibility rules, that individual may no longer contribute to an HSA. However, that individual can still receive distributions from the account for contributions made while eligible.

Your employees can take a **short quiz** on wageworks.com to find out if they qualify for an HSA. Send them to wageworks.com/HSAqualify.

Qualifying for a Health Savings Account

Interested in signing up for a WageWorks® HSA but not sure if you qualify? Take this short quiz to find out.

Answer the following questions to determine if you qualify for an HSA:	Yes	No
1. Are you covered under an HSA-qualified health plan?		
2. Does your health insurance plan have an annual deductible of not less than \$1,300 for individual coverage and \$2,600 for family coverage?*		
3. Does your health insurance plan have an annual out-of-pocket maximum of no more than \$6,550 for individual coverage and \$13,100 for family coverage?*		
4. Are you covered by Medicare (Part A or Part B)?		
5. Does another person claim you as a tax dependent on their tax return form?		
6. Are you covered by a supplemental or cancer plan, discount card or discount price program, employee assistance program (EAP), wellness or disease management program, or insurance for a specified disease or illness?		
7. Are you covered by another health plan (such as your spouse's plan)—other than those listed in question #6—that is not HSA-qualified?		
8. Are you covered by any other healthcare benefit account, such as a Healthcare Flexible Spending Account (FSA), an employer-funded Health Reimbursement Arrangement (HRA), or TRICARE that covers medical expenses in addition to dental and vision expenses?		

*These figures are for 2016.

HSA Contribution Limits

HSA contributions may come from many sources: the person who established the HSA, their employer, other family members, or any other person. **Note that regardless of the source of the contribution, the annual contribution limit applies in total, not by source.** The combined total of all contributions cannot exceed the annual maximums set forth by the IRS. For 2016, these limits are:

- \$3,350 per individual with self-only coverage
- \$6,750 for those with family coverage
- \$1,000 catch-up (55 years of age or older during the calendar year)

As mentioned previously, HSAs are indexed annually for inflation, so the limits can increase each year.

HSAs Are Individual Accounts, But Contribution Limits May Apply at the Family Level

It's important to know that HSAs are individual accounts. Just as with a 401(k) or Individual Retirement Account (IRA), each spouse may have his or her own account and elect to make his or her own separate contributions. However, if they are both covered by family coverage, the HSAs combined may not exceed the family coverage HSA contribution amount.

Contribution limits depend on what kind of healthcare coverage each spouse has in place:

- If both spouses enroll in an HSA-qualified, high-deductible health plan with self-only coverage, they may each contribute up to the individual limit (\$3,350 for 2016).

- If employees are covered under a family HSA-qualified, high-deductible health plan, each spouse may set up individual HSAs, but the contributions cannot exceed the family contribution limit of \$6,750 for 2016. The contribution limit is split evenly between spouses, unless another arrangement is made.

There is another wrinkle: The word “dependent” is used differently in the IRS tax code and in some health plans and state laws. The ACA requires that health plans offer coverage for adult children up to age 26 under a parent’s family health plan. While they qualify as a dependent for insurance purposes, adult children might not qualify as tax dependents on the parent’s tax return. If that is the case, the adult child’s medical expenses cannot be covered by a parent’s HSA.

However, an adult child who is covered under a parent’s family HSA-eligible health plan but is not a tax dependent can open his or her own HSA and contribute up to the full family maximum.

Individuals 55 and Over May Make Catch-up Contributions

There’s one more provision for individuals who are 55 years of age or older by the end of the tax year: They may make a catch-up contribution to help them save for medical expenses in retirement. The annual catch-up contribution limit for 2016 is \$1,000 and can be made any time during the year in which the HSA participant turns 55. Even if the participant is over 65, he or she is eligible to contribute to the HSA and make catch-up contributions until the month that he or she enrolls in Medicare. Each spouse can make catch-up contributions as long as he or she has an individual HSA.

Contributions Align with the Taxpayer's Tax Year

Like a 401(k) or IRA, HSA contributions apply to the period covered in the taxpayer's tax return. For most people, the tax period is a calendar year. This is true even if the employer's health insurance enrollment follows another period, for example April 1 to March 31. So a calendar-year taxpayer can start contributing to his or her HSA for a particular year on January 1 of that year and contribute until the regular filing deadline for his or her tax return (April 15 of the following year) as long as they are covered by an HSA-qualified, high-deductible plan.

Full Contribution Rule and Testing Period

An individual who is eligible on the first day of the last month of his or her tax-paying year (generally December 1) may contribute up to the full yearly maximum (in 2016, \$3,350 for individuals or \$6,750 for families). However, there is a "testing period" that lasts 13 months (for example, December 1, 2016, through December 31, 2017). The participant must have HSA-eligible coverage during this entire testing period, or else he or she has to pay income tax and a 10 percent additional tax on the contributions that could not have otherwise been made (i.e., the portion of the tax period during which the HSA-qualified, high-deductible health plan was not in place).

Participant Tips

How to Get the Most Savings from Your HSA

- **Make HSA contributions your top priority.** HSAs have the best tax treatment of any retirement savings vehicles (401(k)s, IRAs, Roth IRAs, etc.) because you can use the money tax-free to pay for qualified medical expenses—which can be some of the most unpredictable expenses that you face. In fact, unpaid medical bills are the top cause of personal bankruptcy.²⁰ The fact that the IRS gives you until April 15th of the following year to make payroll deductions gives you some extra flexibility to contribute as much as you can so you can maximize your tax advantages.
- **If you're switching from a high-cost PPO plan, try to put the money you're saving on premiums into your HSA.** Then you'll be in a better position to cover the costs of the higher deductible for your HSA-qualified, high-deductible health plan; and if you don't have many medical expenses in a particular year, you'll be able to save for the future. Unlike other types of healthcare accounts, HSAs are not "use it or lose it."
- **Contribute as early in the year as possible.** This will increase the amount of your tax-deferred investment income and increase the probability that you'll have funds available in the account at the time that you incur qualified medical expenses.
- **If you and your spouse both have HSAs, think about your tax situations when splitting your contributions.** One spouse may get a bigger advantage from HSA contributions than the other if you're filing your tax returns separately.

²⁰ Dan Mangan, "Medical Bills Are the Biggest Cause of US Bankruptcies: Study," <http://www.cnbc.com/id/100840148>, June 25, 2013

HSA Contribution Methods

Most HSA participants contribute via payroll deduction through a cafeteria plan to get more robust tax advantages, but the participant (or someone else) may also add funds directly to an HSA.

What Happens If a Participant Accidentally Contributes Too Much?

HSA contributions in excess of the IRS annual contribution limits are not tax deductible and are generally subject to a six-percent excise tax. If participants contribute too much to their HSA, they can do one of two things:

- 1) Remove the excess contributions and the net income attributable to the excess contribution before they file their federal income tax return (including extensions). They will pay income taxes on the excess removed from their HSA.
- 2) Leave the excess contributions in the HSA and pay six-percent excise tax on excess contributions. The following year, individuals may want to consider contributing less than the annual HSA contribution limit to make up for the excess contribution during the previous year.

What Happens If a Participant Leaves Their Job?

An HSA belongs to the account owner, even if they change jobs, switch healthcare plans, or retire. Employees have the option to open a new HSA through their new employer, if offered; continue to contribute to their existing HSA; transfer their existing HSA balance to a new HSA, or enroll in more than one HSA. If the employer has already made contributions for the year, the participant is entitled to keep all of the contributions made as of the termination date.

HSA Eligibility and Contribution Examples:

Married Couple with Employer Contribution

Carl and Leticia are a married couple who both have healthcare coverage through their jobs. Carl has a traditional PPO, but Leticia has an HSA-qualified, high-deductible health plan and a corresponding HSA. Leticia's employer contributes \$1,000 per year to her HSA. Since the individual limit is \$3,350 for 2016, Leticia is allowed to contribute up to \$2,350, either via a regular payroll deduction or as a deposit. Carl also has the option of contributing to Leticia's HSA, as long as total contributions don't exceed the maximum contribution amount.

Family with Two HSA-Qualified Health Plans

Jeff and Jenny are a married couple who are both enrolled in separate HSA-qualified, high-deductible health plans through their jobs. Their children, Sarah and Scott, are covered under Jeff's plan, and Jenny's plan covers her alone. Because Jeff has family coverage (and would be able to cover Jenny if needed), Jeff and Jenny can contribute a combined total of \$6,750 to their HSAs. They may decide how to split their contributions between their two HSAs.

Life Event

Anne-Marie has baby Max on June 15, 2015 and changes from single coverage to family coverage under her HSA-qualified, high-deductible health plan as of that date. Her maximum HSA contribution is calculated as follows:

Type of Coverage	Percentage of Year	Maximum Contribution
Single coverage	6 months/ 12 months =50%	50% of \$3,350 = \$1,407
Family coverage	6 months/ 12 months = 50%	50% of \$6,750 = \$3,915
Total		\$5,322

Figure 12. Sample life-event that changes HSA contribution limits.

*For purposes of HSA contribution eligibility, the IRS looks at the participant's status on the first day of the month.

Embedded Deductibles

Generally, an HSA-qualified, high-deductible health plan (HDHP) with family coverage does not have an embedded deductible. However, the ACA requires that all family HDHP coverage satisfy the self-only cost sharing limits. What does this mean? For plan years beginning in 2016 or later, the self-only limit applies to all individuals, regardless of whether they have self-only, family, or other coverage. The ACA out-of-pocket maximum for 2016 is \$6,850 for self-only coverage. The 2016 statutory out-of-pocket limits for HDHPs is \$6,550 for self-only coverage. Therefore, an individual with HDHP family coverage needs to only incur a maximum of \$6,850 (2016 ACA out-of-pocket maximum) for out-of-pocket expenses, even if the family out-of-pocket is higher than \$6,850.

Catch-Up Contributions

Frank is a single 57-year old who started a new job and enrolled in an HSA-qualified, high-deductible health plan as of November 30, 2015. He may contribute up to \$4,350 in 2015 (his individual

contribution limit (special rules apply) plus the “catch-up” contribution). The IRS allows HSA account holders to make 2015 contributions until April 15, 2016, so he decides to contribute \$2,000 by December 31, 2015 and deposits an additional \$2,350 during March 2016.

Married Couple with Two HSAs with Catch-Up Contributions²¹

Mark (55) and Sylvia (52) are married and are enrolled in separate HSA-qualified, high-deductible health plans. They may each contribute up to \$3,350 for 2016, the individual contribution limit plus one \$1,000 catch-up contribution for Mark, bringing the total across both HSAs to \$7,700.

Full Contribution Rule

Veronica becomes eligible for an HSA on October 1, 2015 and contributes \$3,350 by the end of the year. However, she drops her HSA-qualified, high-deductible health plan on February 1, 2016 and moves to a traditional PPO. She is therefore only eligible to contribute \$837.50 (3/12 of \$3,350) for 2015. She must withdraw the remaining \$2,512.50 from her HSA and pay income tax on that money (plus \$5 in interest earned on it) for 2015. If the excess contribution is not withdrawn before her filing deadline (including extensions), she will also owe ten-percent in additional tax.

Change in Employment with Employer Contribution

John's company makes a \$2,000 contribution to all of its HSA-qualified, high-deductible health plan participants' HSAs on January 1, 2016. John leaves the company on February 14 of 2016. He is entitled to keep the full \$2,000 employer contribution in his HSA.

²¹ No part of this notice should be construed as financial, tax, investment or legal advice. Neither WageWorks nor your employer is qualified to provide you tax advice, please consult a qualified tax advisor or the IRS at www.irs.gov

The HSA Enrollment Process²²

The steps that your employees follow to open an HSA vary from provider to provider, but they are pretty straightforward and can often be completed online.

Your HSA provider may work with a separate HSA custodian—generally a financial institution that manages the cash accounts and investments. If the HSA custodian is not a financial institution, the custodian typically holds the HSA funds in a bank. With financial institutions, cash balances in HSAs are generally FDIC-insured. Note that because HSAs are bank accounts, they must adhere to the Customer Identification Program (CIP) established with the US PATRIOT Act of 2003. This law requires financial institutions to obtain, verify, and record specific information, such as the name, address, date of birth, and Social Security Number of each account owner.

Just as with a 401(k), participants designate one or more beneficiaries who will receive the funds in the HSA account in the event of their death.

Managing HSA Funds

As participants make regular contributions to their HSAs, they will start accumulating more funds than they need for qualified medical expenses that may be incurred in the foreseeable future. Most HSAs offer investment options that allow participants to earn higher rates of return on these longer-term savings once the account balance reaches a minimum level (for example, \$1,000). Taking advantage of these investment opportunities is the best way for participants to grow their healthcare nest eggs.

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Estimating the Amount of HSA Funds Available for Investment²³

Only funds on deposit in the FDIC-insured bank account can be used to pay for qualified medical expenses, and it can take several business days to liquidate funds in longer-term HSA investments. So, participants should keep adequate cash balances to cover near-term cash needs. Participants can always move money back into their cash accounts without affecting their tax situation or contribution limits, but it's not efficient to disrupt investment strategies for anticipated expenses. Many HSA providers offer investment options that do not incur trading fees when you buy or sell, but you should check your providers' policies.

Figure 13 shows a sample worksheet your employees can use to determine how much they should invest in their HSA.

How Much Should I Invest? An HSA Worksheet for Employees

Expense Category	Amount
Annual deductible	
COBRA premiums (if applicable)	+
Other anticipated medical expenses	+
Total short-term cash needs	=
Total balance in HSA	-
Cash available for investments (Total balance—Short-term cash needs)	=

Figure 13. This worksheet can help your employees determine how much they should invest in their HSA to get the most savings.

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Implementing Investment Strategies²⁴

HSA participants have different investment strategies. These strategies depend on their ages, life events, healthcare spending patterns, and overall risk tolerance and savings approach. Some participants want to actively manage their investments, while others want to take advantage of lifestyle or lifecycle funds that automatically adjust their risk profiles as participants age.

Most HSAs provide a variety of investment options with different asset characteristics and risk profiles. Your HSA provider will provide online tools for managing your investments. It may even include asset allocation tools, target date funds, and the ability to automatically invest excess cash balances, or reallocate funds back to the cash account.

When evaluating the best lineup of investments for an HSA, it's important to think about how funds may be used throughout the lifecycle of an HSA. While it may seem simpler to have an HSA fund list that mirrors your 401(k), some 401(k) funds may not be best suited for the ever-changing spender/saver behavior of an HSA participant. After all, 401(k) plans are designed for participants to contribute funds and leave them there until after retirement.

There are penalties and sometimes minimum investment amounts associated with funds in a 401(k) offering. HSAs funds, on the other hand, should be able to meet the needs of the saver employee as well as the employee who has an unexpected medical expenditure. The spender should not be penalized for liquidating assets.

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HSA Transfers and Rollovers

Your company's HSA can accept trustee-to-trustee transfers or rollovers to your HSA from another HSA or an Archer Medical Savings Account (MSA, a pre-HSA type of tax-advantaged healthcare savings account) as long as the two accounts have the same owner. This process is basically the same as transferring an IRA or rolling over a 401(k).

If a participant does a rollover, he or she has only 60 days to get the funds back into an HSA without incurring taxes or penalties. Participants may only do one rollover per 12-month period.

Participants cannot transfer funds to or from another person's HSA—even if it's a spouse.

Using an HSA to Pay for Medical Expenses

Whose Medical Expenses Can Participants Pay for?

Participants can use their HSAs to pay for qualified medical expense incurred by:

- The participant and his/her spouse, regardless of whether the spouse has his or her own HSA and regardless of whether he or she is covered under an HSA-qualified, high-deductible health plan
 - Any dependents the participant claims on his or her tax return
 - It's important to note that the determining factor of who is a "dependent" is the IRS definition for tax purposes, not based on your company's benefits policies or provisions of the ACA.
- This brings up two special situations:²⁵

²⁵ For more details specific to HSAs, view Pub 969
<https://www.irs.gov/pub/irs-pdf/p969.pdf>

- Adult children up to age 26 may be covered under a parent's HSA-qualified, high-deductible health plan. However, this does not automatically allow adult children's expenses to be reimbursed by an HSA. If they don't qualify as dependents on the participant's tax return, he or she can't use an HSA to pay their medical expenses.
- Domestic partners and same-sex spouses may be enrolled in your HSA-qualified, high-deductible health plan depending on your company's policies. However, the ability for an HSA to pay for their medical expenses depends on how they are treated on the participant's tax return.

Same-sex spouses are treated as any other spouse for federal purposes. Domestic partners must be considered a tax dependent for an HSA to pay for their medical expenses.

Domestic partners who are covered under their domestic partner's employer plan as a dependent, not a spouse, are able to open up their own HSA and contribute up to the family maximum on their own. Unlike spouses, they do not have to split the family maximum.

What are Qualified Medical Expenses?

According to *IRS Publication 502*,²⁶ medical expenses are:

The cost of diagnosis, cure, mitigation, prevention, or treatment of disease, and the cost for treatments affecting any part or function of the body.

The Publication further states that:

- These expenses include payments for legal medical services rendered by physicians, surgeons, dentists, and other medical practitioners. They also include the costs of equipment, supplies, and diagnostic devices needed for these purposes.

²⁶ Internal Revenue Service, Publication 502 Cat. No. 15002Q Medical and Dental Expenses <https://www.irs.gov/pub/irs-pdf/p502.pdf> January 11, 2016

- Medical care expenses must be primarily used to alleviate or prevent a physical or mental defect or illness. They do not include expenses that are merely beneficial to general health, such as vitamins (unless prescribed) or a vacation.

Qualified medical expenses include:

- **Provider payments** including deductibles and coinsurance
- **Prescription drugs**
- Non-drug items such as **crutches, bandages, breast pumps, or blood pressure monitors** that specifically relate to preventing or treating disease
- **Dental expenses** from checkups and cleanings to braces, can all be paid for with tax-advantaged dollars from the HSA
- **Vision care**, including checkups, glasses, contact lenses, prescription sunglasses, cleaning fluids, and other expenses related to eye care
- **Travel expenses**, if the trip is for essential medical care

Certain insurance premiums count as qualified medical expenses:

- **Premiums for continuation coverage** under COBRA for the subscriber, spouse, or dependents
- A health plan maintained while the subscriber, spouse, or dependent is receiving **unemployment compensation** under any federal or state law
- A **qualified long-term care insurance contract**
IRS Publication 969²⁷ contains the criteria for which plans qualify; how much the HSA participant can pay also depends on his or her age

²⁷ Internal Revenue Service, Publication 969 Cat. No. No. 24216S Health Savings Accounts and Other Tax-Favored Health Plans, <https://www.irs.gov/pub/irs-pdf/p969.pdf> January 13, 2016

- **Healthcare premiums in retirement.** When participants retire and enroll in Medicare, they can use their HSAs to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If they have retiree health benefits through a former employer, they can also use their HSAs to pay for their share of retiree medical insurance premiums. The one expense you cannot use your account for is to purchase a Medicare supplemental insurance or “Medigap” policy

Here are some expenses that are generally **not** considered qualified medical expenses:

- **Over-the-counter drugs**, unless the participant has received a prescription for such drugs from his or her physician
- **Weight loss supplements, nutritional supplements and vitamins**, unless the need has been substantiated by a physician
- **Non-drug items** that are beneficial to health but aren't treating or preventing a specific disease, for example exercise equipment
- **Weight loss programs**, unless the weight loss is a treatment for a specific disease diagnosed by a physician (such as hypertension or heart disease)
- **Stress reduction** such as massages, unless medically necessary and documented via a physician's letter
- **Cosmetic surgery**, unless it's necessary to improve a deformity arising from a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease

Your employees can look up HSA-eligible expenses when they log into their WageWorks account or at wageworks.com.

Participants Are Responsible for Determining if Each Expense is Qualified

Participants have direct control over HSA distributions and they are the ones who are responsible for making the decision as to what expenses are qualified. The law contains no requirement that HSA administrators, custodians, or employers check to see how distributions are being used, although some HSA providers may furnish reminders during the disbursement process. Participants need to know what qualified medical expenses are (as partially defined in IRS Publications 502 and 969) and they need to keep receipts in the event of an audit.

When Do Expenses Have to Be Incurred?

In order to be reimbursed from the HSA, the expenses need to have been incurred on or after the date the HSA is established.

HSA Disbursement Methods

Disbursement methods and processes will vary based on your company's HSA provider, but they include:

- **Pay the healthcare provider directly** from the HSA, just like the participant would pay other bills online. Some HSA providers integrate with your health plan so that participants can view their Explanation of Benefits (EOB) and know exactly how much each provider is owed.
- **Use a special HSA debit card** that makes HSA funds accessible when the participant is in a doctor's office or at the pharmacy.
- **Reimbursed directly** for qualifying expenses paid with a personal credit card or bank account. This is also a way for participants to use HSA funds for bills that they had to pay early in the year, before the HSA had adequate funds in it.

What Happens if Participants Use HSA Funds for Non-Qualified Expenses?

If participants use their HSAs to pay for non-medical expenses, they are required to include any such reimbursements as gross income on their tax returns. These payments are subject to an additional 20-percent tax. However, when participants reach the age of 65 or die, distributions may be used for other purposes without being subject to the excise tax. Income taxes still apply.

How to Handle a “Mistaken Distribution”

An HSA mistaken distribution may occur if:

- A participant receives a reimbursement from an insurance carrier for a covered expense originally paid from the HSA.
- A participant receives a reimbursement from the service provider or merchant for a covered expense originally paid from the HSA.
- A participant receives a duplicate reimbursement from the HSA (for example, he or she pays via debit card and then inadvertently takes a disbursement from the HSA, thinking that he or she had paid with a personal credit card).
- A participant used the funds in the HSA to pay for what he or she mistakenly believed was a covered expense.
- A participant disputes a payment via a debit card dispute process.

If a participant receives a mistaken distribution, he or she can repay the amount to the HSA as long as the mistake of fact was due to a “reasonable cause,” and the mistake is corrected no later than April 15 following the year that he or she knew or should have known of the mistake. *IRS Notice 2004-50*²⁸ contains more details.

²⁸ Internal Revenue Service, “Part III - Administrative, Procedural, and Miscellaneous Health Savings Accounts — Additional Qs & As Notice 2004-50,” <http://www.irs.gov/pub/irs-drop/n-04-50.pdf>, August 9, 2004

Frequently Asked Questions from HSA Participants²⁹

Q. My spouse contributes to a Healthcare FSA that reimburses expenses before the deductible is met. Can I make contributions to my HSA if I participate in an HSA-qualified, high-deductible health plan?

A. No. If either you or your spouse participates in a standard Healthcare FSA or HRA, neither of you is eligible to contribute to an HSA. A standard Healthcare FSA or HRA that pays first-dollar benefits is the same as family coverage, because it is available to reimburse the qualified expenses of the employee and the employee's spouse and dependents.

Q. What happens to an HSA in a divorce?

A. HSAs are individual accounts. In a legal separation or divorce, a court judgment may give HSA funds from one spouse in part or in full to the other spouse. Midyear changes in marital status may also cause excess contributions, so you should check your accounts closely and consult with a tax advisor.

Q. Does the HSA-qualified, high-deductible health plan have to be in my name to open an HSA?

A. No, the policy does not have to be in your name. As long as you have coverage under an HSA-qualified, high-deductible health plan, you are eligible for an HSA (assuming you meet the other eligibility requirements for contributing to an HSA). You can still be eligible for an HSA even if the policy is in your spouse's name.

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Q: I own my business. Am I eligible for an HSA?

A: Yes, business owners are eligible for HSAs as long as they are enrolled in an HSA-qualified, high-deductible health plan. Here are some details:

- If you're a sole proprietor or single-member LLC, you may make contributions. However, you cannot deduct these contributions as business expenses on Schedule C. (Of course, if you are making contributions on behalf of your employees, these are deductible business expenses.) A sole proprietor's HSA contributions are reported, along with health insurance payments, on Form 8889 and are carried onto page 1 of Form 1040.
- Similarly, partners in a partnership or multi-member LLC deduct their own HSA contributions as personal deductions. If the partnership makes contributions on the partner's behalf, those contributions are treated as a distribution of money to the partner.
- If you own more than 2 percent of an S corporation, you deduct your own HSA contributions on your personal tax return. Any contributions your company makes to your HSA is considered to be a guaranteed payment and is deducted by the corporation and included in your gross income.

Q. If both spouses are 55 and older, can both spouses make catch-up contributions?³⁰

A. Yes, if both spouses are eligible individuals and both spouses have established an HSA in their name. If only one spouse has an HSA in their name, only that spouse can make a catch-up contribution.

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Q. I turned 55 this year. Can I make the full catch-up contribution?

- A. If you had HSA-qualified, high-deductible health plan coverage for the full year, you can make the full catch-up contribution regardless of when your 55th birthday falls during the year. If you were not covered by an HSA-qualified, high-deductible health plan for the full year, you must prorate your catch-up contribution for the number of full months you were eligible—that is, you had HSA-qualified, high-deductible health plan coverage. However, if you are covered on December 1, you are treated as an eligible individual for the entire year and get the full contribution.

Q. If I am 65 years old and eligible for Medicare, can I make contributions to an HSA?

- A. Unless you are currently enrolled in Medicare, you are still eligible to contribute to an HSA as long as you are in an HSA-qualified, high-deductible health plan. Keep in mind that if you have initiated Social Security distributions, you are automatically enrolled in Medicare and, therefore, ineligible to contribute to an HSA.

Q. Is there a penalty for over-contributing to an HSA?

- A. If you contribute more than your maximum annual contribution to your HSA, you may withdraw the excess without penalty up until your tax filing date (including extensions) of the following year. After that time, the funds are subject to both ordinary income tax and an excise tax of 6 percent.

Q. May I make deposits in more than one HSA?

- A. Yes, you may have more than one HSA and you may contribute to each account. However, this does not give you any additional tax advantages as the total contributions to your accounts cannot exceed your maximum annual contribution.

Q. Can I use my HSA to pay for medical services provided in other countries?

- A. Yes, as long as they are eligible healthcare expenses under U.S. law (See IRS Publication 502).

Q. Is there a penalty for maintaining excess contributions in my HSA?

- A. Yes, income tax and excise tax of 6 percent are due for every year the excess contribution remains in the account.

Q. Can I pay my health insurance premiums with an HSA?

- A. You can only use your HSA to pay health insurance premiums if you are collecting federal or state unemployment benefits, or you have COBRA continuation coverage through a former employer.

Q. Can I purchase long-term care insurance with money from my HSA?

- A. Yes, if you have tax-qualified long-term care insurance. However, the amount considered a qualified medical expense depends on your age. Reference IRS Publication 969 for an overview; you'll find the amounts deductible by age in the *Instructions for Schedule A, Form 1040*.³¹

Q. I have an HSA but no longer am enrolled in an HSA-qualified, high-deductible health plan. Can I still use the money that is already in the HSA for medical expenses tax-free?

- A. Once funds are deposited into the HSA, the account can be used to pay for qualified medical expenses tax-free, even if you no longer have coverage under an HSA-qualified health plan. There is no time limit for using the funds.

³¹ Internal Revenue Service, "2015 Instructions for Schedule A (Form 1040)," <https://www.irs.gov/pub/irs-pdf/f1040gi.pdf> January 5, 2016

Q. What happens to the money in my HSA if I lose my HSA-qualified, high-deductible health plan coverage?

A. Funds deposited into your HSA remain in your account and automatically roll over from one year to the next. You may continue to use the HSA funds for qualified medical expenses. You are no longer eligible to contribute to an HSA for months that you are not an eligible individual because you are not covered by an HSA-qualified, high-deductible health plan. If you are covered by an HSA-qualified, high-deductible health plan for less than a year, the annual maximum contribution is reduced. If you made a contribution to your HSA for the year based on a full year's coverage by the HSA-qualified, high-deductible health plan, you will need to withdraw some of the contribution to avoid the tax on excess HSA contributions. If you regain HSA-qualified, high-deductible health plan coverage at a later date, you can begin making contributions to your HSA again.

Q. Do I lose unused funds each year?

A. No, they remain in your account until used. There is no time limit on using the funds.

Q. What happens to the money in an HSA after I turn age 65?

A. You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. The one expense you cannot use your account for is to purchase a Medicare supplemental insurance or "Medigap" policy.

Once you turn 65, you can also use your account to pay for things other than medical expenses. If used for other expenses, the amount withdrawn will be taxable as income but will not be subject to any other penalties.

Q: What happens to the money in my HSA if I die?

A: In the event of your death, your executor or beneficiaries will have to notify your HSA provider. If the account owner designated his or her spouse as the beneficiary, the surviving spouse is treated as the account owner of the HSA after the original account owner's death. The surviving spouse is subject to income tax and penalty (if under 65) only to the extent distributions from the HSA are not used for qualified medical expenses.

If the account owner designated an individual that is not his or her spouse, then the account is no longer an HSA and an amount equal to the fair market value of the account assets is included in such person's income. If the account is taxable, the taxable amount will be reduced by any qualified medical expense incurred by the deceased individual, before death and paid by the recipient of the HSA. The taxable amount will be reduced by the amount of estate tax paid due to inclusion of the HSA into the deceased individual's estate.

A spousal beneficiary may choose to open a new HSA at a custodian of their choosing and roll over the amount to avoid taxes. Beneficiaries should consult their tax advisor for more information regarding the treatment of the HSA distribution.



Key Considerations in Choosing Your HSA Provider

Key Considerations in Choosing Your HSA Provider

It may seem like HSAs have a lot of moving parts, but the right HSA provider will make it simple for both you and your employees. Here are some questions to ask to help you select the best HSA provider for you and your employees.

Expertise

- How well does the provider understand the unique compliance requirements of HSAs?
- How broad are the provider's competencies to assist with creating and executing a holistic consumer-directed benefits strategy that fits your organization's needs?
- Is the provider committed to investing in their HSA solution?
- Has the provider worked with organizations like yours?
- How does the provider stay abreast of legislative and regulatory changes to ensure HSAs remain in full compliance with all applicable laws and regulations? Does the provider have any influence over legislative and regulatory decisions that could affect HSAs to your advantage?

Bank or Non-Bank Custodian

- Does the provider utilize a bank or non-bank custodian?
- If the custodian is not a bank, has it demonstrated its knowledge of all of the banking regulations that are applicable to HSAs?
- If the custodian is not a bank, how are funds managed? How are they segregated from the custodian's operating capital?
- If the custodian is not a bank, what policies and practices are in place to ensure that funds are secure and that they are complying with their fiduciary obligations?

Administrative Convenience

- Does the provider offer a simple enrollment process?
- How does the contribution process work each payroll cycle?
- What happens to employee and employer contributions while accounts are in the process of being set up?
- How does the provider implement the customer identification process (CIP) required by the Patriot Act? Is the provider able to explain the most common issues with reporting payroll and funding accounts? Can it describe simple solutions to overcome them?
- Will you be able to run any reports you need, or will you have to rely on the provider to do so?
- Will you need to change HSA providers if you change health plan carriers?

Employee Convenience

- Do participants have convenient ways to disburse funds from their accounts, whether they are paying a provider or paying themselves?
- Does the provider offer debit cards? How easy are they to use?
- Even though the responsibility of determining which expenses are qualified medical expenses lies with the participants, does the HSA provider include any safeguards to help participants stay in compliance?
- Do participants have integrated access to primary insurance claims data to simplify the process of using HSA funds?
- What self-service features are available to help participants use their accounts?
- How easy is it to use the provider's website, self-service participant portal, and mobile apps?
- Do participants have convenient access to customer service representatives who are knowledgeable about HSAs, when they need it?
- What customer service channels are available—web, mobile, chat, social media, email, phone?

Investment Options

- Is there a broad range of investment options available to meet different investment styles and employee demographics?
- How are these investments selected?
- What is the performance record of these funds (1-year, 3-year, and 5-year)? What are their expense ratios?
- What fees do participants have to pay to invest? To trade?
- What tools will participants have to assess risk and select the right investments?
- Is there a minimum balance required to make investments?
- Are funds invested automatically or do participants need to remember to log into their accounts to make periodic investments?
- What are the interest rates for cash balances?

Communication

- How will the provider help you build the right communications plan for your employees?
- How does the provider support open enrollment activities?
- What expertise does the provider bring to the table in working with employee populations like yours?

Education

- How will the provider help you educate employees on an ongoing basis?



Conclusion

Conclusion

Employers recognize that HSAs are an integral part of their new path forward in healthcare—towards consumer-directed approaches that curb escalating costs and offer employees an important new savings vehicle. HSAs are relatively easy to manage and they empower employees to take more control over their healthcare futures.

HSAs Help Your Employees by:

- Lowering their monthly health insurance premiums
- Giving them the flexibility to spend healthcare dollars according to their needs
- Growing their healthcare nest eggs
- Maintaining control over doctor-patient relationships

HSAs Help Your Company to:

- Mobilize your employees to help control healthcare costs
- Save money on payroll taxes
- Attract and retain valuable human resources by offering a desirable, tax-advantaged savings vehicle
- Prepare for new ACA requirements

Selecting a proven HSA provider to help you implement, administer, and drive employee adoption of your HSA plan is an important decision. With more than a decade of experience administering HSAs for thousands of large enterprises and small- and medium-sized businesses, WageWorks can help.



About WageWorks

About WageWorks

WageWorks (NYSE: WAGE) is a leader in administering Consumer-Directed Benefits (CDBs), which empower employees to save money on taxes while also providing corporate tax advantages for employers. WageWorks is solely dedicated to administering CDBs, including pre-tax spending accounts, such as Health Savings Accounts (HSAs), health and dependent care Flexible Spending Accounts (FSAs), Health Reimbursement Arrangements (HRAs), as well as Commuter Benefit Services, including transit and parking programs, wellness programs, COBRA, and other employee benefits. WageWorks makes it easier to understand and take advantage of Consumer-Directed Benefits for 58,000 employers and approximately 4.5 million people. WageWorks is headquartered in San Mateo, California, with offices in major locations throughout the United States. For more information, visit www.wageworks.com.

Follow us on Facebook (facebook.com/WageWorks)
LinkedIn (linkedin.com/company/wageworks) and
Twitter (@WageWorks)



Appendix A: HSA Tax Forms

Appendix A: HSA Tax forms

- **1099-SA, Distributions from a Health Savings Account.**

These will not be sent to all HSA participants. Only participants who actually took withdrawals in some form (debit card payment, participant reimbursement, or provider payment) receive a 1099-SA. For these participants, this form must be mailed by the custodian no later than January 31. If there have been no withdrawals in the calendar year participants will not receive a 1099-SA.

- **Form 5498, Contributions to a Health Savings Account.**

Participants have until the tax filing deadline (April 15) to make contributions to the prior year Health Savings Account. For this reason Form 5498 will not be mailed to you prior to May 31. Payroll deductions for the HSA are generally shown on your W-2 in Box 12.

- **Publication 969, Health Savings Accounts and Other Tax-Favored Plans.** See www.irs.gov/pub/irs-pdf/p969.pdf.

- **Publication 502, Medical and Dental Expense.** See www.irs.gov/pub/irs-pdf/p502.pdf.

- **Form 8889, Health Savings Account.** See sample of the form at www.irs.gov/pub/irs-pdf/f8889.pdf. Note that this form is not provided by the custodian but will need to be completed by the HSA participant when filing taxes.

- **Instructions for Form 8889, Health Savings Account.** See www.irs.gov/pub/irs-pdf/i8889.pdf.

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Appendix B: Glossary of Terms

Appendix B: Glossary of Terms

- **Beneficiary.** Person or persons designated by the account holder to benefit from the proceeds of the HSA upon the death of the member.
- **Cafeteria plan.** A written plan maintained by an employer for employees that provides participants an opportunity to receive certain benefits on a pre-tax basis. It must meet the specific requirements of and regulations of Section 125 of the Internal Revenue Code.
- **COBRA.** Short for the Consolidated Omnibus Budget Reconciliation Act, COBRA is the law that provides continuing coverage of group health benefits to employees and their families upon the occurrence of certain qualifying events where such coverage would otherwise be terminated, such as voluntary or involuntary job loss, reduction of hours, death, or divorce.
- **Coinsurance.** An agreement in a health insurance policy which stipulates that the insured will pay for a specified percentage of covered health expenses after he or she has paid the plan's deductible.
- **Contribution.** A deposit made to the account by the account holder (via payroll deduction or check), employer, or any other person.
- **Copayment.** A fixed fee that a health insurer requires the patient to pay for certain covered medical expenses (such as office visits or prescription drugs) at the time of service. The insurer then pays the remaining covered costs.

- **Custodian.** An entity that holds and safeguards HSA assets and is responsible for the administration of an account (e.g., keeping records of contributions, distributions, and earnings). The custodian of an HSA must be a bank, an insurance company, a person previously approved by the IRS to be a custodian of an individual retirement account (IRA) or Archer MSA, or any other person approved by the IRS.
- **Deductible.** In a health insurance policy, the specified amount of money that an individual has to pay before the insurance company will pay for covered healthcare services.
- **Dependents.** Dependents include any individuals who receive over half of their support for the calendar year from the taxpayer as defined in Section 152 IRC.
- **Distribution.** A withdrawal made from the account.
- **Healthcare Flexible Spending Account (FSA).** An account that allows participants to pay for qualified out-of-pocket medical expenses on a pre-tax basis. Money deducted from an employee's pay into an FSA is not subject to payroll taxes, resulting in substantial payroll tax savings.
- **Health Reimbursement Arrangement (HRA).** A healthcare benefit in which your company determines and sets aside a certain amount of pre-tax dollars in an account that employees can use to pay for hundreds of eligible healthcare expenses. The funds are tax-free for your employees and tax deductible for your business.
- **Health Savings Account (HSA).** A tax-advantaged HSA is a savings account that is owned by HSA participants (employees) and can be used to pay for qualified medical expenses. Employees must be enrolled in an HSA-qualified, high-deductible health plan in order to contribute to their HSAs.

- **Life event.** A major event that changes a person's circumstances, such as giving birth, marriage, divorce, death of spouse, or job loss. In terms of an HSA, it can result in the gain or loss of HSA eligibility.
- **Mistaken distribution.** An account (in this case, HSA) distribution that gets made inadvertently and is not used for a qualified medical expense. A mistaken distribution can happen because of an error, such as duplicate claims or because of timing issues with the claims payment processes of the primary insurance. These distributions can be returned to the HSA without tax consequences if done so in a timely manner.
- **Plan year.** The 12-month period that is used for managing and reporting on a specific employee benefit like a health plan. This year is used for tracking deductibles and out-of-pocket maximums. The plan year may or may not correspond to a calendar year or a company's fiscal year.
- **Preventive care.** A type of medical care that focuses on disease prevention or health maintenance. Preventive care can include screenings, vaccinations, counseling, and other services. The ACA includes a **specific list of preventive care services³²** that health plans must cover without subscribers having to meet a deductible or pay copayments or coinsurance.
- **Section 401(k) plan.** A 401(k) plan is a retirement plan sponsored by an employer where an employee can make contributions from his or her paycheck either before or after-tax, depending on the options offered in the plan. Employers may also make contributions on behalf of employees.

³² <http://www.hhs.gov/healthcare/facts-and-features/fact-sheets/preventive-services-covered-under-aca/> and Internal Revenue Bulletin, "Health Savings Accounts—Preventive Care," http://www.irs.gov/irb/2004-15_IRB/ar10.html, April 12, 2004

- **W-9 Form.** This tax number certification is required to create the appropriate tax Forms. W-9 Forms can be found at www.irs.gov. (W-8 Forms are for Foreign Nationals.)
- **1099-SA—Distributions from a Health Savings Account (HSA).** These will not be sent to all HSA participants. Only participants who actually took withdrawals in some form (e.g., a debit card or a request to be paid from the account, reimbursed from the account, or direct funds from the account to be paid to a provider) will receive a 1099-SA.
- **Form 5498—Contributions to a Health Savings Account (HSA).** Participants have until April 15 to make contributions to the previous year's Health Savings Account. For this reason Form 5498 is not mailed to you until May 31. Payroll deductions for the HSA are shown on the W-2 in Box 12, marked code "W." Participants should not wait to receive a Form 5498 before they file their taxes unless they have filed and received an extension of time to file from the IRS.



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