Health Savings Accounts Administration – Not Business as Usual

> "New and Unsettled Territory…."

Health Savings Account (HSA) administration consists of participant enrollment, calculation of employer contributions, and reporting to carriers and clients regarding eligibility and funding. While this sounds like business as usual for a Benefit Administration (BA) firm, HSA ends up being one of the more difficult benefits to administer. Some of this difficulty may be attributable to the relative newness of the HSA benefit itself, and that benefit design is constantly evolving. This forces BA's and software developers to react promptly and continuously to this dynamic marketplace.

Flexible Enrollment Options need Flexible Solutions

HSA enrollment rules differ from most other plans in that a participant may be able to change his HSA election during the Plan Year without a Qualified Status Change. Upon the initial enrollment or during annual enrollment, a participant who elects a High Deductible Health Plan (HDHP) may also elect to contribute to an HSA (this paper assumes that the Employer sponsors an HSA plan). The HDHP participant may change his HSA election monthly during the year. A participant who does not elect an HDHP either initially or at annual enrollment must wait for his next enrollment opportunity to elect HSA participation and then it must be in conjunction with an HDHP election.

The amount that a participant may contribute to an HSA is subject to several constraints, which in turn must be incorporated into the enrollment platform. There is a legal limit that permits participants electing Individual/Employee Only coverage to contribute up to $3,100 per year and participants who cover one or more dependents may contribute up to $6,250 per year. These amounts include any employer contributions, i.e., maximum employee contributions are reduced by any employer contributions. For participants age 55 and older, the above amounts are increased by $1,000 and finally, these amounts are normally adjusted each year by the government.

BENEFIT CONCEPTS

System Considerations

Therefore, from a system perspective, there must be the ability to consider age and employer contribution amounts in determining appropriate employee contributions limits. For subsequent mid-year enrollments, the system must compute/store employee and employer year-to-date contributions in order to determine allowable, remaining contributions. Also, the system must recognize any remaining employer contributions, and also must validate the number of remaining pay periods in the plan year in order to translate a lump sum employee election to a per pay period amount for payroll reporting. The system may have to be set up with multiple payroll calendars if the employer has more than one pay schedule.

> "The enrollment system must be flexible enough to handle both varieties."

Different Sizes and Shapes Demand Flexibility

Employer HSA contributions come in a variety of "sizes and shapes." One is a flat amount contribution that may vary based on the HDHP tier elected, e.g., $500 for an Employee Only HDHP election and a $1,000 employer HSA contribution for any HDHP tier greater than Employee Only. Some employer HSA contributions have more than two levels. Some employer contributions are in the form of a percentage match, and may or may not have a maximum dollar amount or cap. The enrollment system must be flexible enough to handle both varieties. Regardless of how the employer match is computed, there can be variations in the frequency of the employer contribution. Some are credited in a lump sum and others periodically during the year, e.g., monthly or quarterly. Finally, periodic employer contributions may be made at the beginning of the period or at the end of the period.

To add to the above complexities, there are some situations in which there are multiple employer contributions. For example, in a holding company situation, the holding company may make one HSA employer contribution, and the operating division may make a separate/different employer level HSA contribution. These contributions may take a different form, i.e., one a flat amount and the other a match and they could occur at

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different frequencies. Both must be considered in limiting employee contributions, and as will be discussed below, reporting to "trading partners" is complex.

Multiple Connections

The BA's HSA reporting responsibilities begin with sending eligibility files either directly to the HSA vendor or to the HDHP carrier, who then forwards the HSA data to the HSA vendor. Since the client may have multiple HDHP and HSA vendors, it may be necessary for the BA to build, test, and deploy more than one connection.

Next, the BA must send participant HSA contribution data to the employer. In the simplest cases, this consists of a single payroll deduction extract file to a single payroll firm. Where there are multiple payroll sources, it may be necessary to build multiple connections. In situations where there are literally dozens of different payroll sources/systems for various operating divisions, electronic data connections may be impractical or cost prohibitive and a manual payroll deduction reporting process must be established. Clients then send an HSA deduction file and the payroll deduction funds to the HSA vendor. This is appropriate since the client/payroll system is the database of record for actual HSA contributions made.

> "Processes will evolve and improve over time…"

Evolve and Improve Over Time

The final BA task related to the HSA is the compilation/coordination of employer HSA contributions. These contributions may, but often do not, have the same contribution frequency as participant HSA contributions. There is no right or wrong way to do this reporting, and since this is all relatively new and unsettled territory, many processes that are being initially defined and developed will inevitably evolve and improve over time.

A Solution: Simplicity Through Simultaneous Reporting

BCI's current approach is to send corporate HSA "Funding" file(s) to both the Client and HSA vendor(s) simultaneously. The HSA vendor holds this file in a pending area until the client funding check is received. The Client forwards funds to the HSA vendor for the total amount indicated on the file. The HSA vendor, upon receipt of money and data, allocates the client/corporate contributions to the individual HSA accounts. If there are operating divisions that make HSA contributions in addition to any corporate HSA contributions, these amounts are included on the files the BA sends to the Corporate entity for funding advice and to the HSA vendor(s) for allocation purposes. An additional support function is for the BA to provide an operating division charge back/invoice for the divisional HSA contributions so that the divisions can forward funds to Corporate to cover their portion of the HSA contribution. This last step assumes that Corporate is responsible for consolidating and transmitting all employer funds to the HSA vendor(s). If the operating divisions are responsible for their own HSA contributions, then the above procedures are modified.

About the Author

F. Jay Hoder has over 30 years experience in the insurance and employee benefit fields. He is a Certified Pension Consultant (CPC) and Chartered Life Underwriter (CLU).

He co-founded Benefit Concepts, a leader in the health and welfare administration outsourcing business.

Be Nimble, Be Quick, Be Effective

As indicated above, this is an evolving benefit, and designs and structures are certain to be expanded and/or modified. BA's and software developers must be nimble in order to respond to this environment and to satisfy client needs.

