



What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a special savings account that works with a high deductible health plan (HDHP). If an individual is enrolled in a qualifying high deductible health plan, an HSA allows them to set aside pre-tax money for healthcare costs.

As long as the individual participates in a qualified HDHP, they can contribute to an HSA by making pre-tax paycheck deductions or with personal tax-deductible payments. When money is paid out of the HSA, it's tax-free as long as it is used for eligible healthcare expenses.

An HSA account is owned by the individual, so it is portable. If the individual retires or leaves the employer, the account goes with them. The account owner can continue to use the money to pay for healthcare expenses in the future—even during retirement—on a pre-tax basis. If funds aren't used in one year, they carryover to the next year.

The employer may also offer a Limited-Purpose Flexible Spending Account (LFSA) to use in combination with an HSA. An LFSA allows participants to set aside money for preventive care, dental, and vision costs from their paycheck on a pre-tax basis.

How do you establish an HSA?

First, the employee must be enrolled in a qualified High-Deductible Health Plan (HDHP). The HSA administrator may require documentation of enrollment in a qualified HDHP before opening the account. Establishing a Health Savings Account (HSA) is similar to setting up an Individual Retirement Account (IRA).

If an employee terminates HDHP coverage, they can continue to maintain their HSA, but neither the employer nor the employee will be eligible to make additional HSA contributions. If, at a later date, the employee re-enrolls in an HDHP, contributions can resume.

Contribution Limits for HSA

IRS Requirements for 2009		
	Single Plan	Family Plan
Minimum Deductible	\$1,150	\$2,300
Maximum Out-of-Pocket	\$5,800	\$11,600
Contribution Limit	\$3,000	\$5,950
Catch-Up Contribution (55 or older)*	\$1,000	\$1,000

*** If a spouse is also 55 or older, a second HSA may be established and a second catch-up contribution of \$1,000 may be made to that account if desired.**

What is the employer's involvement in an employee's HSA?

Contributions to an HSA established by an eligible individual who is an employee may be made by the employee, the employer or both in a given year. If an employer makes contributions to HSAs, the employer must make available a comparable contribution on behalf of all eligible employees with comparable coverage during the same period. However, employers that make contributions to an employee's HSA are not responsible for determining whether HSAs are used for qualified medical expenses. Nor are employers responsible for investing or managing amounts contributed to an employee's HSA.

HSAs are personal health care savings vehicles rather than a form of group health insurance. For example, funds deposited in an HSA generally may not be used to pay health insurance premiums, and the beneficiaries of the account have sole control and are exclusively responsible for expending the funds in compliance with the requirements of the Code. With an HSA, the employer may be doing little more than contributing funds to an account controlled solely by the employee.

Funding of Health Savings Accounts

Employers offering High Deductible Health Insurance Plans (HDHPs) also face the choice of whether or not to help their employees with the funding of the employees' Health Savings Account (HSA). The options include:

- **Option 1 - Employee Funded, After-Tax on Employee's Own**
Employees who are participating in a qualified HDHP may open an HSA on their own and receive a tax deduction on their personal income tax return resulting in savings of up to 40% depending upon their federal and state income tax bracket.
- **Option 2 - Employee Funded, Pre-Tax Through Payroll Deferral**
Employers can help employees fund their HSAs by allowing for HSA contributions via payroll deferral. This is inexpensive and can be accomplished by adding a Flexible Spending Account (Section 125 with an HSA component).
 - **Benefit to Employer:** Employers benefit by not having to pay payroll taxes on the amount the employee elects to contribute to their HSA. The payroll tax savings is typically 7.65% (FICA/Medicare) of the amounts contributed, plus federal and state unemployment taxes (where applicable).
 - **Benefit to Employee:** Employees save 7.65% on payroll taxes on HSA contributions made through pre-tax payroll deductions. Additionally, the HSA contribution is not included as taxable income, thus saving up to 40% on income taxes (depending upon the employee's federal and state income tax brackets).
- **Option 3 - Employer Contributions to an HSA**
Employers may make contributions to their employees' HSAs without a Section 125 / FSA plan. However, the contributions must be nondiscriminatory in order to be tax deductible.
 - **Benefit to Employer:** Employer HSA contributions are tax deductible by the employer as an employee benefit.
 - **Benefit to Employee:** Employees receive additional HSA funds tax-free.

- **Option 4 - Employer and Employee Pre-tax HSA Contributions through Payroll Deferral**
Employers can combine options 2 and 3 (adding a Section 125 Premium Only Plan with an HSA component) allowing themselves and their employees to make tax-free HSA contributions. Employers may contribute to the HSAs and the employee can then add more through payroll deferrals (see Contribution Limits for HSA).

Achieving Further Tax Savings — Add a Limited Purpose Flexible Spending Account (FSA) or a Limited Purpose Health Reimbursement Arrangement (HRA) to an HSA

To maximize tax benefits for health care expenses, employers can combine a limited purpose FSA or limited purpose HRA with an HSA. Generally, FSAs and HRAs are not allowed with HSAs. However, an exception exists for “limited purpose” FSAs and HRAs. These are FSAs/HRAs that are limited to payments for preventive care, vision and dental care. Employees use the FSA to pay for the limited purposes expenses and they use the HSA for other eligible medical expenses. This provides additional tax savings to the employer and the employee.

A limited purpose HRA may also pay or reimburse the participant for the cost of permitted insurance. However, a limited purpose FSA cannot pay or reimburse the cost of insurance premiums.