2024

# HSAs
# Tips & Tricks

Presented by Benefit Comply

## Welcome! We will begin at 3:00 ET.

There will be no sound until we begin the webinar.

Thank you to the following Assurex Global Partners for sponsoring this event:

- C3 Risk & Insurance Services
- CCIG
- Christensen Group Insurance
- Cottingham & Butler
- Cragin & Pike, Inc.
- The Daniel & Henry Co.
- Dean & Draper Insurance Agency
- Henderson Brothers, Inc.
- The Horton Group
- Houchens Insurance Group
- The IMA Financial Group
- INSURICA
- Kapnick Insurance Group
- Lyons Companies
- The Mahoney Group
- MJ Insurance
- Oswald Companies
- Parker, Smith & Feek, Inc.
- The Partners Group
- R&R Insurance
- RCM&D
- Starkweather & Shepley
- Sterling Seacrest Pritchard
- WA Group
- Watkins Insurance Group
- Woodruff Sawyer

# Agenda

- HSA Refresher
- HSA Scenarios

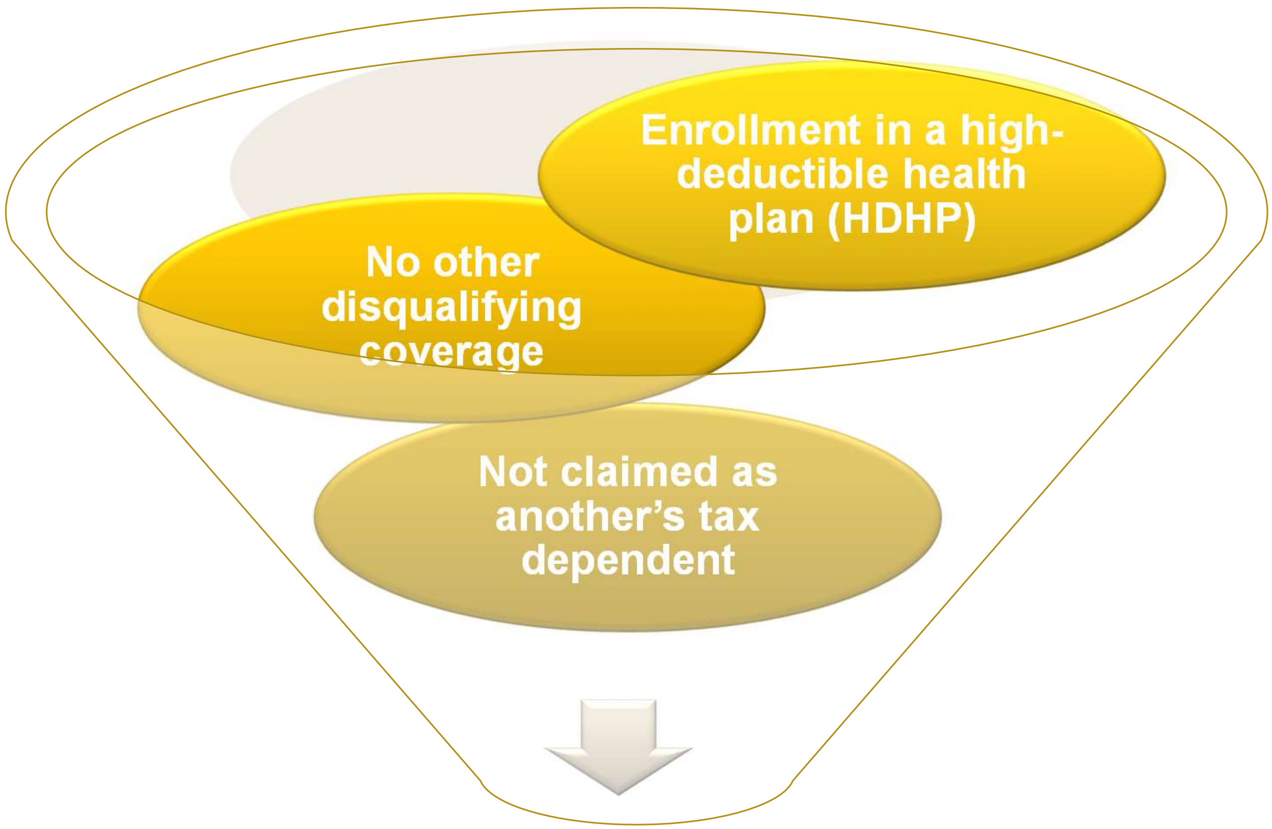
# HSA Refresher

# HSA Plans


Qualified High Deductible Health Plan (HDHP)

Health Savings Account (HSA)

# HSA Eligibility




**Eligible to Contribute to an HSA**

## Qualifying HDHP

- Minimum Deductible and Maximum Out-of-Pocket (OOP)
  - **2024**

    **Minimum Deductible**
    - Self-only: $1,600
    - Family: $3,200

    **Maximum OOP**
    - Self-only: $8,050
    - Family: $16,100

  - **2025**

    **Minimum Deductible**
    - Self-only: $1,650
    - Family: $3,300

    **Maximum OOP**
    - Self-only: $8,300
    - Family: $16,600

# Disqualifying Coverage (nonHDHP coverage)

- Coverage that pays claims, other than preventive, prior to meeting the minimum HDHP deductible

- Common disqualifying coverage:
  - Enrolled in Medicare (eligibility doesn't matter)
  - General-purpose health FSA, including through a spouse's plan
  - General-purpose HRA
  - Other employer-paid medical benefits, formal or informal
  - ICHRA not limited to premium reimbursement
  - Direct primary care arrangements
  - Onsite clinics providing more than preventive care
  - Telehealth??? Currently doesn't impact HSA-eligibility, but requires additional legislation to extend into 2025

# HSA Contribution Limits

Contribution Rules

- Eligibility determined monthly on the 1st day of the month
- Annual contribution limit equals 1/12 of annual max times months eligible
- Contributions can be made:
  - By the employee or the employer
  - Anytime after the HSA is established up until the tax filing date (typically April 15th)

**2024**

- Self-only: $4,150
- Family: $8,300

**2025**

- Self-only: $4,300
- Family: $8,550

**$1,000 Catch-Up For Those 55 or older**

# HSA Contribution Example

Individual enrolled in single HDHP coverage and established an HSA January 1, 2024, but then enrolled in Medicare and became ineligible to contribute to an HSA effective August 1, 2024

- How much can the individual contribute to an HSA for 2024?
  - 7/12 of $4,150 + $1,000 = $3,004.17

- When can the 2024 contributions be made?
  - Any time between January 1, 2024 and April 15, 2025

# HSA Scenarios

# Scenario #1: HSAs and HDHPs

In 2024, Arcana, Inc. offers an HDHP with a single deductible of $3,200 and a family deductible of $6,400 with an embedded individual deductible of $3,200.

*(An embedded individual deductible means the plan will start to pay claims for a family member whose medical expenses have reached the embedded individual deductible even if the family as a whole has not met the overall family deductible.)*

For 2025, Arcana would prefer not to change the plan and wants to leave the plan as is. Their broker informs them the plan will not be a qualified HDHP for 2025 under the current plan design. The VP of HR asks “But the single deductible is more than $1,650 and the family deductible is more than $3,300. Why isn’t it qualified at those deductible levels?

# Embedded Individual Deductible

- If the plan has an embedded individual deductible, that embedded deductible must be at least equal to the minimum family deductible.
  - Otherwise the plan is paying expenses before the family has incurred expenses at least equal to the minimum required family deductible.

**EXAMPLE: Rex has family coverage under the HDHP. His spouse Mary has a surgery whose total claim amount is $5000. The rest of the family has incurred no other claims. Under the 2024 HDHP plan design, Mary would pay $3200 and then the plan would pay balance of $1800.**

**But that means the HDHP is paying claims before the family has incurred at least $3,300 in medical expenses, which is below the minimum required family deductible for 2025 so the 2024 plan design is not qualified for 2025.**

# Embedded Individual Deductible

## Action Items - Options

- Increase the single and family deductible to $3,300 / $6,600 for 2025 *(most common)*
- Leave the single and family deductible at $3,200 / $6,400 but raise the embedded individual deductible in the family deductible to $3,300 *(not all carriers will allow this).*
- Leave the single and family deductible at $3,200 / $6,400 and eliminate the embedded individual deductible *(alternatively, single / family deductible can be reduced once embedded deductible is eliminated)*

# Scenario #2: HSAs and Telehealth

In 2024, NeuWorld offers a dual choice plan with an HMO and an HDHP option. Both plans include a telehealth component (either built-in or on a stand-alone, carve out basis). Employees pay no co-pay, deductible, or other cost sharing to access the telehealth service.

While meeting with their broker for their 2025 renewal, the broker says “We have to decide what you want to do with the telehealth service for those employees who choose the HDHP option in 2025.” The Benefits Manager asks “What do you mean?”

# Scenario #2: HSAs and Telehealth

- Under normal circumstances, a telehealth plan with no cost sharing is disqualifying nonHDHP coverage and would prevent employees from making and receiving HSA contributions.
- Pandemic-era temporary relief allows no cost sharing telehealth services alongside an HDHP without effecting HSA eligibility but only through the end of the 2024 plan year.
- Starting in the 2025 plan year, HDHP enrollees must pay a fair market value (FMV) fee each time they access the telehealth service, at least until they have incurred medical expenses equal to the minimum required deductible.
- There are bills pending in Congress to extend or make permanent the existing temporary relief – but they're not currently going anywhere.
- The last time this temporary relief was set to expire, Congress extended it at the last minute (December 29, 2022).

# Scenario #2: HSAs and Telehealth

## Action Items - Options

- Plan on implementing an FMV fee on the telehealth plan for employees enrolled in the HDHP.
  - *Amount of fee*
  - *How to collect*
  - *Will fee end once employee meets minimum required deductible expenses for the year?*
- Eliminate telehealth services for employees enrolled in HDHP.
- Don’t implement an FMV fee and cross your fingers Congress extends the relief in time.
- Plan on an FMV fee but inform employees it will be waived if relief is extended.

# Scenario #3: HSAs and Medicare

In 2024, Jorge is enrolled in family HDHP coverage with his spouse, Imelda.  June 2024, Imelda turns 65 and drops from the group health plan and enrolls in Medicare as of June 1. October Jorge turns 65 and also drops the group plan and enrolls in Medicare.

In September, Jorge comes to you and asks “I heard I have to stop contributing to my HSA six months before I enroll in Medicare - is that true? Because I’ve been contributing this whole year. And was I supposed to stop contributing for Imelda once she enrolled in Medicare?”

He goes on, “I also want to make sure I can keep using my HSA funds to pay for mine and Imelda’s medical expenses even after we enroll in Medicare. And can we use my HSA money to pay our Medicare premiums?”

You quickly dial your broker’s account manager for assistance…

# Impact of Medicare Eligibility/Entitlement

| | Employee's HSA Eligibility | Spouse's HSA Eligibility |
|---|---|---|
| Employee eligible for Medicare | No impact | No impact |
| Employee entitled to Medicare | Employee ineligible to contribute to HSA as of the first of the month on or after Medicare coverage takes effect. | No impact |
| Spouse eligible for Medicare | No impact | No impact |
| Spouse entitled to Medicare | No impact | Spouse ineligible to contribute to HSA as of the first of the month on or after Medicare coverage takes effect. |

# Scenario #3: HSAs and Medicare

- Eligibility to make HSA contributions is not a timing issue, i.e. when can contributions be made. It is an amount issue, i.e. how much can be contributed to the HSA.
  - So enrolling in Medicare will reduce the amount the employee can contribute to their HSA but does not affect when they can contribute.
- An individual who enrolls in Medicare at age 65 is covered by Medicare the first day of the month in which they turn age 65.
- An individual who enrolls in Medicare after age 65 is covered by Medicare retroactive six months but not before the month they turn 65.
  - This retroactive enrollment in Medicare also retroactively makes the employee HSA ineligible for those six months.

# Scenario #3: HSAs and Medicare

- Being HSA ineligible only affects how much can be contributed to an HSA. It does not affect the employee's ability to use money previously contributed to an HSA.
- HSA funds generally cannot be used to pay for insurance premiums with four exceptions:
  - COBRA premiums
  - Long term care insurance
  - Health coverage maintained while collecting unemployment
  - For HSA account holders age 65 or older, any health insurance premium other than Medicare supplements
- Employee age 55+ can make an additional $1000 catch up contribution into their HSA
  - But if spouse is age 55+ employee cannot contribute spouse's catch-up contribution into their HSA; spouse must open their own HSA if they want to make a catch-up contribution of their own.

# Scenario #3: HSAs and Medicare

## Action Items

- Jorge had family HDHP coverage from January – May 2024; single HDHP coverage from June – September 2024; and was HSA ineligible from October – December 2024
  - *Maximum 2024 contribution = ($8,300 x 5/12) + ($4,150 x 4/12) + ($1000 x 9/12) = $5,591.67*
- Jorge can make this contribution at any time between January 1, 2024 and April 15, 2025 *(but see next section)*
- Jorge can continue to use his HSA funds to pay for his and Imelda's medical expenses even after they enroll in Medicare.
- But cannot use HSA funds to pay for their Medicare premiums.

# Scenario #4: Monitoring HSA Contributions

Kaleidoskope, Inc. offers two plan options – a PPO and an HDHP with an HSA. For employees who sign up for the HDHP, Kaleidoskope contributes $1,000 to the employee's HSA in a single lump sum payment at the start of the year. Kaleidoskope also offers both a general purpose and limited purpose FSA.

*(General purpose FSA reimburses all medical expenses; limited purpose FSA reimburses only dental and visions expenses.)*

For 2024:

- Tina signs up for single HDHP coverage and elects to contribute $125 per biweekly pay period to her HSA.
- Daneesh signs up for family HDHP coverage and also enrolls in the general purpose FSA. He elects to contribute $50 per biweekly pay period to his HSA.
- Alex signs for single HDHP coverage and elects to contribute $100 per biweekly pay period to their HSA. Unbeknownst to the employer Alex has also enrolled in their spouse's employer's nonHDHP plan.
- Francis enrolls in single HDHP coverage and elects to contribute $100 per biweekly pay period. In June, Francis gets married and informs her employer she will be dropping her coverage and enrolling on her new spouse's plan of July 1st.

# Scenario #4: Monitoring HSA Contributions

- An employer is only permitted to make tax free HSA contributions to an employee's HSA where it is reasonable for the employer to believe the employee is entitled to such contribution at the time the contribution is made.
  - Employer cannot allow HSA contributions through payroll that exceed the employee's annual contribution limit based on the type of HDHP coverage and their age.
    - But employer is not required to monitor pro-rated contribution limit for employees who are only HSA eligible part of the year
  - Employer cannot allow HSA contributions through payroll when the employer is aware the employee is not HSA eligible based on coverage elected on employer's plans
    - But employer is not required to monitor for nonHDHP coverage from other sources.
    - But once employer is aware that employee has nonHDHP coverage, they must stop HSA contributions through payroll.

# Scenario #4: Monitoring HSA Contributions

## Outcomes - Tina

- Tina has elected $125 per biweekly pay period plus received a $1000 employer contribution.
  - Exceeds annual contribution limit for single coverage for 2024
  - ($125 x 26) + $1000 = $4,250 > $4,150
  - Kaleidoskope must either reduce Tina's biweekly contributions or stop those contributions for the rest of the year once they reach $4,150.

## Outcomes - Daneesh

- Daneesh enrolled in the general purpose FSA which is disqualifying nonHDHP coverage.
  - Kaleidoskope may not make employer HSA contribution or allow Daneesh to make any HSA contributions through payroll.
  - Ideally enrollment system would not allow general purpose FSA election when employee elects an HSA plan.
  - If general purpose FSA election was a mistake it may be possible to undo the FSA election back to the start of the year under IRS guidance on bona fide mistakes.
  - If FSA election can't be undone, any HSA contributions Daneesh does make or receive are excess contributions that must be removed or he will owe income and excise taxes on those amounts.

# Scenario #4: Monitoring HSA Contributions

## Outcomes - Alex

- Alex is not HSA eligible because they enrolled in their spouse's nonHDHP.
  - Outside coverage the employer was not aware of so any HSA contributions are not the employer's responsibility to correct.
  - Alex must request an excess contribution withdrawal from the HSA trustee. Kaleidoskope can require Alex to return the $1000 employer contribution they were not eligible to receive.
  - Kaleidoskope must stop all future HSA contributions once they are aware Alex is enrolled in other nonHDHP coverage.

## Outcomes - Francis

- At the start of the year, Francis total contributions were within the contribution limit for single HDHP coverage
  - ($100 x 26 pay periods) + $1000 employer contribution = $3,600 < $4,150.
  - Contributions exceed Francis' prorated contribution limit once she drops the HDHP to enroll on her spouse's plan: ($100 x 13) + $1000 = $2,300 > $2,075 prorated contribution limit.
  - But it was reasonable for Kaleidoskope to believe Alex's contributions were valid at the time they were made so they are not responsible for making adjustments once they learn HSA eligibility is ending.
  - Francis must request an excess contribution withdrawal from the HSA trustee.
  - Kaleidoskope must stop all future HSA contributions once they are aware Francis is no longer HSA eligible.

# Scenario #5: Failure to Open an Account

Malik enrolls on NetGala's HSA plan for the first time during open enrollment. He elects a contribution of $50 per biweekly pay period and is also entitled to a $1000 employer contribution which is normally deposited at the end of January.

Although he is provided instructions on how to open his HSA with the HSA trustee, Malik is late turning in the paperwork and then fails to respond to the trustees request for additional information they need to open the account. As a result, NetGala is unable to deposit the contributions deducted from Malik's check in January or the employer contribution that was supposed to be made at the end of January.

Gala's payroll manager calls their broker and asks "What am I supposed to do with these HSA contributions when there is no account open?"

# Scenario #5: Failure to Open an Account

- An employer is not obligated to make HSA contributions to an account that does not exist.
- Holding onto employee deductions intended to be contributed to an HSA without actually depositing them is a problem under both federal benefits law and state payroll deduction laws.

# Scenario #5: Failure to Open an Account

## Action Items

- Inform employees in benefit communications that if HSA is not open by the time the employer is ready to make employer contributions, those contributions will be forfeited.
  - Not obligated to make up missed contributions in the future if the account is finally opened.
  - Can always make an exception where failure to open account is beyond employee's control.
- Ideally, employee contributions are not deducted from paycheck if account is not opened at time deduction is scheduled to be made.
  - Employee can always make up missed contributions later by increasing their HSA elections.
- If employee deductions are made before discovering account is not open, return the deductions to employee as taxable wages as soon as possible and stop all future deductions until confirmed that account is open.

# Questions?