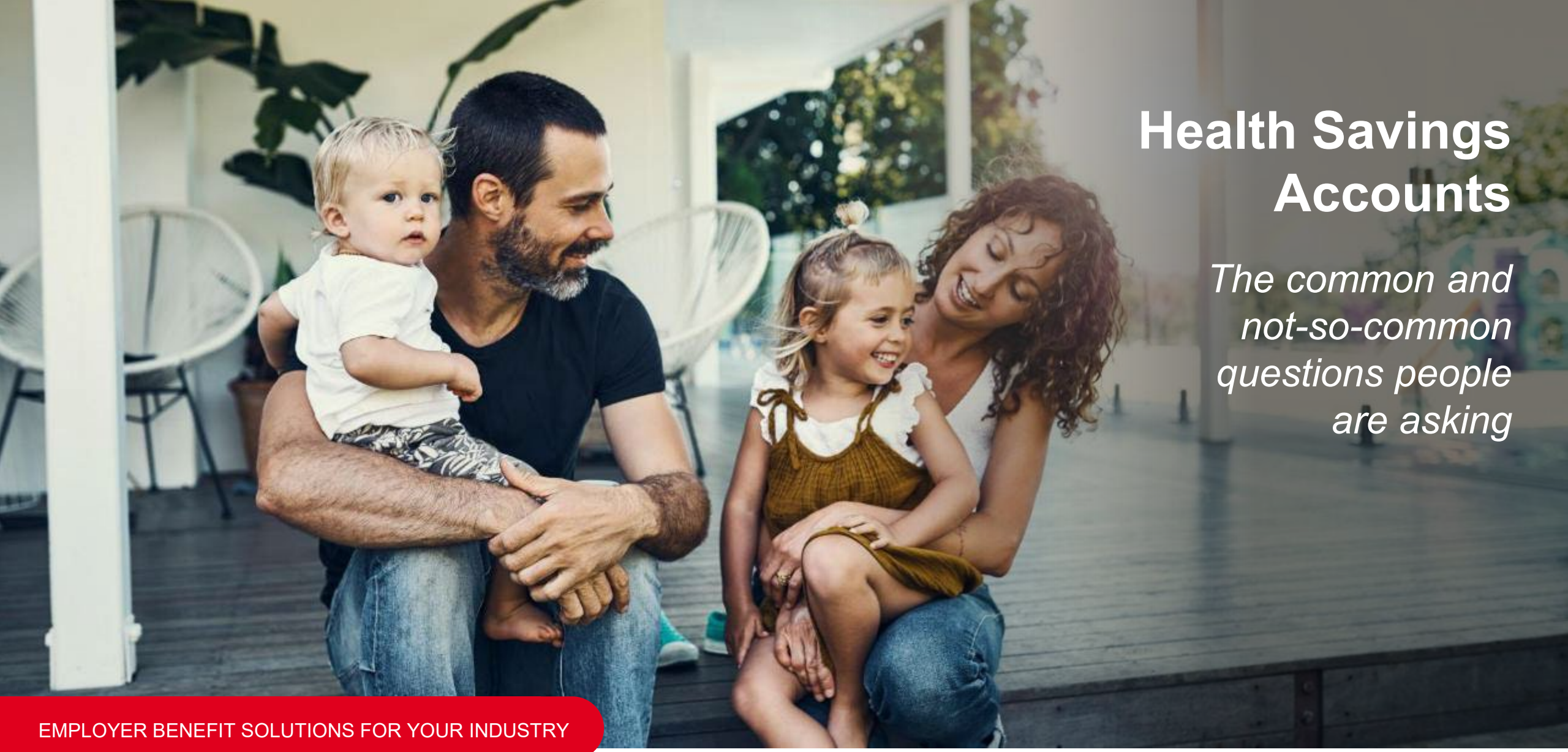


Health Savings Accounts

The common and not-so-common questions people are asking

EMPLOYER BENEFIT SOLUTIONS FOR YOUR INDUSTRY

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Disclaimer

American Fidelity Assurance Company cannot provide legal or tax advice. This information is general in nature and should not be considered financial, legal, or tax advice.

Consult an attorney or a tax professional regarding your specific situation.

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Before We Get Started

Let's talk about your employees' healthcare finances

Potential Health Care Concerns & Confusion:

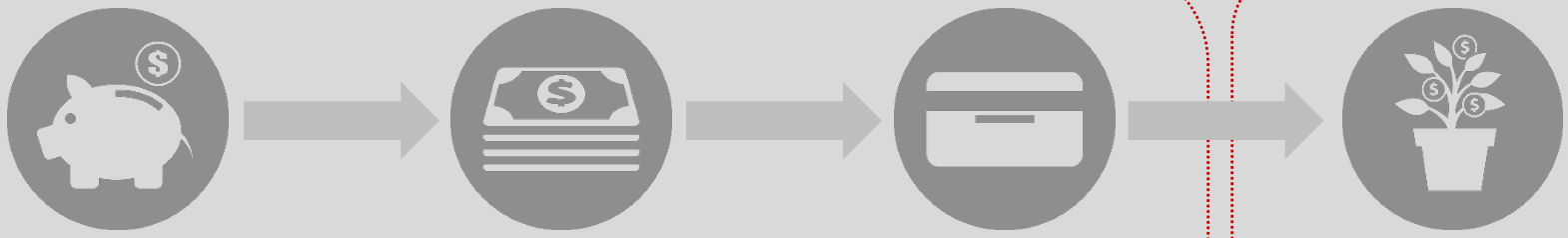
- Out-of-pocket costs
- Personal/family annual health care spend
- Fear of large expense
- Long-term savings needs (i.e., into retirement)



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How Reimbursement Accounts Work

An opportunity for employees and employers to save on taxes!



Contribute
Tax-free dollars, up to the annual limit

Save
Employee's spendable income stretches further based on individual's tax bracket

Spend
On eligible healthcare and dependent care expenses

All Account Types: FSA, HSA*, and HRA

Grow
Save and invest unused funds for future healthcare expenses

HSA Only**

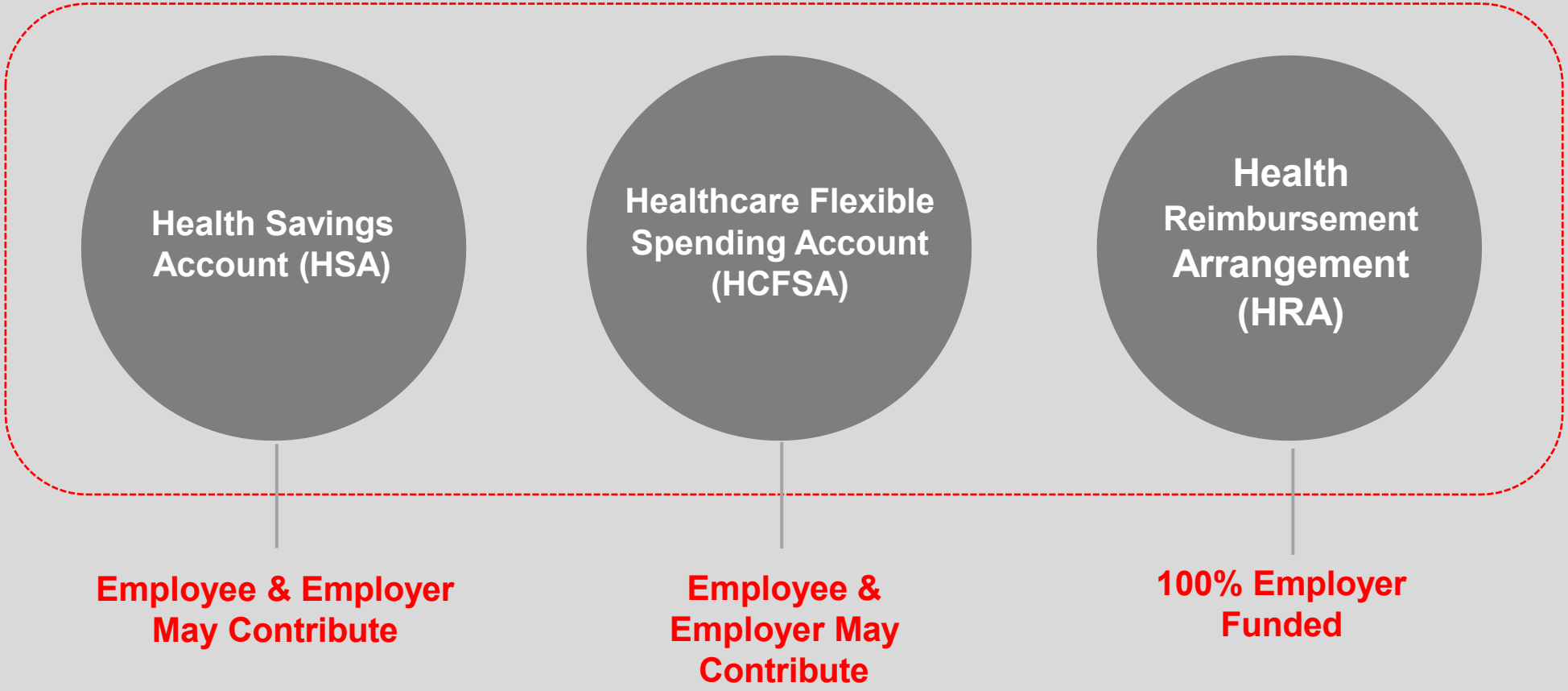
**HSA contributions are not subject to federal and most states' income tax. State income tax may apply in California and New Jersey. Please consult a tax advisor for your state's specific rules.*

***This is not a guarantee of future performances. Your investment is connected to the stock market and is subject to rise or fall.*

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Reimbursement Account Options



HSA: Employer Savings

Employer Savings:

- FICA tax savings
- Pre-tax employee HSA contributions lower your payroll & FICA tax responsibilities

Other Potential Tax Savings:

- Federal Unemployment Taxes (FUTA)
- State Unemployment Taxes (SUTA)
- Workers' compensation taxes

Total # of HSA participants	200
Average annual employee election	$1,500
Estimated annual employer tax savings	$22,950

For illustrative purposes only. Based on 7.65% FICA. Individual tax situations may vary. Please consult a tax advisor.

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DIG INTO HEALTH SAVINGS ACCOUNTS

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Health Savings Accounts

What is it?

An HSA is an individually owned, tax-advantaged account that allows employees to save for eligible health care costs now, **and into the future.**



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What You Need to Know About HSAs

- **Triple Tax Advantage:**
  - Money goes in tax-free
  - Savings grows tax-free
  - Withdrawals are tax-free if used for eligible items
- Account **stays with employee**, even if they change jobs
- **Individuals** are responsible for substantiation
- **Adjust** contribution amount at **any time** (subject to employer's plan)
- No "use or lose" rule, **save what's not spent**
- Generally, **invest** savings for growth

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How Do HSAs Work?



Select an amount to contribute to the HSA



Earn interest on contributions and lower taxable income



Use the funds on their family's annual medical expenses



Save and grow the funds for future medical needs

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HSA Contribution Limits and Qualified HDHP Requirement

HSA Limits	Individual Coverage	Family Coverage
2025	$4,300	$8,550
2026	$4,400	$8,750

2026 HDHP Limits	Individual Coverage	Family Coverage
Annual Minimum Deductible	$1,700	$3,400
Maximum Out of Pocket	$8,500	$17,000

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Using HSA Funds

HSA funds can be used to pay for any eligible medical expenses. This includes expenses for:

- Copays and deductibles
- Dental and vision
- Over-the-counter drugs and items



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Using HSA Funds

Additionally, HSA funds can pay for certain premiums, including:

- Long-term care insurance
- Healthcare continuation coverage (such as coverage under COBRA)
- Healthcare coverage while receiving unemployment compensation under federal or state law
- Medicare and other healthcare coverage if 65 or older (does not include premiums for Medicare supplemental policies such as Medigap)

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Contribution Limits

Contribution limits are based on who is included under the HDHP.

- Only person on HDHP = contribute the self-only coverage maximum.
- Include spouse and/or any tax-dependent children on HDHP = may contribute the family coverage maximum.

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COMMON HSA QUESTIONS

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Who May Contribute?

One requirement to contribute to an HSA is to be:

- Covered by an HSA-qualified High Deductible Health Plan (HDHP)



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What if Enrolled in Other Coverage?

Employees may NOT contribute to an HSA if they are:

- Also covered by other non-qualified health plan.
  - Spouse & Children *can* be enrolled in other coverage including Medicare.



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Can Spouse Have Their Own HSA?

If spouse is covered by an HSA-qualified HDHP:

- Spouse *can* have separate HSA, if eligible. Contribution limits apply.
- If work for same employer, two spouses may not both contribute to a *single* HSA via payroll deduction.
- Spouse may open own HSA to take advantage of catch-up contributions (55 or older).



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Employee Claimed on Another Person's Tax Return

Employees may NOT contribute to an HSA if they are:

- Being claimed as a dependent on another person's tax return
  - Employer may not contribute either.



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Dependent Claimed on Another Person's Tax Return

Employees may NOT use their HSA dollars for a dependent who is:

- Being claimed as a dependent on another person's tax return
  - Does not apply to minors of divorced parents.
  - Adult dependents can contribute to their own HSA.



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Can an Employee Be Enrolled in Medicare?

Employees may NOT contribute to an HSA if they are:

- Participating in Medicare or Tricare
  - They *can* be enrolled in the HDHP itself.
  - Their spouse *can* be enrolled in Medicare or Tricare.



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What if Employee Enrolls in Medicare Mid-Year?

If enroll in Medicare mid-year:

- HSA contribution limit is pro-rated.
- Medicare can make coverage retroactive 6 months, but no earlier than the first month of eligibility.

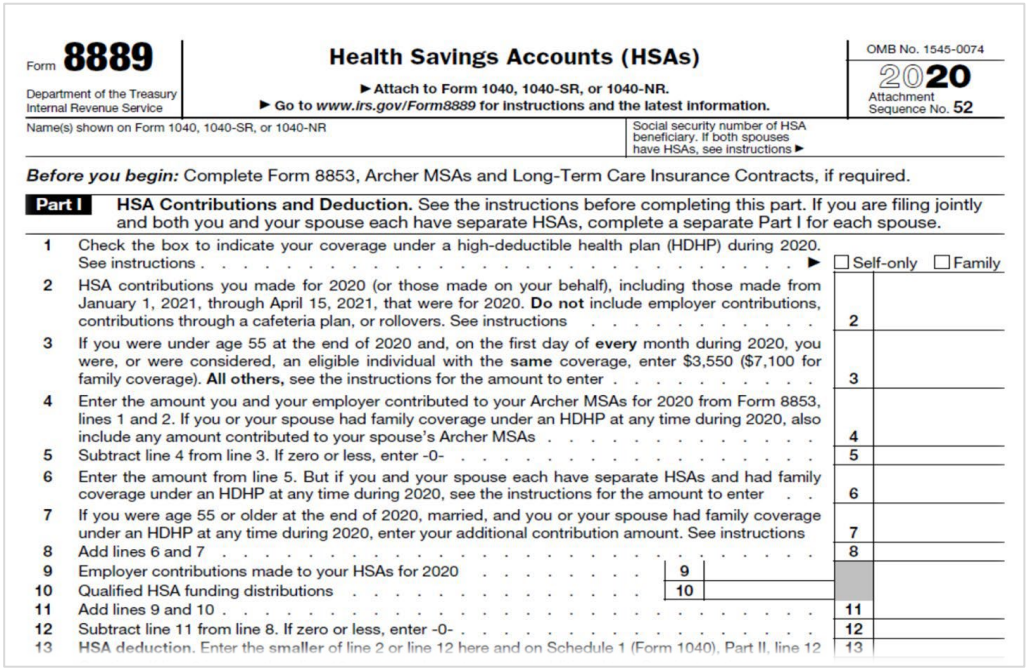


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Can Contributions Be Made Outside of Payroll?

HSA contributions can be made outside of payroll and deducted on Form 8889.

- Be careful not to over contribute.



Form **8889**

Department of the Treasury
Internal Revenue Service

Health Savings Accounts (HSAs)

► Attach to Form 1040, 1040-SR, or 1040-NR.
► Go to *www.irs.gov/Form8889* for instructions and the latest information.

OMB No. 1545-0074

2020

Attachment Sequence No. 52

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Social security number of HSA beneficiary. If both spouses have HSAs, see instructions ►

Before you begin: Complete Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, if required.

Part I **HSA Contributions and Deduction.** See the instructions before completing this part. If you are filing jointly and both you and your spouse each have separate HSAs, complete a separate Part I for each spouse.

1	Check the box to indicate your coverage under a high-deductible health plan (HDHP) during 2020. See instructions ►		☐ Self-only ☐ Family
2	HSA contributions you made for 2020 (or those made on your behalf), including those made from January 1, 2021, through April 15, 2021, that were for 2020. **Do not** include employer contributions, contributions through a cafeteria plan, or rollovers. See instructions		2
3	If you were under age 55 at the end of 2020 and, on the first day of **every** month during 2020, you were, or were considered, an eligible individual with the **same** coverage, enter $3,550 ($7,100 for family coverage). **All others,** see the instructions for the amount to enter		3
4	Enter the amount you and your employer contributed to your Archer MSAs for 2020 from Form 8853, lines 1 and 2. If you or your spouse had family coverage under an HDHP at any time during 2020, also include any amount contributed to your spouse's Archer MSAs		4
5	Subtract line 4 from line 3. If zero or less, enter -0-		5
6	Enter the amount from line 5. But if you and your spouse each have separate HSAs and had family coverage under an HDHP at any time during 2020, see the instructions for the amount to enter		6
7	If you were age 55 or older at the end of 2020, married, and you or your spouse had family coverage under an HDHP at any time during 2020, enter your additional contribution amount. See instructions		7
8	Add lines 6 and 7		8
9	Employer contributions made to your HSAs for 2020	9	
10	Qualified HSA funding distributions	10	
11	Add lines 9 and 10		11
12	Subtract line 11 from line 8. If zero or less, enter -0-		12
13	HSA deduction. Enter the smaller of line 2 or line 12 here and on Schedule 1 (Form 1040), Part II, line 12		13

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HSAs AND OTHER REIMBURSEMENT ACCOUNTS

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Can Someone Have an HSA *and* an FSA or HRA?

Employees may NOT contribute to an HSA if they are:

- Participating in a general-purpose Healthcare FSA or HRA
  - They may have a Limited Purpose FSA or HRA
  - HCFSA Grace Period or Carryover impacts HSA contributions

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Pairing an HSA

Employees may have an option to pair their HSA with a Limited Purpose Flexible Spending Account (LPFSA) to pay for qualifying dental and vision expenses, if the employer offers the LPFSA as an option under their Section 125 Plan.



Participating in both plans allows employees to maximize tax savings and tax benefits.

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Transitioning from HCFSA to HSA

Before an employee can contribute to their new HSA, the employee must

- Reach the end of the plan year for the HCFSA, and
- Fully exhaust the funds in the HCFSA
- Understand employer contribution changes



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Questions?

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