

Health Savings Accounts

Are they a good fit for your organization?

A significant change is occurring in employer-sponsored health benefits. Many employers have begun to offer high-deductible health plans (HDHPs) that enable employees to establish Health Savings Accounts (HSAs). Here are the basics of the HSA/HDHP options, and why they make sense to many employers and their employees.

What is an HSA?

An HSA is a tax-advantaged bank account into which an individual can put money to save for future medical expenses. Contributions can be made by the individual account holder, the individual's employer, or both. Although the contributions are limited by federal law, the contributions can be made on a pre-tax basis, the earnings are tax-free, and withdrawals for eligible expenses can be made tax-free. An HSA is owned by the individual and is completely portable if you move from one employer to another. Unlike the "use it or lose it" provisions of FSAs (flexible spending accounts), HSA funds stay in your account year after year, until your death (and then go to your spouse or estate).

Who can have an HSA?

Any adult can establish and contribute to an HSA if they:

- Are covered under an HSA-qualified "high-deductible health plan" (HDHP)
- Have no other first dollar medical coverage (except for certain limited plans, like a dental or vision plan)
- Are not enrolled in Medicare

What is a High Deductible Health Plan (HDHP)?

To open and contribute to an HSA, an individual must only be covered by a HDHP. Generally, this is a health insurance plan that does not have first dollar coverage, and has a deductible of at least \$1,150 for individual coverage and \$2,300 for family coverage (These are the minimums for 2009. Future years will be indexed to the CPI). The deductible must apply to all medical expenses, including office visits and prescriptions; however, preventive care services may be paid on a first-dollar basis (deductible not applied). Preventive care includes routine pre-natal and well-child care, immunizations, annual physicals, mammograms, pap smears, etc. For 2009, HDHPs must have out-of-pocket maximums no higher than \$5,800 for an individual and \$11,600 for families (these amounts will also be adjusted annually for inflation).

HDHPs are sold by licensed health insurance companies, similarly to PPO and other health insurance policies, generally with deductibles ranging from \$1,150 to \$5,000. All of the major health insurers in Texas now have HDHPs available, including Aetna, Blue Cross, CIGNA, Great West, Humana, and UnitedHealthcare. Most of the HDHPs are PPO plan designs utilizing the carrier's contracted provider networks, to allow enrollees the advantages of negotiated discounted fee schedules and rates with network providers.

Limitations on HSA contributions

Contributions into an HSA are limited annually to \$3,000 for an individual, or \$5,950 for family coverage. In previous years, the HSA limit was the lesser of the HDHP deductible or the prescribed maximum, but for 2008, this was simplified to allow the maximum contribution at any deductible level that qualifies as an HDHP.

Individuals age 55 and over can make additional "catch up" contributions of \$1,000 in '09.

Individuals or families in the plan can make the full annual contribution to an HSA even if eligibility does not begin until later in the plan year (previously, the amount was prorated based on the number of months the person was enrolled in an HDHP)

Though the easiest way to fund an HSA is through a payroll deduction, utilizing a Section 125 salary reduction plan, contributions can also be made separately and deducted from income tax returns. (cont. pg. 2)

Using Funds in an HSA

HSA funds are used to pay for “qualified medical expenses” under federal tax law. That includes deductibles and co-insurance under the HDHP, as well as dental services, vision care, prescriptions or other health care related items. The HSA can also be used to pay for certain insurance premiums:

- Any health plan coverage while receiving federal or state unemployment benefits
- COBRA continuation coverage after leaving a company that offers health insurance
- Qualified long-term care insurance
- Medicare premiums (Part A, B, C or D), but not Medigap policies.

An individual can use the funds in his/her HSA to pay medical expenses not only for himself, but also for a spouse and dependent children, even if the spouse and children are not covered by an HDHP.

Any amounts used for anything that is not a “qualified medical expense” are taxable as income and subject to an additional 10% tax penalty.

In addition to being used to pay for medical services now, to help offset deductibles, the funds can be saved up over the years to create an additional retirement “nest egg,” to pay for medical expenses after an individual retires.

(This is an overview of some of the key provisions in establishment and use of an HSA. There are additional details that should be understood before establishing an HSA.)

Why HSA/HDHPs make sense to many employers

- Health insurance premiums continue to rise. Offering an HDHP can significantly reduce premiums, saving the employer and the employee money on premiums.
- An HDHP is usually offered as an option to current plans, so employees are not forced into a plan with less benefits...it's their choice.
- Using your own money from an HSA to pay for health care expenses and having a high deductible makes participants better consumers...understanding prices and value (quality of care) much better than traditional managed care. All the early studies show that these consumer focused plans have lower rates of increase in premium than many current PPO plans. These plans may help keep future rate increases to more manageable levels.
- HSAs can provide a mechanism to create funds for retirement health care expenses and Medicare premiums, benefiting both the employer and employee.
- Employers can contribute to the HSA, and adjust contributions year to year as the business changes
- Contributions to an HSA, like premiums under a Section 125 plan, can be made as a salary reduction, saving the employer and employee taxes.

Why HSA/HDHPs make sense to employees

- Because HDHPs are less expensive, some employees may be able to keep their insurance, rather than dropping coverage.
- HSAs are a good tax savings vehicle: contributions, earnings and withdrawals can all be free of federal income tax.
- For many employees, buying less insurance, and putting the difference into an HSA that accumulates over the years is a smart move.
- HSA funds roll over from year to year, and are portable from employer to employer, like a 401(k) retirement plan.
- Contributions to an HSA can be changed at any time, unlike FSAs, which require an annual election.
- There is no separate administrator like in FSAs, no need to submit claims and wait for reimbursement. The employee controls disbursements.
- In an emergency, HSA funds can be used for other needs, though there is a 10% penalty tax. Upon death, any HSA balance defaults to the employee's spouse or estate.

The Bottom Line

HSA/HDHPs may not be for everyone, but they are an option that almost all employers should consider offering to their employees. Call us and we can help you determine if HSA/HDHPs make sense for your organization, and the step by step implementation process.

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