Empower
A Family Health America Company

HSA/FSA Interaction

Following is a look at current HSA limits:

Health Savings Account (HSA)	**2015**	**2016**
Min. Deductible Amounts for the HSA HDHP		
Individual coverage	$1,300	$1,300
Family coverage	$2,600	$2,600
Maximum Contribution Levels		
Individual coverage	$3,350	$3,350
Family coverage	$6,650	$6,750
Catch up contribution allowed for those age 55 +	$1,000	$1,000
Maximums for HDHP Out-of-pocket Expenses		
Individual coverage	$6,450	$6,550
Family coverage	$12,900	$13,100

* Note – if any funds are withdrawn prior to retirement age and spent on non-qualified expenses, the amount is subject to taxation plus a 20% penalty.

GENERAL HSA FACTS:

- Employee contributions are pre-tax
- Employee's elected amount can be changed any pay period, prospectively (no election change event required)
- Annual maximum contribution amounts include employee and employer contributions (employer contributions reduce the amount an individual may contribute)
- HSA contributions (employer and employee) are taken into account when §125 Contributions & Benefits and Key Employee 25% Concentration nondiscrimination tests are performed
- Employer reports employee pre-tax and any employer HSA contributions on Form W-2, in box 12 with code W.
- Employer responsible to monitor that*:
    - Employee is enrolled in HDHP coverage offered by employer
    - Employee has no disqualifying coverage offered by employer
    - Employee is eligible for $1,000 catch-up contribution

  * Not responsible to monitor another employer's plan or spousal coverage

- Employee is responsible to monitor that:
    - Employee is an eligible individual
    - Employee is not covered by any disqualifying coverage
    - Employee does not over-contribute
    - Employee only seeks HSA distributions for qualified medical expenses

  Employee reports through IRS Forms 8889 and 5329

HSA/FSA INTERACTION:

- HSA participants may have a Limited Health Care FSA or Post Deductible Health Care FSA
  - Regular Health FSA is disqualifying coverage – makes individual ineligible to make or receive HSA contributions (IRS Notices 2004-8 & 2008-59)

- Health FSA will disqualify an individual from being able to contribute to an HSA (includes the spouse's Health FSA)

- What can the limited flex cover?
  - Dental expenses
  - Vision expenses
  - Preventive Care expenses*

  * Many administrators, including Empower, do not provide for this, due to difficulty of administration
- If Limited FSA is to be offered, must adopt or amend Cafeteria Plan to include it
- Limited FSA follows the same rules as a regular Health Care FSA
  - Uniform Coverage rule
  - Use-It-or-Lose-It (forfeiture) rule
  - Third party substantiation of expenses
  - Permitted election change event

EMPLOYEES EXCLUDED FROM HSA PARTICIPATION:

- Employees enrolled in another health plan that is not a Qualified High Deductible Health Plan (*e.g.* a spouse's regular group health plan that isn't an HDHP)
- Employees enrolled in a general-purpose Health FSA. This includes FSA enrollment by either the employee and/or their spouse.
- Employees enrolled in a general-purpose Health FSA in the previous year with a plan that has an IRS extension (allowing employees to continue to incur expenses against the previous year's balance). If an employee still has a balance going into the Grace Period, they are restricted from contributing to the HSA until the end of the Grace Period, which is usually no more than 2 1/2 months after plan year end (the employee may contribute the first day of the next month following the grace period).
- Employees enrolled in a general-purpose Health FSA in the previous year in a plan which has the $500 Carryover. If there are Carryover funds, and the plan remains a general-purpose Health FSA, the employee is restricted from contributing to the HSA for the entire plan year. Employees may, however, waive their Carryover or change it to a limited-purpose FSA, such as for dental or vision expenses only (if the plan allows).

TRANSITION ISSUES FOR EMPLOYERS ADOPTING AN HSA AT PLAN YEAR END

- If the employer does not offer the IRS Extension, all Health Care FSA participants may begin contributing to an HSA at the start of new plan year
  - ✓ IRS Notice 2005-86
- If employer does off the IRS Extension*:
  - Participants that have a $0 Health Care FSA balance on last day of plan year can begin contributing to the HSA on the first day of new plan year

- Participants with a Health Care FSA balance at year end must wait until end of run-out period to begin making contributions to the HSA (1st of the month following end of Grace Period)
- Employer can amend the current plan to remove Grace Period prior to year end and all participants can make HSA contributions starting with new year

* IRS Notice 2005-86

Additional Option*

– Convert all Health Care FSAs to Limited or Post Deductible Health Care FSAs during the grace period

(cannot be a choice to participants)

Note - challenges for those who do not have dental or vision expenses – could result in forfeitures

– Requires amendment to delete the Health Care FSA and convert to Limited or Post Deductible Health Care FSA

* IRS Notice 2005-86

Mid-year Adoption of HDHP with HSAs

- Example: Employer offers a calendar year Cafeteria Plan but the health insurance renews on August 1.
  - ✓ Employer currently offers an HMO but will offer an HDHP on August 1 with an HSA
  - ✓ Employer has many employees enrolled in the Health Care FSA
  - ✓ Adoption of HDHP is a Coverage Change – does not permit Health Care FSA participants to revoke or amend their elections (Treasury Regulation 1.125-4(f))

What are the employer's options?

Informal IRS guidance March 2005

Option 1:

- Convert all participants to a Limited or Post Deductible Health Care FSA on August 1 (unilateral employer action, not participant choice)

Expenses incurred after August 1 can only be reimbursed for dental or vision care

Participants may forfeit money if they do not have enough dental or vision care needs

All employees can start making HSA contributions August 1

Option 2:

- Do not convert Health Care FSA
- Participants who are enrolled in the Health Care FSA cannot immediately contribute to the HSA
  - ✓ May begin contributing on January 1 if their account balance is $0 or there is no IRS Extension
  - ✓ If there is an IRS Extension and there is an account balance, the participant can begin contributing to an HSA on April 1 of the next plan year (1st of the month following Run Out period)

Option 3:

Plan ahead

- Run a short plan year in the Cafeteria Plan to make it match the health insurance plan year (e.g., 1/1 – 7/31)
- Requires that employer anticipates change to HDHP with HSAs prior to cafeteria plan renewal on January 1 so amendment may be made for short plan year
- Then, year-end transition issues apply