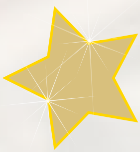

HEALTH Savings Accounts!

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After nearly a decade of struggling to wrap my mind around the Affordable Care Act (aka "the ACA" or Obamacare), and spending countless hours writing articles and making speeches about this ever-changing law and the complex regulations that valiantly endeavor to enforce it, I've decided to take a break and write about something that's less controversial and is generating a good amount of buzz in the employer community. Besides, with so much confusion and chaos surrounding health care regulation and the ACA, I wouldn't know where to start … and whatever I would write would be outdated within a day.

With that in mind, I'd like to write about something that continues to pique the interest of employers and gain traction amongst employees: Health Savings Accounts (HSAs). These pre-tax accounts are proving to be valuable savings tools for many Americans, and are growing in popularity throughout the country because of the significant savings they can offer employers and their employees. Of course, like all insurance and tax matters, this area of law can be quite confusing. I've attempted to simplify things as much as possible, but it's important that you obtain personalized and qualified professional advice if you are going to set up and use an HSA for your (or your employees') health care needs.

What are Health Savings Accounts and how do they work?

HSA popularity has been growing steadily since 2003, when the federal government first created these unique investment tools as part of the Medicare prescription drug laws. In fact, according to the Kaiser Family Foundation's *2016 Employer Health Benefits Survey*, 19% of companies that offer health insurance offer an HSA. That percentage has grown considerably over the past ten years.

In short, HSAs are tax-advantaged medical savings accounts that allow a person to pay for qualified medical expenses without first having to pay taxes on the money to Uncle Sam. HSAs can be set up with minimal hassle at virtually any bank or financial institution, and contributions to the HSA are tax deductible. HSA funds can be withdrawn on a tax-free basis to pay for various qualified medical, dental and vision expenses (*e.g.*, insurance deductibles, co-payments, and co-insurance amounts), and unspent HSA money rolls over and accumulates year-to-year. HSA funds can be used to pay for qualified medical expenses incurred by the HSA account owner or the spouse, but it should be noted that only qualified use of HSA funds is tax free. Any non-qualified use of HSA funds is subject to regular income tax and a 20% penalty tax!

What constitutes a qualified medical expense is defined by the IRS in its Publication 502, *Medical and Dental Expenses*. It includes *"payment for the diagnosis, cure, mitigation, treatment, or prevention of disease, or payments for treatments affecting any structure or function of the body,"* but it excludes things like funeral or burial expenses, over-the counter medicines, cosmetics and cosmetic surgery. Once an HSA is

established and coupled with a high-deductible health insurance plan (HDHP), the HSA owner can contribute a maximum of $3,450 per individual and $6,900 for a family (for 2018). There is also an HSA catch-up rule that allows HSA participants to contribute an additional $1,000 per year once they turn age 55.

Unlike Health Reimbursement Arrangements (HRAs) which belong to and are controlled by the employer, HSAs and all HSA funds belong to the individual. This is true even if the employer sets them up, purchases the HDHP, and/or makes financial contributions to the HSA account. In other words, any money an employer contributes to an employee's HSA immediately belongs to the employee, and cannot be recouped when the employee terminates employment. Also, unlike flexible spending accounts where unused money is forfeited, HSA's aren't subject to the federal "use-it-or-lose-it" rule. In fact, accumulated HSA funds can be used to pay certain Medicare expenses like premiums, deductibles, copays, and coinsurance, and they can even be withdrawn after age 65 without penalty (but are subject to income tax). At the end of the day (and I mean at the very end of the day), unused HSA funds are paid to the named beneficiary on the account at the time of death.

Who can set up an HSA?

Any U.S. taxpayer who meets the following conditions can set up an HSA:

(1) they must be covered under an HDHP on the first day of the month;
(2) they cannot be covered by any non-HDHP;
(3) they cannot be enrolled in Medicare; and
(4) they cannot be claimed as a dependent on someone else's tax return.

What is a High-Deductible Health Plan?

An HDHP is a health insurance policy with a deductible of at least $1,350 for an individual and $2,700 for a family (in 2018). The maximum annual out-of-pocket exposure of an HDHP (including deductibles, copayments and coinsurance, but excluding out-of-network services) cannot exceed $6,650 for an individual or $13,300 for a family. As you can see, HDHPs are catastrophic insurance policies that are designed to provide insurance protection against serious injury or illness, but not everyday medical expenses. Therefore, with the exception of certain preventive procedures (*e.g.*, annual physicals, screenings, immunizations), HDHPs don't provide any coverage at all until the deductible has been satisfied. These types of insurance policies generally have lower monthly premiums than plans with lower deductibles and less cost sharing, but when coupled with an HSA that is used to pay the insured's up-front out-of-pocket share of medical expenses on a pre-tax basis, they often result in lower overall health care costs. In other words, the federal government will give you a tax break, but in return, you have more skin in the game. The theory behind this arrangement is that you'll become a wiser and more frugal health care consumer. Most times, things work out that way, but not always … especially if you get sick or injured.

How can I learn more about HSAs and HDHPs?

If you're the type of person who likes to go straight to the horse's mouth for your information (or you're a glutton for punishment), I would suggest you take a look at IRS Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans* (https://www.irs.gov/publications/p969/ar02.html). If you prefer to have someone else wade through the nuances and intricacies of complicated laws and regulations and provide you with a concise summary, I'd refer you to a well-written article on Investopedia (http://www.investopedia.com/articles/personal-finance/090814/pros-and-cons-health-savings-account-hsa.asp). Of course, Wikipedia.org can also be a good resource, but since anyone can edit a Wikipedia page, I'd recommend you verify that information from another source before relying on it (https://en.wikipedia.org/wiki/Health_savings_account).

If you have questions about this article or would like to discuss your company's health insurance progam, feel free to contact me at ***(801) 263-8000*** or ***davidleo@wmimutual.com.***