## Frequently Asked Questions Related to HSA's and FSA's

*The following FAQ's are provided as a courtesy only and do not constitute tax, legal, or financial advice. Employees are strongly encouraged to seek advice from a qualified tax professional or attorney if they have questions about their obligations related to owning an HSA. This list was derived from questions received by OGI and responses were sourced from a variety of resources. Additional information may be added to this document as more questions arise.*

### Limited-Purpose Health Care Flexible Spending Arrangements (LHCFSA)

**What is the Limited-Purpose Health Care FSA?** Employees with an HSA may **not** contribute to the regular Health Care FSA; however, they may elect to contribute to a Limited-Purpose Health Care FSA. This was added specifically to compliment those with an HSA.

**Can employees COBRA their FSA if they leave employment?** Yes, departing employee employees can work directly with Navia to set this up.

### Health Savings Accounts (HSA's)

**What is an HSA?** The Health Savings Account (HSA) is a tax-advantaged savings account that can be used to pay for qualified medical expenses. It is only available for those enrolled in the High Deductible Health Plan (HDHP). Employees may have pre-tax contributions deposited directly from payroll. Additionally, employers may also make pre-tax contributions on the employee's behalf. Contributions may not exceed the annual maximum as determined by the IRS. The account and funds belong to the employee even if they leave employment. It is strongly advisable that employees understand their responsibilities and the limitations when opening an HSA.

**What is an employee's responsibility for enrolling in an HSA?** Employees are the owners of their HSA and have sole responsibility for knowing their eligibility requirements, managing all contribution limits, and complying with regulations. Employees are strongly encouraged to seek advice from a qualified tax professional or attorney if they have questions about their obligations related to owning an HSA.

**For non-SCO agencies, how do employees enroll in the HSA?** After selecting the *HDHP with HSA* option on the Blue Cross of Idaho enrollment form, the enrollee must also complete a separate HSA enrollment form from Navia. On this form, employees will indicate how much they wish to contribute to their HSA, if anything. <u>If the employee does not wish to contribute, they must still complete this form.</u>

**For SCO agencies, how do employees enroll in the HSA?** During Open Enrollment, SCO agency employees must use the SCO Self- Service portal to enroll in the HDHP and will be asked about their eligibility to participate in the HSA. If the employee is eligible, they will select the appropriate option and enrollment in the HSA will become part of the same application and the employer contribution to the HSA will be established. However, employee contribution amounts (if any) will be set up by the employee following the launch of the new Luma system on July 1, 2023.

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**For FY24, are there HSA employer contributions for the State plan and what are the amounts?** Yes, the employer contributions for the State plan for FY24 are $500 for individual coverage and $1000 for family coverage. These amounts are paid on a pro-rated basis, with each payroll, from July to June. If you enroll mid-year you will only receive the remainder of the prorated amount for that year.

**For FY24, what are the HSA contribution maximums?** The total dollar amount for FY24 is $3,850 for individuals and $7,750 for families. These limits include the employer contributions.

**Can an employee change how much they contribute to their HSA?** Yes, employees may change their election to start, increase, decrease, or stop making HSA contributions at any point throughout the year.

**Can an employee be enrolled in other coverage like a spouse's PPO or also have Tricare and participate in the HSA?** No, enrollees may not have other coverage and contribute to an HSA.

**How can I educate employees on the HSA and how it will work?** OGI and Navia have prepared several informational documents related to the HSA. These are available on the OGI website at www.ogi.idaho.gov.

**Are employees required to use Navia  for the HSA?** Yes, to participate in the State's HSA program enrollees are required to use the State's vendor, Navia, for all HSA contributions

**Are there investment options for the HSA?** Yes, enrollees can select how to invest the funds in their account. This resource will be available on the OGI website at www.ogi.idaho.gov after July 1.

**Are there administration fees related to the HSA?** Yes, Navia will charge a $1.50 monthly HSA administration fee. Additionally, Navia will charge a $1.50 mailing fee for paper statements. Enrollees may select electronic-only statements via Navia's website to discontinue receiving paper statements and the associated charge.

**Why did an enrollee receive a letter that their HSA account could not be opened without providing more information?** Financial institutions are required to conduct a Customer Identity Process (CIP). This is a verification process that allows the account to be opened. A CIP failure can occur when the HSA bank cannot verify the information provided by the enrollee. The letter will state specifically what the issue was and how to resolve it.

**Are enrollees required to provide an email address to open an HSA?** Yes, Navia will require a valid email address to open an account.

**Is Dental Coverage affected by enrolling in the HSA?** No, there is no change to dental coverage by enrolling in the HSA.

**Do I have to reenroll for the HSA every year like I do for FSA?** No, once you have enrolled in the HSA, your enrollment will continue year-after-year unless you choose to unenroll during the Open Enrollment period.

**Is the employer contribution to the HSA a one-time contribution?** No, the employer contribution is paid on a pro-rated basis, with each payroll, from July to June.

**What is the employer contribution for new employees who enroll mid-year?** If you enroll mid-year, you will only receive the remainder of the prorated amount with the pay periods remaining in that year.

**What happens to an employee's HSA if they leave the HDHP and join the PPO medical plan?** If an employee with an HSA decides to join the PPO in the future, they will still own the HSA account. However, no additional contributions can be made into the account.

**Can an employee enroll in the FSA and HSA at the same time?** Yes, but there are some restrictions. If an employee enrolls in the HDHP without an HSA, they may enroll in Dependent Care FSA and the general-purpose Health Care FSA—like any other plan enrollees. However, if an employee enrolls in the HDHP with an HSA, they may elect Dependent Care FSA and/or the Limited-Purpose Health Care FSA.

**Can an employee have a Medical Savings Account (MSA) and enroll in an HSA?**

- **Archer MSA's:** Archer MSAs were created to help self-employed individuals and employees of certain small employers meet the medical care costs of the account holder, the account holder's spouse, or the account holder's dependent(s). Discontinued in 2007, existing Archer MSAs were allowed to continue. Consumers have the ability to have both an MSA and HSA or more than one HSA, but it comes with some minor adjustments on how they can contribute. The total annual limit does not change, but the allocation on where they can put their funds is important. Related to an MSA, for a family plan, 75 percent of the annual deductible or the IRS maximum, whichever is lower, can be contributed into the MSA. For an individual plan the percentage of the annual deductible changes to 65 percent. The remainder up to the total limit can then be contributed into the HSA.
- **Idaho MSA:** No, the MSA can provide first dollar coverage prior to deductible therefore it is disqualifying coverage.
- **Medicare MSA's:** MSAs are only for people enrolled in the government Medicare program and are participating in the high-deductible Medicare plans. MSAs take the place of HSAs for Medicare recipients, because Medicare recipients can't have HSAs. Medicare enrollees who want MSAs have to enroll in high-deductible Medicare Advantage plans run by private insurance companies. A major difference between MSAs and HSAs is that Medicare, not the policyholder, contributes to the MSA.

**What is the difference between an HSA and an FSA?** An FSA benefit is sponsored by your employer, (funds do not belong to the employee) and annual contributions must be spent within specific timeframes, or the funds are forfeited. FSA's have lower contribution limits and employees must re-enroll every year. On the other hand, an HSA is owned by the employee even if they leave employment. Employees are responsible for their HSA and funds can be invested at the direction of the employee. Additionally, contribution limits are higher and there is no time frame for funds to be spent, so they rollover automatically.

**How can I educate myself on the HSA?** As a courtesy, the Office of Group Insurance (OGI) has provided information to the HR personnel at all the agencies. Additionally, OGI has posted HSA information on its website at www.ogi.idaho.gov. However, employees are the owners of their HSA and have sole responsibility for knowing their eligibility requirements, managing all contribution limits, and complying with regulations. Employees are strongly encouraged to seek advice from a qualified tax professional or attorney if they have questions about their obligations related to owning an HSA.

**What if an employee has rollover money in a Health Care FSA but signs up for the HSA?** Any rollover funds remaining in an employee's Health Care FSA will be automatically transferred to a Limited Purpose Health Care FSA by Navia.

**Who is most likely to be interested in switching to the HDHP with HSA option?** Typically, these individuals want to take control of their health care dollars. They also tend to be healthy and want to build up their savings account for future use. They are willing to pay more in deductibles and co-insurance in return for a lower monthly premium. Often, they contribute their pre-tax earnings into their account.

**Can an employee contribute to an HSA if their spouse has a traditional health care flexible spending account (HCFSA)?** If an employee's spouse has a traditional HCFSA, the employee is not eligible to contribute to an HSA if they are in the same household. If the spouse has a limited-purpose FSA or a dependent care account, the employee may contribute to an HSA.

**If an employee has family HDHP coverage for the employee and a child, can they make HSA contributions up to the family limit even if the child is also enrolled in the employee's spouse's non-HDHP medical plan?** Does the child's dual coverage affect the employee's HSA contribution limit? The child's coverage under the other parent's plan, whether HDHP or non-HDHP, does not affect the employee. The employee's coverage determines the employee's eligibility to make HSA contributions; in this case, the employee's coverage is family-level HDHP (not non-HDHP coverage), so the employee can make contributions up to the family limit.

**Can an employee contribute to the HSA up to the family max if they have dependent children, even if they have single coverage on their group health plan?** An employee that is covered under self-only HDHP coverage can only contribute up to the self-only maximum.

**If two married individuals work for the same employer and both have a separate single/employee-only HDHP, are they each eligible to contribute up to the IRS HSA family maximum?** Each employee of the same employer with single employee-only coverage can each contribute up to the HSA single coverage maximum. Individuals over age 55 may make a catch-up contribution into their HSA over the single coverage maximum.

**An employee terminating at the end of HSA month asked to make a lump sum $2,000 HSA contribution on their final paycheck. Is this allowed if they do not reach the IRS maximum?** Employees can make lump-sum contribution to an HSA if the HSA custodian agrees to the schedule and the employee remains eligible to make and receive the maximum annual contribution. The amount that can be contributed to an employee's HSA depends on the type of HDHP coverage they have, their age, the date they become an eligible individual, and the date they cease being an eligible individual. Eligibility for HSA contributions is determined monthly, as of the first day of each month, so the IRS annual limit is prorated if the employee does not meet the four eligibility conditions for the entire year. So, while an employee may contribute up to the maximum for the year, they must remain eligible for the entire year. The four eligibility conditions are:

- The employee has *qualifying HDHP* coverage;
- The employee does not have any *disqualifying non-HDHP health coverage*;
- The employee is not enrolled in Medicare; and
- The employee cannot be claimed as a dependent on someone else's tax return.

**Can insurance premiums be paid for with HSA funds?** Most types of health insurance "premiums" (including coverage contributions for uninsured plans) are *not* qualified medical expenses. HSA funds can be used for nonqualified expenses, but income taxes (and excise taxes if under age 65) will apply. Premiums in the following limited cases *do* meet the definition of qualified medical expenses:

- Premiums for COBRA continuation coverage;
- Premiums for coverage if unemployed and receiving federal or state unemployment
- insurance;
- Medicare premiums (other than premiums for Medicare supplement policies), if the
- account holder is 65 or older and the premiums are for the accountholder or spouse who first became eligible for Medicare at 65 or later;
- Contributions for an employer-sponsored group retiree health plan, if 65 or over; or
- Certain long-term care insurance premiums (seek the advice of a tax professional as the rules on long-term care insurance are complex).

Note that premiums for Medicare Supplement policies (often referred to as Medigap) are not qualified medical expenses, regardless of age.

**Can COBRA premiums be paid for with HSA funds?** Yes, as noted above, COBRA premiums are considered qualified medical expenses; therefore, HSA funds can be used to pay COBRA premiums without tax consequences. Most other types of "premiums" do not qualify for tax-free treatment.

**Are HSAs subject to nondiscrimination rules?** In the workplace, HSA contributions typically are made through a § 125 cafeteria plan, which allows the contributions to avoid payroll taxes (e.g., FICA), along with federal and state income taxes (except in California and New Jersey). In that case, the § 125 nondiscrimination rules will apply, as they do to all cafeteria plans. Note that the rules do not require identical benefits or contributions for all employees, but rather focus on whether highly compensated employees or key employees benefit disproportionately from the plan's tax benefits in compared to other employees.

If there is no cafeteria plan, or the cafeteria plan does not include HSA contributions as a qualified benefit, any HSA contributions made by the employer are subject to an IRS rule known as the comparable contributions rule. In that case, if the employer makes contributions, the contributions must either be the same amount or the same percentage of the employee's HDHP deductible for all HSA-eligible employees. Some variations are allowed based on full-time versus part-time status or current versus former employee status.

**Do employers have to contribute to their employees' HSAs?** No. Employers may choose whether to contribute to their employees' HSAs. If the employer does contribute, contributions can only be made for employees that meet the HSA eligibility conditions. Total contributions made by, or on behalf of, the employee cannot exceed the IRS limit. Also, the employer's contributions must be nondiscriminatory or comparable as explained above.

**If an employee is out on Family and Medical Leave Act (FMLA) with no payroll, can they still contribute to their HSA?** Individuals are still HSA eligible during protected leave if they maintain enrollment in the HDHP.

However, HSAs are a trust or custodial account controlled by the employee. They are not group health plans covered with protections under the Employee Retirement Income Security Act (ERISA) or under various leave laws such as FMLA. Employer contributions may be suspended during the protected leave and resumed when the employee returns with no catch-up required. An employee with no pay during protected leave may contribute money to their HSA by working directly with the bank. This can be facilitated on an after-tax basis, and they can look to claim those amounts when filing their personal income tax return.

**Can an employee use their HSA to pay a spouse's medical expenses even if the spouse is not enrolled in the HDHP?** Yes, employees may use their HSA funds to pay their own qualified medical expenses or those incurred by their spouse and/or their tax-dependent child(ren).

**What happens when an employee who has an HSA, goes on Medicare at age 65?** For an employee who is turning 65, the IRS recommends individuals discontinue making HSA contributions 6 months prior to avoid tax penalties. Additionally, no HSA contributions are allowed once an individual enrolls in Medicare or reaches 65 years of age. However, HSA funds may still be used to cover qualified medical expenses.

**What if an employee is under age 65 and enrolling in the High Deductible plan with HSA and their spouse is age 65 or older?** If the spouse is age 65 or over and has applied for or begun receiving Social Security benefits (and is entitled to or enrolled in Medicare), he or she cannot contribute to an HSA. The employee, under age 65, may contribute up to the family maximum provided the spouse is enrolled as a dependent under the employee's HDHP coverage.

**If an employee turns 65 and enrolls in Medicare midyear, can the employee continue making HSA contributions for the rest of the year, and can the employee still use the money previously contributed to their HSA?** Eligibility to make HSA contributions is determined each month. If not eligible for the entire year, the IRS limit is prorated by month. For instance, if the employee meets the four eligibility conditions each month from January through August, but then loses eligibility because they enroll in Medicare at 65 in September, the contribution limit for that year will be 8⁄12 of the IRS annual limit. Contributions can be deposited up until that year's tax filing deadline (typically April 15 of the following year). Next, even though the employee is no longer eligible to make new HSA contributions, their existing account funds are not affected. The employee can use those funds to take tax-free withdrawals to pay qualified medical expenses or allow the funds to continue growing with interest or investments.

**Caution:** Medicare is a disqualifying coverage, so HSA contributions cannot be made for any months the employee is enrolled in Medicare. Although Medicare is typically available at age 65, some employees delay enrolling until later. When an individual requests to enroll, the government's system will automatically backdate the enrollment in Part A to either their 65th birthday or six months before the enrollment request. Coverage cannot begin earlier than age 65 except for individuals with end-stage renal disease or Lou Gehrig's disease (ALS). Any HSA contributions made during the six-month backdate will be disqualified, and taxes will apply. The Medicare website warns applicants over 65 to cease HSA contributions for up to six months before applying for Medicare.