MY BENEFIT ADVISOR

Health Savings Accounts

A PROVEN COST CONTROL METHOD FOR GROUPS
WITH HIGH DEDUCTIBLE PROGRAMS

My Benefit Advisor consultants have worked with customers implementing a variety of cost-saving programs like Health Savings Accounts. Our experts can work with your team to outline the pros and cons of these programs, fit a program design tailored to your company's specific demographics and needs while implementing the program with minimum disruption to your work environment.

A Little Perspective

Many company owners have raised their health plan deductibles and co-insurance levels to save money as insurance carriers have raised premiums significantly over the past decade.

Unfortunately for the employee, this often means greater out-of-pocket costs for medical claims.

Employers do have a tool at their disposal. Health Savings Account (HSA) plans provide their employees with a trio of benefits when linked with a high deductible health plan. An HSA plan allows employees to set aside money to pay for qualified medical expenses.

The trio of tax benefits include:

1. Contributions to the HSA plan by the employee are made pre-tax.
2. The money in the HSA account grows tax free.
3. Distributions are made tax free if it is used on qualified medical expenses

https://www.irs.gov/publications/p502

An HSA plan should be considered as a part of any company health plan with a high deductible. In this piece, we'll discuss Health Savings Account plans in more detail, exploring the mechanics of the program, the advantages of the arrangement and steps required for implementation.

Health Savings Accounts: What You Need to Know

A Health Savings Account, more widely referred to as HSA, is a type of savings account that allows a person to set aside money on a pre-tax basis to pay for qualified medical expenses. The advantage of an HSA is that by using it to pay for deductibles, copayments, coinsurance and other qualified medical expenses not covered by the base health plan, it actually lowers the person's overall health care costs.

HSA plans can only be used when linked to a High Deductible Plan (HDHP), which is defined as a health plan with a deductible of no less than $1,600 in 2024 for self-only coverage ($3,200 in 2024 for a family). Additionally, the total annual out-of-pocket expenses (deductibles, copayments and other amounts, but not premiums) cannot exceed $8,050 in 2024 for self-only coverage ($16,100 in 2024 for family coverage).

Each year a person can decide how much to contribute to their HSA plan. For the calendar year 2024 the limits are $4,150 for self-only coverage and $8,300 for an individual with family coverage. Those age 55 and older may contribute an additional $1,000 annually.

HSA FUNDS ARE PORTABLE

This means money in an HSA plan remains available for future medical expenses even if the individual changes insurance plans, leaves their employer, or retires.

Most insurance companies now offer HSA plans by issuing a debit card that their member can use to pay for qualified expenses. Receipts should be maintained for record keeping purposes.

Key Advantages of an HSA:

- Money going into an HSA account is not taxed
- Interest accumulates tax free on any HSA balances
- Money comes out tax-free to pay for eligible medical expenses
- HSA funds continue to be owned by the individual, even if they change plans, leave their employer, or retire
- HSA funds roll over from year to year if they are not used, unlike flexible spending accounts

HSA Plans: MYTH vs. FACT

When contemplating enrollment into an HSA plan, it's important to know the facts. You may have heard some of the following myths and misconceptions about these plans, so we'll clarify this information to enable a more accurate understanding of the details of the arrangement:

MYTH: You must use your money by year end, or you'll lose it.

FACT: You're thinking of a Flexible Spending Account (FSA). Unused funds in an HSA plan year roll forward at the end of the year to be used the following year.

MYTH: You must use HSA funds to pay for expenses within a year of the expense service date.

FACT: As long as you have the receipt, there is no time limit for submitting or paying for an eligible expense.

MYTH: You can't use the money in your HSA plan once you're on Medicare.

FACT: Although you can't make any additional contributions to your HSA plan once you are on Medicare, you can continue to pay for qualified expenses from the money that's already in the account, including Medicare Part B, D or Advantage premiums.

MYTH: You can't make any additional contributions to your HSA plan once you've turned 65.

FACT: You can continue to make contributions to your HSA plan past age 65, as long as you are not enrolled in Medicare. However, you can only delay signing up for Medicare at 65 if you have health insurance through a large employer (with 20 or more employees).

MYTH: You lose the funds in the HSA when you leave your job.

FACT: Again, unlike FSA Plans, the funds in an HSA remain yours to use for eligible expenses even after you leave your job.

MYTH: You can use your money for expenses from your spouse and/or children only if they are covered under your health plan.

FACT: Regardless of whether your spouse and/or children are covered under your medical plan, you can still use your HSA money tax-free to cover eligible medical expenses for your spouse and your dependents, even if they are covered under a different policy.

Before You Enroll:

There are a few things to keep in mind before you enroll in an HSA plan:

High-Deductible Plan Requirement

The high deductible health plan necessary to qualify for an HSA requires a greater financial outlay before the plan begins to pay.

Taxes and Penalties

If you withdraw funds for any non-qualified expenses before you turn 65, you'll owe taxes on the money in addition to a 20% penalty. After age 65, you'll owe taxes but no penalty.

Recordkeeping

Receipts must be kept validating that your withdrawals were used to pay for qualified health expenses.

Fees

Some HSA plan administrators charge a monthly maintenance fee or a per-transaction fee.

Which Medical Expenses Qualify

Under a Health Savings Account?

These Medical Expenses Qualify	These Medical Expenses Don't Qualify
☑ Health Insurance Deductibles, Copayments and Co-Insurance	☒ Most Health Insurance Premiums
☑ Dental care	☒ Teeth whitening
☑ Vision care	☒ Health club dues
☑ Prescription drugs	☒ Cosmetic surgery
☑ Mental Health Care (with some potential exceptions)	☒ Maternity Clothes, Babysitting, Childcare, Nursing Services for a Normal, Healthy Baby
☑ Long Term Care Expenses and Premiums	☒ Electrolysis or Hair Removal
☑ Transportation Costs Related to Medical Care	☒ Non-Prescription Drugs and Medicines

Health Savings Accounts

PART 1:

HIGH DEDUCTIBLE HEALTH PLAN (HDHP)

Covers serious illness or injury expenses once deductible has been met.

PART 2:

HEALTH SAVINGS ACCOUNT (HSA)

Used to cover smaller, more routine expenses until the plan's deductible is met or any qualified expenses not covered by the high deductible plan.

Case Study:

Using an HSA Plan to Control Rising Costs

The Issue

During an initial meeting with a small group prospect (26 employees), the business owner expressed his dismay over the continual double digit increases his company had experienced each calendar year for their group medical plan. He was hoping for suggestions on how to reduce the cost of providing healthcare benefits to his employees.

Our Solution

This employer was not yet utilizing a High Deductible Health Plan (HDHP) to contain costs. We explained the reasons why many employers were turning to these plans and taking advantage of the powerful tax benefits of adding a Health Savings Account. By using an HDHP, the employer can lower the premiums for the group health plan and shift a part of the cost for providing healthcare to the employee. By adding an HSA, both the employer and employee can benefit from reduced healthcare costs and beneficial tax savings.

Impact/Result

The business owner selected us as his new Broker of Record, selected one of the HDHP plans we presented and paired it with an HSA plan. The new plan provided him with an annualized savings of just over 10%, which on his group health bill of $280,800 equated to approximately $28,000 annually. From the savings, he decided to provide each employee with a $500 plan year contribution toward their HSA plan (divided among the 26 pay periods) which still yielded him a $13,000 cost savings for the current year. Overall, the changes provided both employer and employees with a successful cost and tax saving strategy.

HSA Plans: Key Takeaways:

- Only available when used in conjunction with a high deductible insurance plan
- Funds can be used to pay for qualified medical expenses
- Unused funds rollover and can be used in the following year
- Money can be used for non-medical expenses after age 65
- Expenses can only be paid for with funds available in the account at a given point in time

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