ASURESOFTWARE

Employer FAQ:

Health Savings Accounts

What is a health savings account?

A health savings account (HSA) offers your employees a tax-advantaged way to save and pay for qualified out-of-pocket healthcare expenses. The employee must be covered by a high-deductible health plan to be able to take advantage of a HSA.

What is a high-deductible health plan?

A high-deductible health plan is health insurance with deductible amounts that are greater than standard insurance plans. The monthly premiums for this type of health insurance are typically less expensive because employees agree to take on more of the upfront cost of medical care. For , these deductibles are at least for individual or for family coverage.

Is this really less expensive for the business?

Yes. High-deductible health plan premiums are much lower than the typical HMO and PPO premiums. Many businesses are finding these health plans affordable for their companies and their employees.

Do employees get a tax benefit from an HSA?

Employee contributions can be made to a HSA on either a pre-tax or post-tax basis. When employees make contributions pre-tax it is done through a Section 125 plan (also called a salary reduction or cafeteria plan), generally through direct deposit of payroll. If employees contribute funds on an post-tax basis, the amount can be deducted from their taxable income.

Does an employer have to make contributions to an employee's HSA?

No. Employers are under no obligation to make any contributions to their employees' HSAs. Many employers find that making a contribution to employees' HSA accounts may help improve adoption of HDHPs and HSAs, especially if they are transitioning from a more traditional type of health coverage.

May an employer fully fund the employee's HSA at the beginning of the year?

Yes. An employer may fully fund the employee's HSA at the beginning of the year, however HSAs belong to the individual and not the employer and the employer has no further control over the accounts after they have been funded. As a result, many employers elect to fund employees HSAs periodically throughout the year.

Are an employer's contributions to an HSA treated as a deductible healthcare expenses?

The tax treatment of employer HSA contributions depends on how the business is incorporated. For sole proprietors, partnerships, and S-corporations, contributions to a partner's HSA will be treated as a distribution to the partner and included in the partner's income and may be deductible by the partner but not by the business (see IRS Notice 2005-8 for treatment of HSA contributions in exchange for guaranteed payments of services rendered for partners and two-percent shareholder employees of S-corporations). For larger corporations, employer contributions are treated as employer-provided coverage for medical expenses under an accident or health plan.

Can employers make pre-tax contributions to their employees' HSAs?

Yes. Employers may make pre-tax contributions to their employee's HSAs if they have a cafeteria plan in place that provides for HSA contributions. These contributions are not subject to withholding from wages for income tax or subject to FICA, FUTA or the Railroad Retirement Act.

May employers make matching contributions?

In general, employer matching contributions would likely violate comparability testing (i.e., they must make comparable contributions for all eligible individuals with comparable coverage during the same period). However, matching contributions through a section 125 cafeteria plan are not subject to comparability testing (but section 125 nondiscrimination rules would apply).

Can you combine an HSA with an FSA?

Yes. But only a limited-purpose FSA so as not to duplicate the coverage provided by the HSA. The limited-purpose FSA is designed to complement the HSA and may be established to pay for eligible vision and dental expenses. The FSA is not permitted to cover medical expenses because the tax-favored HSA is used to fund those costs.

Is the employer responsible for reviewing medical expenses?

No, the employer is not responsible for substantiating the employee's HSA expenses. The individual account holder is responsible for determining that their account funds are being properly used and would be required to provide supporting evidence on the use of their funds if requested under IRS audit.

How often can an employee adjust their HSA contribution when contributing through a cafeteria plan?

Employees contributing to an HSA through a cafeteria plan may make adjustments to their contributions at any time, as long as the change only affects future contributions.

As an employer, am I responsible for my employees' HSA?

No. You do not own your employees' HSAs, nor are you responsible for how the funds are managed by the employee. The employee fully owns the contributions to the account as soon as they are deposited, just as with a personal checking or savings account to which you would deposit their compensation.

Do I have to contribute the same amount to every employee's HSA?

Generally, employer contributions must be comparable, that is they must be in the same dollar amount or same percentage of the employee's deductible for all employees in the same "class". However, with the passage of a new law in 2007, higher contributions are allowed for non-highly compensated employees. In addition, you can vary the level of contributions for full-time vs. part-time employees, and employees with self-only coverage vs. family coverage. You do not need to consider employees who have not elected the high-deductible health plan coverage because they are not eligible for HSA contributions.

How are contributions treated for owners, shareholders, or partners?

Owners and officers with greater than two-percent share of a Subchapter S corporation, or partners in a partnership or LLC, cannot make pre-tax contributions to their HSAs by salary reduction. Any contributions made to their HSAs by the company are taxable as income. However, they can make their own personal contributions to their HSAs and claim the contributed amount as a deduction on their personal income taxes.