Health Savings Accounts

Marketplace Advisory Committee

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Overview

- What is a Health Savings Account?
  - A Health Savings Account (HSA) is a tax-exempt trust or custodial account that can be used to pay certain medical expenses.
- What are the advantages of an HSA?
  - Tax-free contributions
  - Tax-free investment earnings
  - Tax-free distributions for medical expenses.

Overview

- How is an HSA established?
  - Individuals may work with a qualified trustee (bank, insurer, TPA) to establish an HSA.
  - Employees may be offered an HSA as part of their employer's health plan.
- Who may establish or fund an HSA?
  - Must be an "eligible individual" as defined under the tax code.

Who is an eligible individual?

- To establish or contribute to an HSA:
  - Cannot be claimed as a tax dependent by someone else.
  - Cannot be enrolled in Medicare.
  - Must be covered by a *"high deductible health plan"* and have no other disqualifying coverage.
- Note - These requirements do not apply to the use of existing HSA funds.

High Deductible Health Plans

- Key features of high deductible health plans (HDHPs):
  - High deductibles (*minimum* $1,300 for self-only, $2,600 for family coverage)
  - Maximum limit on "out-of-pocket" expenses, including deductible ($6,550 for self-only, $13,100 for family coverage)
  - No benefits are paid until the deductible is met (except for preventive care).

High Deductible Health Plans

- An HDHP may provide preventive care ahead of the deductible, including:
  - Periodic health evaluations (annual physical)
  - Routine prenatal and well-child care
  - Child and adult immunizations
  - Tobacco cessation programs
  - Obesity weigh-loss programs
  - Screening services
  - Preventive services required to be provided without cost sharing under the ACA

Contributions to an HSA

- 2017 Annual Contribution Limits
  - $3,400 for self-only HDHP coverage
  - $6,750 for family HDHP coverage
- Catch up – Eligible individuals who are 55 or older at the end of the year may contribute an additional $1,000/year.
- Employers may contribute to employee HSAs, subject to the total annual limit.

Distributions from an HSA

- Withdrawals from an HSA are tax-free if used to pay *Qualified Medical Expenses*
  - Includes most out-of-pocket expenditures for the medical care of the HSA-holder, his or her spouse, and any tax dependents
  - Generally does not include premiums
  - Under ACA, over the counter medications (other than insulin) are excluded unless prescribed by a physician.

Distributions from an HSA

- Timing – Qualified Medical Expenses must be incurred after the HSA is established.
- Distributions for other expenses
  - Amount is included in the account holder's gross income for the year; and
  - May be subject to an additional 20% penalty tax
- Rollovers to other HSAs are permitted.

HSAs – Possible Future Changes

- Increasing the annual contribution limits to match the HDHP out of pocket limit.
- Reducing penalty tax for non-qualified distributions to pre-ACA level.
- Re-authorize use of HSA funds for over the counter medication without a prescription
- Allow spouses to “share” catch-up contributions
- Modify timing rules to allow certain expenses incurred before HSA is established.

Questions and Discussion