



U.S. Small Business Administration



Your Small Business Resource

Health Savings Accounts for Small Business Owners and Employees

U.S. Small Business Administration, and
Department of the Treasury
Washington, DC

2008

HSA Overview

What is a Health Savings Account?

- A tax preferred account owned by an individual and used to pay for current and future medical expenses.
- HSAs are used in conjunction with an HSA-eligible Health Plan
- HSAs are funded by deductible individual contributions. In addition, employers may contribute to employees' HSAs.

Advantages of an HSA

Ownership - Account funds remain from year to year (similar to an IRA). There are no 'use it or lose it' rules for HSAs.

Tax Deductions – Individual contributions to an HSA are deductible even if you don't itemize. For employers, contributions are excluded from income and wages.

Savings – You can save the money in your account for future medical expenses and grow your account through tax free investment earnings.

Flexibility– You can use the funds in your account to pay for current medical expenses that your insurance plan may not cover, or choose to save the money for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Advantages of an HSA

Portability – You can keep your HSA even if you change jobs, change medical coverage, or become unemployed. HSAs are an inheritable asset.

Affordability – You should be able to lower your health insurance premiums by switching to higher deductible coverage.

Security – Your HSA eligible insurance and HSA protect you against high or unexpected bills.

Control – You make all the decisions about:

- how much you contribute
- whether to pay current expenses with the account or save for future expenses
- which medical expenses to pay for with the account
- which company will hold the account
- investing decisions for the money in the account.

Who Is Eligible for an HSA?

- Any individual that:
 - Has an HSA eligible health plan
 - Is not covered by other health insurance, with a few exceptions:
 - Insurance for a specific disease/illness, accident, disability, dental, vision and long-term care
 - Employee Assistance Programs, disease management program or wellness program that do not provide significant health benefits
 - Drug discount cards
 - Eligibility for VA Benefits (Unless you have received VA health benefits in the last 3 months)
 - Is not enrolled in Medicare
 - Can't be claimed as a dependent on someone else's tax return
- No limits exist on income for who may contribute to an HSA
- No requirement exists for having earned income to contribute to an HSA

What Is an HSA Eligible Plan?

- The following table shows the minimum annual deductible and out-of-pocket expenses for HSA eligible plans for 2008 and 2009.

Type of Coverage	Min. Annual Deductible 2008	Min. Annual Deductible 2009	Max. Annual Out-of-Pocket Expenses 2008	Max. Annual Out-of-Pocket Expenses 2009
Self-Only	\$1,100	\$1,150	\$5,600	\$5,800
Family	\$2,200	\$2,300	\$11,200	\$11,600

- Plans may provide preventive care benefits without a deductible or with a deductible below the minimum annual deductible. Examples include, but are not limited to:

- Periodic health evaluations and immunizations
- Routine prenatal and well child care
- Tobacco cessation and obesity weight-loss programs.

- Plans can have higher out-of-pocket for non-network services

- All covered benefits must apply to the plan deductible, including prescription drugs

HSA Contributions

- Contributions made by an Employer:
 - Are excludable from the employee's wages and not subject to FICA or other federal taxes, and in most cases, state and local taxes
 - Are not taxable to the employee (excluded from income and wages)
 - Must be "comparable" for all employees participating in the HSA, else there will be an excise 35% tax
- Contributions made by an Individual:
 - Are an "above-the-line" deduction
 - Can be made by others on behalf of the individual and deducted by the individual
 - Individuals can make a one-time transfer from their IRA to an HSA, subject to the contribution limits applicable for the year of the transfer
- Maximum contribution for 2008 is \$2,900 for individuals, \$5,800 for families
 - Contributions to the HSA in excess of the contribution limits must be withdrawn by the individual or be subject to an excise tax.
 - For individuals age 55 and older, additional "catch-up" contributions to HSA allowed (2008 - \$900, 2009 and after - \$1,000)
 - Contributions must stop once an individual is enrolled in Medicare.

HSA Distributions

- Tax-free distributions can be taken for qualified medical expenses of the HSA owner, or spouse or dependent (even if not covered by the HSA eligible plan)
- Distribution is tax-free if taken for “qualified medical expenses” incurred on or after the HSA was established.
 - includes over-the-counter drugs
 - does not include other health insurance, except: COBRA continuation coverage, coverage while receiving unemployment compensation, qualified long-term care insurance premiums, Medicare premiums and out-of-pocket expenses
- If distribution is not used for qualified medical expense, the amount of distribution is included in income and subject to 10% additional tax except when taken after age 65, disability, or death
- HSA Distributions can be used to reimburse prior years’ expenses as long as they were incurred on or after the date the HSA was established.
- Mistaken HSA distributions can be returned to the HSA. Clear and convincing evidence must be shown that the distribution was a mistake of fact & must be repaid by April 15 of the year following
- HSA account holder should keep receipts! They may be needed to prove that distributions were for medical expenses or that HSA eligible plan deductible was met

HSAs and Small Business

- **HSAs are allowing thousands of employers to provide coverage to their employees they wouldn't be able to otherwise.**
- **The following are examples of how your small business and employees will benefit from choosing an HSA.**
 - Money not spent stays in the account and earns interest, giving employees in good health funds for later expenses.
 - Both employers and employees can make contributions.
 - HSAs share the cost of healthcare benefits with employees in a way that benefits you and them.
 - HSAs avoid the administrative costs; employees self-administer their HSA.
 - You can contribute in any frequency you choose to your employee's HSA; also, no minimum contributions are required.
 - HSA funds are an asset that employees own, so they can use it to supplement their retirement income and build personal wealth.
 - If you're self employed, you may qualify to deduct the premium for your HSA eligible plan even if you don't itemize.

What People are Saying About HSAs

The following shared people with Congress how Health Savings Accounts has been a great health care option for them, their small business and their employees.

“My employees and I are delighted”

- *“My employees and I are delighted with the concept of Health Savings Account that allows us to benefit from our health care spending decisions with the use of pretax dollars. This type of health plan puts the consumer in charge of how he or she may elect to spend their health care dollars. The excess rolls over year after year, and employees can take it with them to a new job if they retire”.*

-Small business owner in Lafayette, Colorado

“Health Savings Account [were] the answer”

- *“After exploring a variety of approaches, we knew a replacement high deductible health care plan with Health Savings Accounts was the answer. HSAs would allow our employees to fully own their accounts. While the company would contribute, plan participants may—but would not be required to make contributions. Especially important is that these funds would carry over from year to year, allowing an employee to build a reserve for an unexpected injury or illness. In a business with frequent turn over, portability was important. Health Savings Accounts would allow employees to set aside money for post retirement health care expenses that stayed with them regardless of where they were working”.*

- Human Resources and Administration Vice President in Dublin, Ohio

“Employees had a viable option for quality healthcare that was beginning to become affordable”

- **Coverage under a traditional HMO health plan:** *“As our medical expenses increases reached double digits, for seven consecutive years, the result was that employees began to leave the plan. Each year, more and more low-risk individuals shifted coverage to a spouse’s plan, or purchased insurance on their own, while the higher risk employees remained. Our experience deteriorated, premiums went up, benefits continued to decline, and the cycle repeated itself. The death cycle for insurance coverage, is what we came to call it”.*
- **After changing coverage to a Health Savings Account:** *“For the first time in six years, and now for the second consecutive year, [we] received a pay increase while the agency was able to absorb the more modest increase in premiums. For two years, employees received a true cost of living increase. Turnover has begun to decline. That means jobs were not eliminated. It means programs were not cut, and it means employees had a viable option for quality health care that was beginning to become affordable”.*
- *“We moved to HSAs because we had to. We remain there because we choose to”.*

- Vice President of Human Resources in Des Plaines, Illinois

Checklist for Small Business Owners

- ✓ **Determine whether or not you currently offer a HSA-Qualified plan:** If you believe your current policy meets the HSA requirements, you should ask your insurance carrier to tell you in writing whether your policy is HSA-qualified.
 - ✓ **Check the Deductibles:** Your policy should have a deductible that meets the minimum HSA-qualified requirements.

2008 HSA-Qualified Policy	Self-only coverage	Family coverage
Minimum Deductible	\$1,100	\$2,200

- ✓ **Check the Limits on Out-of-Pocket Expenses:** HSA-qualified policies must limit the annual out-of-pocket expenses paid by the individual or family. For 2008, the limit on out-of-pocket expenses is \$5,600 for self-only coverage and \$11,200 for family coverage.
 - ✓ **Check the Covered Benefits:** High deductible policies are subject to the same insurance laws and regulation as other policies however, the amount of covered benefits affects your premium. Make sure you understand what expenses count towards satisfying your policy deductible and out-of-pocket limits.
- ✓ **Check on Preventive Care:** HSA-qualified plans may provide first dollar coverage for preventive care. Look for a policy that provides coverage of preventive care services that you will use. This will save you money in the long run and will help you maintain and improve your health.
- ✓ **Check on Other Coverage:** To be eligible for an HSA, you must not have any other first dollar coverage. The following types of coverage could disqualify you: Traditional HMO, PPO or indemnity policy; Flexible Spending Arrangement or Health Reimbursement Arrangement, Medicare, Medicaid, Tricare, or VA Benefits (within last three months).
- ✓ **Check with trade associations, and other business groups:** You may be able to join a 'pool' of businesses in a group plan. Check with related trade associations, local business groups, state and local governments. Often these groups, because they are larger, get better rates.

Checklist for Individual Consumers

- ✓ **Check the Deductibles:** Your policy should have a deductible that meets the minimum HSA-qualified requirements.

2008 HSA-Qualified Policy Deductibles	Self-only coverage	Family coverage
Minimum Deductible	\$1,100	\$2,200

- ✓ **Check the Limits on Out-of-Pocket Expenses:** HSA-qualified policies must limit the annual out-of-pocket expenses paid by the individual or family. For 2008, the limit on out-of-pocket expenses is \$5,600 for self-only coverage and \$11,200 for family coverage.
- ✓ **Check the Covered Benefits:** High deductible policies are subject to the same insurance laws and regulation as other policies however, the amount of covered benefits affects your premium. Make sure you understand what expenses count towards satisfying your policy deductible and out-of-pocket limits.
- ✓ **Check on Preventive Care:** HSA-qualified plans may provide first dollar coverage for preventive care. Look for a policy that provides coverage of preventive care services that you will use. This will save you money in the long run and will help you maintain and improve your health.
- ✓ **Check whether Your Policy is HSA-Qualified:** If you believe your current policy meets the HSA requirements, you should ask your insurance carrier or employer to tell you in writing whether your policy is HSA-qualified.
- ✓ **Check on Other Coverage:** To be eligible for an HSA, you must not have any other first dollar coverage. The following types of coverage could disqualify you: Traditional HMO, PPO or indemnity policy; Flexible Spending Arrangement or Health Reimbursement Arrangement, Medicare, Medicaid, Tricare, or VA Benefits (within last three months).

HSA Frequently Asked Questions

Are HSAs good for preventative care?

- Law allows HSA-eligible coverage to cover preventative care with no deductible
- Study of Federal health plans found HSA-based plans at least as likely to cover preventative care as PPOs, often with lower copays
- Early evidence from private health plans shows smarter, higher-value use of health care resources.

Are HSAs good for women?

- While preventative health care for women is more expensive per year, most HSA plans make preventative care a first-dollar coverage exception to the high deductible, and/or deposit funds in the HSA so that women can purchase care on their own.
- Women should carefully check on preventive care coverage when shopping for health plans. Look for a policy that provides coverage of preventive care services that you will use. This will save you money in the long run and will help you maintain and improve your health.

Are HSAs just for the rich?

- HSAs make health insurance more affordable for many Americans that don't have access to health insurance through an employer
- HSA based policies have lower premiums that largely offset higher deductibles

Additional Information

Additional Resources:

- www.hsa.gov
- U.S. Department of Treasury:
www.treas.gov/offices/public-affairs/hsa/
- HSA ED: www.hsaed.com

Locate HSAs and Eligible Coverage for You or Your Employees:

- HSA Finder: www.hsafinder.com
- eHealthInsurance: www.ehealthinsurance.com
- HSA Insider: www.hsainsider.com