

# How health savings accounts (HSAs) work

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# History of HSAs

HSAs are the “next big thing” to happen to health insurance in the United States.

HSAs were included in the 2003 Medicare Modernization Act, a federal law. Although HSAs have been around since January 1, 2004, recent legislative and regulatory changes have made these accounts more attractive than ever before.

# What is an HSA?

HSAs provide a means for consumers to “own” their health care by over time accumulating monies in a tax-free account which may either be used to currently reimburse health care expenses or be saved for the future.

# HSA funding

In 2012 anyone under the age of 65 with self-only coverage under an “HSA-qualified plan” may fund up to \$3,100, and those with family coverage up to \$6,250, either on a pre-tax basis through an employment-based Section 125 plan or as an “above-the-line” deduction on one’s tax return.

Further, anyone who is 55 or older may make an annual “catch-up contribution” of \$1,000.

# Impact of employer funding

Employers may make tax-free contributions to employees' HSAs. Any such contributions are subject to the overall account contribution limits noted on the prior slides. In other words, any combination of employer and employee funding of one's account may not exceed these overall contribution limits.

# HSA vs. Healthcare FSA

**All monies** contributed to HSAs – whether such contributions are made by one’s employer or the accountholder - are from Day 1 **owned** by the accountholder. In sharp contrast, there is never any real “ownership” of funds in a healthcare FSA.

# HSA vs. Healthcare FSA

Under HSA rules one may “use it (the account) or save it”. There is no requirement with HSAs like there is under the healthcare FSA rules to spend the account prior to the end of the plan year or forfeit the remaining balance. Under FSAs this is commonly referred to as the “use it or lose it” rule.

# HSA vs. Healthcare FSA

With HSAs one may only spend what is in the account. Conversely, healthcare FSAs have a “prefunded account rule” that requires one’s employer to fund eligible claims upfront up to the employee’s annual deferral election even if the funds contributed to date are not sufficient to fund the claim.

# HSA vs. Healthcare FSA

Even though one may only spend what is in one's HSA, the workaround when one has a large expense in month 1 or 2 of the first year and little or no money yet in the account is to either take money out of savings or use a credit card to pay for the expense. Then as funds are contributed to the HSA one may simply reimburse himself / herself for the expense after the fact.

# Permitted uses of HSA funds

Prior to the age of 65 monies may be withdrawn tax-free provided they are used for qualified medical expenses.

Once a person reaches 65, monies held in account may either be used to generate income (which is taxable like an IRA) OR be used to tax-free reimburse health care expenses, including the cost of Medicare premiums for B and D and long term care insurance.

## Pre-65 tax penalty

If funds are withdrawn under one's age of 65 for any reason other than to pay for or reimburse qualified medical expenses there is a 20% non-deductible tax penalty that's assessed in addition to the entire distribution being subject to income taxes.

## Two components – plan and account

Under federal law one may have an HSA provided they are enrolled in a qualified health plan.

Therefore, with an HSA plan there are actually 2 components – one being the health insurance policy, and the other being a bank account that the HSA plan participant personally owns and controls.

# The qualified health plan

**Prescription coverage:** Under the HSA qualified plan, even though prescriptions are subject to the deductible, nevertheless members receive the health plan's negotiated (reduced) price at the point of dispensing.

When prescriptions are filled, one may access HSA funds through a free debit card feature to pay for them (provided the account has sufficient funds).

# The health savings account

There has emerged a very competitive market for custodial services. The following is a list of typical account features that are available:

- Interest bearing account
- No minimum deposit
- No monthly fee provided there is a valid email address associated with the account
- Free debit card
- Free online banking
- Free bill payment
- Free eStatements

# HSA plan's "moving parts"

- Qualified health plan (QHP)
- Health savings account (HSA)

# Qualified health plan (QHP)

- Finding a provider
- Timing of provider payment
- Explanation of benefits (EOB) form
- Payment for service

# Finding a provider

- All of the major PPO networks have “Provider Finders” linked from their websites that one may query using either a name or provider type search parameter.
- To build a personalized directory all that one needs to do is set parameters for the search (provider type, distance in miles from one’s home address, etc.).
- All of the Provider Finders we are familiar with have a function that permits one to create a personalized provider directory.

# Timing of provider payment

- When using a network provider you will not know the actual amount of the bill until that provider first electronically bills your health insurance plan. These days about 80% of physician claims are auto-adjudicated, and something on the order of 95%+ of claims processed are typically turned around within 10 business days.
- Once this occurs an Explanation of Benefits (EOB) form is generated and posted to the member portal. Otherwise you can always wait for the EOB to arrive by mail.
- Once you and your physician know the actual amount of the bill, that is when payment reasonably can be made.

# Payment for service

- If you sufficiently fund your HSA, you may...
  - Utilize the free debit card that comes with the account,
  - Pay the provider by check (from the account) – Note: Checks are available for an additional cost, or
  - Pay the provider with another credit card or check and reimburse yourself from your HSA through BillPay or by writing a check.

# Monitoring your health accounts

- **Health insurance plan**

- Access account or register for access:

www. \_\_\_\_\_ .com

- **HSA Custodian**

- \_\_\_\_\_ Bank

(www. \_\_\_\_\_ .com)