HDHPs and HSAs: A Powerful Combination

Comprehensive coverage. Lower costs. Tax advantages.

When you choose a high-deductible health plan and combine it with a health savings account (HSA), you create something powerful. The high-deductible health plan, or HDHP, is a way to reduce monthly costs and still receive the healthcare benefits you deserve. Adding an HSA to the mix enables both employers and employees to take advantage of tax benefits.

Small Business Benefits

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What is an HDHP?

According to the government, a high-deductible health plan for 2022 is a health plan with a minimum deductible of $1,400 for individual coverage and $2,800 for family coverage. Plus, the cost for an HDHP is typically less than the cost for a lower-deductible health plan, depending on plan options chosen.

For 2022, the maximum out-of-pocket expense cannot be greater than $7,050 for individual coverage and $14,100 for family coverage; however, the in-network out-of-pocket maximum cannot exceed $8,700 for any individual covered under family coverage. Calendar-year deductibles and out-of-pocket limits are adjusted annually according to the Consumer Price Index (CPI).

What is an HSA?

An HSA is a portable, personal bank account owned by an individual with an HDHP and used to pay for qualified medical expenses not reimbursed under the HDHP. Anyone can contribute to the HSA. HSAs are not only tax deductible, but also enable unused balances to carry forward and earn interest from year to year. Perfect for those wishing to accumulate funds to enhance a retirement portfolio.

Who is not eligible for an HSA?

Individuals who are enrolled in Medicare, who can be claimed as a dependent on another person's tax return or who are covered by a health plan other than an HDHP are not eligible for an HSA.

If you set up an HSA and then become ineligible at a later date (e.g., you are entitled to Medicare benefits or no longer have an HDHP), distributions used exclusively to pay for qualified medical expenses can continue to be excluded from your gross income.

Why an HSA?

Tax Advantages

Contributions to an HSA are either made pre-tax or are tax deductible. An account holder may also qualify for a lower income tax liability at year end. Interest earned on the HSA grows tax deferred, and any balances in the account are not taxed when used to pay for qualified medical expenses. For a complete listing of qualified medical expenses, refer to IRS Publication 502, available at www.irs.gov. Tax advantages vary by state. Check with your financial advisor for complete details.

Full-Year Contribution

Employees can open an HSA in any month and still have the ability to make the maximum annual contribution to the account, regardless of the effective date. Restrictions apply. Consult your financial advisor.

Portability

Funds roll over at the end of each year and are yours to keep, even when changing employers or switching to a different HDHP.

Freedom of Choice

You select how the funds are spent and invested. Having an HSA enables you to become a more educated and active healthcare consumer.

How does it work?

Funding Your Account

Your HSA is like a personal bank account for qualified medical expenses. Contributions may be made anytime via check or payroll deduction, depending on your HSA administrator. Anyone can make contributions to your HSA up to the IRS-stated annual HSA contribution limits. For 2022, the IRS-stated annual HSA contribution limits are $3,650 for individuals and $7,300 for families.

Using Your HSA

HDHPs do not use a copay structure to pay for office visits or prescription drugs, which means you are responsible for paying the full cost of these services up to the deductible.

As such, you can choose to use your HSA funds to pay for qualified medical expenses that go toward meeting your deductible or coinsurance, if applicable. Once the deductible is met, expenses are shared based on your coinsurance limit, up to the out-of-pocket limit.

What is a qualified expense?

Qualified medical expenses, including those for dependents, are defined in Section 213(d) of the Internal Revenue Code, and include:

- Eligible healthcare expenses
- Prescription drugs
- Over-the-counter drugs, if prescribed
- Expenses not covered by your health plan, including prescription eyeglasses, contacts and some over-the-counter devices
- Preventive care expenses not covered by your health plan

Also, tax-free distributions are available for long-term care, health insurance for the unemployed, COBRA continuation and premiums for retired individuals age 65 and older.

Some expenses cannot be paid using HSA funds without incurring a penalty or having your contributions and earnings subject to taxation. These include medical premiums and nonmedical expenses.

Be sure to keep a copy of your receipts for IRS reporting. For a complete listing of qualified medical expenses, refer to IRS Publication 502, available on the IRS website at www.irs.gov.

How can I make a withdrawal from my HSA?

To pay for qualified medical expenses, you can use your HSA checks and/or debit card, depending on your HSA administrator. If funds are withdrawn prior to age 65 for items other than qualified medical expenses, a 20 percent penalty applies, plus the federal income tax, on the amount withdrawn. At age 65, funds can be withdrawn for nonmedical expenses. Normal income tax applies for withdrawals at any age. Check with your financial advisor for details.

Does an HSA require prefunding?

No, and contributions can be made at any time. Financial institutions may require an initial deposit when establishing an HSA. Check with your HSA custodian for further details.

Do HSA distributions need to occur in the same year as the qualified medical expense?

No. HSA distributions can occur in subsequent tax years as long as the qualified medical expense was incurred after the HSA was established and has not been previously reimbursed.

Can I have other coverage?

Yes. In addition to your HDHP, you may also have separate coverage for accidents, disability, dental care, vision care or long-term care. You can also be covered by other "permitted insurance," which includes: liabilities incurred under workers' compensation laws, tort liabilities, specified disease and hospital indemnity coverage. If you're covered under both your own and your spouse's medical plan, you can have an HSA as long as both plans are qualified HDHPs. Check with your HSA custodian for further details regarding contribution limits.

How does an HSA work with an FSA?

IRS guidelines regarding qualified medical expenses for HSAs also affect the flexible spending account (FSA). In general, you can have a limited FSA and an HSA at the same time, but FSA funds can be used only for post-deductible medical expenses (coinsurance) not covered under the HSA. Remember: Any FSA funds you set aside must be used that year, unlike an HSA that rolls over from one year to the next.

Online Tools and Resources

To help you manage your healthcare decisions, we offer a number of online tools and resources:

- Access claim status and view online explanations of benefits
- View a summary of benefits
- Locate a provider or pharmacy in your network
- Access online support tools and services

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Tips for Saving on Healthcare Costs

- Stay in-network
- Get preventive care
- Use Teladoc® telemedicine services for non-emergency health issues
- Request generic drugs when possible
- Shop around with the Healthcare Bluebook™* online transparency tool
- Seek a second opinion from Included Health*

*This service is available to employees and dependents covered under a self-funded major medical or limited medical benefit plan sponsored by their employer. Availability may vary by state and plan design.

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Plan design availability and/or coverage may vary by state. Self-funded plans are administered by Star Marketing and Administration, Inc., and stop-loss insurance coverage is provided by Trustmark Life Insurance Company.

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