

THINKING ABOUT ADDING AN HSA?



Questions to Consider When Adding an HSA

- What is your ultimate goal? Understanding your goal will help us define your options.
- Are you offering dual health plan options (e.g. HDHP/HSA/Combination FSA and PPO/FSA)?
- Do you have the same plan year for your health plan and cafeteria plan?
- Is it your intent to maintain the current FSA plan offering for employees who are not eligible for the HSA? You may want to consider continuing to offer the general-purpose Medical FSA for employees who are not eligible for the HSA (due to General-Purpose Medical FSA coverage or coverage under a spouse's plan).
- Will there be employer contributions to the HSA?

Adding an HSA at Cafeteria Plan Renewal (Not Mid-Year)

If an employer adds an HSA at cafeteria plan renewal (not mid-year) and does not offer the grace period, no change is needed other than to amend the cafeteria plan document. The employer will need to determine if they want to continue to offer the General-Purpose Medical FSA for employees not eligible for the HSA or just offer a Combination Medical FSA. This is available whether or not the employer is offering dual health plan options for employees.

If an employer adds an HSA (not mid-year) and the plan has a grace period, the employer has the following options for the grace period:

1. Convert all Medical FSAs to Combination FSAs during the grace period only. All employees' general-purpose Medical FSAs would convert and be limited to vision, dental and preventive care expenses until they have met the IRS set deductible. Once they have met the IRS deductible with out-of-pocket eligible expenses, their Combination FSA can be converted to a full Medical FSA after the employee submits the Deductible Verification Form. This change will take place during the grace period. This cannot be offered on an employee-by-employee basis and must

apply to all participants. Participants can still submit general-purpose Medical FSA expenses that were incurred during the prior plan year dates (but not during the grace period). The employer can continue to offer a general-purpose and Combination FSA for the new plan year, so that those not eligible for the HSA (due to other non-HDHP coverage through their spouse, for example), may enroll in the General-Purpose Medical FSA and continue to be reimbursed in the new plan year for 213(d) expenses.

2. Keep the General-Purpose Medical FSA as is for the grace period. Employees with a zero balance on the last day of the plan year may enroll in the HSA. Employees with funds remaining in their General-Purpose Medical FSA are not eligible to enroll and contribute to the HSA until the first of the month following the end of the grace period (April 1 for calendar year plans).

Note: Employees with a zero balance in the general-purpose Medical FSA on the last day of the plan year (December 31 for calendar year plans) are eligible to contribute to an HSA the first day of the new plan year (1/1 for calendar year plans).

Adding an HSA — Renewal or Mid-Year, continued

Adding an HSA Mid-Year

When an employer adds an HSA mid-year, they have the following options:

1. Offer the HDHP and HSA only to employees not participating in the General-Purpose Medical FSA.
2. Terminate the current General-Purpose Medical FSA for all participants. Generally, it is unwise to terminate a Medical FSA mid-year and employers must be careful to follow ERISA's requirements. The use-or-lose rule results in all unused amounts being forfeited at termination, which will not be well received by employees and could even subject the employer to claims that benefits were cut back impermissibly (e.g. without adequate disclosure to employees).
3. Convert the General-Purpose Medical FSA into a Combination Limited-Purpose Medical FSA/post-deductible Medical FSA for all participants. Employees could access funds in their FSA for vision, dental and preventive care expenses only until they've meet the IRS statutory deductible for HDHP plans. Only the expenses incurred after the conversion date count for purposes of satisfying the IRS statutory minimum deductible for purposes of the post-deductible FSA. After meeting the statutory deductible, participants may be reimbursed for 213(d) expenses that are incurred from the date they met the statutory deductible until the end of the plan year.