

## **HSA Questions & Answers**

January 21, 2004

**1. What is a health savings account (HSA)?**

An HSA is a tax-exempt trust or custodial account established for the benefit of an individual (not limited to employees) covered under a high-deductible health plan.

**2. Who can contribute to an HSA?**

Contributions can be made by the employer, employee or a family member (subject to gift tax.)

**3. Are contributions to the HSA considered income? Are they taxable?**

Contributions are deductible if made by the employee and are excludable from income and wages for employment tax purposes, if made by the employer.

**4. Are contributions limited or restricted?**

Contributions are limited to the amount of the high deductible health plans' annual deductible, subject to a cap of \$2,600 for individuals and \$5,150 for families. These limits are indexed for inflation in future years.

**5. Are distributions from the HSA taxable?**

Distributions for qualified medical expenses are tax-free. Non-qualified withdrawals are taxable as income and are also subject to a 10% penalty, with exceptions to the penalty for Medicare eligibles, disability or death.

**6. Does the money in an HSA earn interest?**

Yes, HSAs can earn interest and earnings are tax-free.

**7. What are the most significant features of an HSA?**

- HSA is owned by the employee (not the employer) and is portable, meaning it is not forfeited on termination;
- HSA ownership can be transferred to the spouse tax-free upon death of the account owner;
- There is no “use it or lose it” provision, funds can be rolled over from year to year;
- HSAs are open to everyone covered by a high deductible insurance plan, who is not simultaneously enrolled in another plan that provides the same benefits as provided by the high deductible plan;
- Contributions can be made by both employer and employee;
- Employer contributions are not subject to income tax;
- Employee contributions are tax deductible.

**8. What can HSAs be used to pay for?**

HSAs can be used to pay for qualified medical expenses, as defined under IRS Code 213(d). They may also be used to pay for long-term care insurance premiums, COBRA coverage, health insurance premiums while an individual is receiving Federal unemployment compensation and for Medicare eligible individuals for the purchase of any health insurance other than a medigap policy.

**9. What’s an MSA? Does the HSA replace it? Does it replace an FSA?**

An MSA is a Medical Savings Account, commonly referred to as an “Archer MSA.” It is similar to an HSA, but is limited to employees of small employers or self-employed individuals. HSAs will replace MSAs, which can no longer be established as of December 31, 2003. HSAs do not replace FSAs.

**10. Can an FSA be offered alongside an HSA?**

At this time, it appears that only a dependent care flexible spending account can be offered alongside an HSA. We will be asking for additional Treasury Department guidance on this question.

**11. Can a carve-out prescription drug plan be offered alongside an HSA or does the prescription benefit have to apply to the deductible?**

At this time, the Treasury guidance specifically identifies some allowed exceptions to the deductible requirement, including preventive care, dental and vision, but not pharmacy. As we interpret the guidance, prescriptions could not be carved out from the deductible. However, you could have a stand-alone RX plan with its own deductible.

**12. What are the advantages/disadvantages of an HSA compared to an HRA for both an employer and employee?**

Below is a summary of some of the features and benefits that may be considered advantages or disadvantages to employers and employees (not complete.)

	<b>Employer</b>		<b>Employee</b>	
	<b>Advantages</b>	<b>Disadvantages</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>HSA</b>	<ul style="list-style-type: none"> <li>• Employer avoids FICA, Medicare if under Section 125</li> <li>• Can be used to pre-fund retirement</li> <li>• Can be fully funded by employee</li> <li>• Gives more responsibility to employee</li> </ul>	<ul style="list-style-type: none"> <li>• If employer is contributing, must fund account, even if no claims incurred</li> </ul>	<ul style="list-style-type: none"> <li>• Tax-free contributions</li> <li>• Tax-free earnings</li> <li>• Portable</li> <li>• No rollover or fund maximums</li> <li>• Contributions through payroll deduction or lump sum.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires qualified high deductible health plan</li> <li>• Generally accumulates in 1/12 increments; spending cannot exceed balance available at time of claim submission</li> </ul>
<b>HRA</b>	<ul style="list-style-type: none"> <li>• Employer controls funds; can be self-funded</li> <li>• Control over plan design, eligible expenses</li> <li>• Contributions allowed for incentives (e.g., fund dollars for a completed health risk assessment.)</li> <li>• Is not portable</li> </ul>	<ul style="list-style-type: none"> <li>• Employee perception that employer owns/controls funds</li> <li>• Only employer can contribute</li> </ul>	<ul style="list-style-type: none"> <li>• Tax free contributions and spending</li> <li>• Balance rolls over year to year</li> </ul>	<ul style="list-style-type: none"> <li>• Not funded/ guaranteed</li> <li>• Not portable</li> <li>• Cannot make contributions</li> <li>• Does not normally earn interest</li> </ul>

**13. In what market segments will Aetna offer an HSA product?**

All market segments, National Accounts, Middle Market, & Consumer Markets plan to offer an HSA product. However, each segment may elect to offer HSAs in specific markets and/or may vary effective dates. Plan designs may also differ by segment.

**14. When do we expect this product to be effective?**

We are working toward an early 2<sup>nd</sup> quarter effective date and expect to distribute another communication in mid-February, with additional information.