High Deductible Health Plan Policy

PURPOSE
To educate employees on what a High Deductible Heath Plan is and how to use a Health Savings Account with this plan.

What is a High Deductible Heath Plan?
A plan with a higher deductible than a traditional insurance plan. The monthly premium is usually lower, but you pay more health care costs yourself before the insurance company starts to pay its share (your deductible). A high deductible health plan (HDHP) can be combined with a health savings account (HSA), allowing you to pay for certain medical expenses with money free from federal taxes.

What is an HSA?
A Health Savings Account is a savings vehicle that is tied to an HSA-qualified high-deductible health plan (HDHP). Anyone on a high deductible health plan (HDHP) can contribute to an HSA on a tax-free basis (when used to pay for qualified medical expenses). Employees are able to pay for their current medical expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

As with 401k accounts and Flexible Spending Accounts (FSA), Health Savings Accounts offer tax benefits for employees. The money that employees deposit into HSA accounts reduces their taxable income rather than acting as a direct deduction like FSA funds. Employees can then spend the HSA funds on qualified medical expenses without any tax penalty.

As with 401K and FSA accounts, there are also limits on how much an individual or family may deposit annually. Employers also have the option to match HSA contributions. Unlike FSA funds, HSA funds can be kept in many different types of savings accounts. In fact, many HSA plans encourage employees to invest their funds in the stock market and earn a return.

The money in an HSA belongs to the employee. Our accounts provide employees with a credit card linked to their account, making it easier to pay for medical purchases. Employees can spend these funds on other items than approved medical expenses, but if they do so, then they pay a tax penalty on that spending. After age 65, an employee's HSA funds may be spent without penalty, much like other retirement investments. After age 55, employees can contribute an additional $1,000 per year to their HSA as a "catch-up".

By law, HSAs are always attached to high-deductible health plans. These plans often have lower premiums and higher maximum-out-of-pocket amounts than other health plans. Employees may end up paying more for the medical care they receive while saving on premium costs. To get the most benefit from an HSA plan, an employee will need to contribute enough from each paycheck to pay the costs of their current medical care and prepare for unexpected costs.

How is my HSA funded?
An employee's HSA account is funded by individual contributions through either payroll deductions or after tax contributions. On an annual basis, Administration along with the Human Resource Director will look at the County's ability to provide HSA funds or "seed money." Seed money is not guaranteed on a year-to-year basis. Employees that are a full FTE (1.0) will receive the full amount of

any seed money based on their health insurance election, e.g., Single, Double or Family. Employees that are a partial FTE (0.9, 0.7, etc.) will receive seed money on a pro-rated basis e.g., if the County commits to $1,000 in seed money for single coverage and you are a 0.7 FTE you will receive 70% of that seed money or $700 which would be that employee's full amount. Seed money will also be pro-rated based on benefits eligibility date. Employees hired mid-year will receive a pro-rated amount based on months of eligible medical coverage. For example, an employee hired in January with a March benefits eligibility date would receive seed money at 10/12ths of the full amount.

Who can contribute to an HSA?

The IRS defines an individual as eligible to contribute to an HSA if the employee meets the criteria as follows (Internal Revenue Service Bulletin 2004-2, Q/A-2):

- is covered under a high deductible health plan (HDHP) on the first day of such month;
- is not also covered by any other health plan that is not a HDHP (with certain exceptions for plans providing certain limited types of coverage);
- is not enrolled in Medicare (generally, has not yet reached age 65*); and
- may not be claimed as a dependent on another person's tax return

*Individuals become ineligible to contribute to an HSA on the first day of the month of their 65th birthday.

Can I withdraw money from a health savings account for nonmedical expenses?

Yes, but if you withdraw funds for nonmedical expenses before you turn 65, you have to pay taxes on the money and a 20 percent penalty. If you take money out after you turn 65, you do not have a penalty, but you must still pay taxes on the money.

How much money can I deposit annually into a health savings account?

The Internal Revenue Service sets the contribution limits for HSAs. In recent years, the limits have been about $3,500 for individuals and about $7,000 for family coverage. If you're 55 or older anytime during the year you turn 55, you will be able to contribute an extra $1,000.

Pro-Rated Premium Deduction

Regular Part-Time Employees will be subject to a pro-rated premium deduction. When employee's FTE status is as follows, the employee premium deduction will increase as follows:

F.T.E.	Premium Deduction
0.9 FTE	10% above 20% premium deduction
0.8 FTE	20% above 20% premium deduction
0.7 FTE	30% above 20% premium deduction
0.6 FTE	40% above 20% premium deduction
0.5 FTE	50% above 20% premium deduction
0.4 FTE	60% above 20% premium deduction
0.3 FTE	70% above 20% premium deduction
0.2 FTE	80% above 20% premium deduction
0.1 FTE	90% above 20% premium deduction

Note: This policy may differ for those employees who are members of recognized unions, organizations, or associations. Any questions related to the content of this policy, or its interpretation, should be directed to Human Resources.

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