Section 125
Health Savings Account

A health savings account (HSA) is a tax-exempt trust or custodial account that you set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur today or to save for future medical expenses. You must be an eligible individual to qualify for an HSA. Total contributions to your HSA are limited and adjusted annually for inflation.

Who can have an HSA? (per IRS Publication 969)
Any adult can contribute to an HSA if they:

✔ Have coverage under an HSA-qualified “high deductible health plan” (HDHP)
✔ Have no other first-dollar medical coverage (other types of insurance like specific injury insurance or accident, disability, dental care, vision care or long-term care insurance are permitted).
✔ Are not enrolled in Medicare.
✔ Cannot be claimed as a dependent on someone else’s tax return.

What are the benefits of an HSA? (per IRS Publication 969)

✔ You can claim a (federal and state) tax deduction for contributions you make to your HSA even if you do not itemize your deductions on Form 1040.
✔ The contributions remain in your account from year to year until you use them.
✔ The interest or other earnings on the assets in the account are tax free.
✔ Distributions may be tax free if you pay qualified medical expenses.
✔ An HSA is “portable” so it stays with you if you change employers or leave the work force.

What is an HSA Section 125 Salary Reduction Plan?
This is a Plan designed to permit an eligible employee to make HSA contributions through a flexible and convenient payroll process. Pre-tax (no FICA, state or federal taxes) contributions are direct deposited to your HSA.

What are the benefits of an HSA Section 125 Salary Reduction Plan?
The pre-tax deduction is taken directly from your paycheck and deposited into your health savings account. The pre-tax savings includes FICA taxes, which is only available through a Section 125 Plan, and federal and state tax savings is available immediately versus waiting until you complete and file your tax forms. In addition, you can quickly manage your payroll deductions in Workday.

Eligibility requirements:
To be eligible to participate in the HSA Section 125 Salary Reduction Plan an eligible employee:

✔ must be enrolled in a Marshfield Clinic HSA-qualified group high deductible health plan (HDHP),
✔ cannot be claimed as another person’s tax dependent,
✔ is not enrolled in Medicare benefits, and
✔ does not have other impermissible coverage, including participation in Marshfield Clinic’s general purpose Medical Expense Flexible Spending Account (MEFSA).

Contribution maximum will be the statutory maximum based on plan choice (single versus employee+1/family) and participant’s age.

When you electronically enroll in the plan you are certifying that you meet all of the above “Who Can Have an HSA” and “Eligibility Requirements” and will notify Human Resources immediately if you cease to meet any of the requirements.

Marshfield Clinic has partnered with Fidelity Investments. Fidelity charges a $36 annual fee that is deducted from the participant’s HSA account quarterly in $9 increments. Enrollment is a 4-step process:

Step 1: Enroll in a Marshfield Clinic High Deductible Health Plan.
Step 2: Upon approval of your benefit elections, including health plan, Marshfield Clinic will inform Fidelity Investments that you are HSA eligible.
Step 3: Open a Fidelity HSA. www.netbenefits.com
Step 4: Contact Human Resources to set up your HSA payroll deduction at extension 9-3318 or 715-389-3318.

✔ HSA benefits under this Plan consist solely of the ability to make contributions to the HSA on a pre-tax salary reduction basis. Terms and conditions of coverage and benefits (e.g. eligible medical expenses, claims procedures, etc.) will be provided by and are set forth in the HSA, not this Plan. The terms and conditions of each participant’s HSA trust or custodial account are described in the HSA trust or custodial agreement provided by Fidelity Investments and are not a part of this Plan.

This is a brief summary of the HSA Section 125 Salary Reduction Plan. For a complete copy of the plan document please contact Human Resources, extension 7-5254 or go to the Benefits Library, Health Savings Account.
Benefits

✔ The HSA is not an employer-sponsored employee benefits plan. It is a savings account that is established and maintained by Fidelity Investments outside this Plan to be used primarily for reimbursement of “qualified eligible medical expenses” as set forth in Code Section 223(d)(2). The Employer has no authority or control over the funds deposited in an HSA.

✔ Even though this Plan may allow pre-tax salary reduction contributions to an HSA, the HSA is not intended to be an ERISA benefit plan sponsored or maintained by the employer.

Frequently asked questions

The following FAQs are intentionally brief. For additional HSA details please check out the US Dept of Treasury HSA web site. If there is a discrepancy between the information provided in this handout and the US Department of Treasury site, the Treasury site is correct.


When does HSA eligibility begin? HSA eligibility is determined and calculated monthly. An individual is not an eligible individual unless he or she has HDHP coverage on the first day of the month. If HDHP coverage becomes effective July 1, an HSA contribution can be made for that month. If HDHP coverage becomes effective July 2, an HSA contribution can be made starting August 1. A partial contribution for the month of July is not allowed.

Keep reading to learn about the No Proration Rule and the 13-month testing period.

When is an HSA considered “established?” An HSA is established when it has been opened. Qualified medical expenses must be incurred after an HSA has been opened in order to be reimbursable on a tax-free basis. You are encouraged to open your HSA account as soon as you are eligible. Again, eligible expenses must be incurred after the establishment of the HSA.

Can eligible/reimbursable expenses be incurred before I open my HSA? No.

How much can I contribute to an HSA? Your statutory maximum HSA contribution will be based on a number of factors: One, are you enrolled in a single or employee+1/family HDHP? What is your age? When did you become HSA eligible? Do you anticipate continued eligibility so that you will meet the 13-month testing period? Please keep reading.

The 2016 HSA statutory maximum contribution limits:
$3350 = Single Plan
$6750 = Employee+1/Family Plan
$1000 = Age 55 and Older “Catch-Up” Contributions

The 2017 HSA statutory maximum contribution limits:
$3400 = Single Plan
$6750 = Employee+1/Family Plan
$1000 = Age 55 and Older “Catch-Up” Contributions

Can I also contribute the “catch-up” contribution for my age 55+ spouse? No. Spouse must open and make a separate contribution to his/her own HSA. Note, they may not have other impermissible coverage.

If I have a mid-year qualifying event, what is my maximum contribution limit? The maximum contribution is the greater of 1) maximum amount based on actual HDHP coverage for each month; or 2) full HSA contribution limit for the year based on HDHP coverage type (self-only or family) on December 1. If you are going with option 2 see below question regarding 13-month testing period.

Is Marshfield Clinic matching my HSA contribution? No.

When can I contribute to an HSA via pre-tax (Section 125) payroll deduction? Eligible participants are able to make Section 125 HSA contributions anytime during the plan/calendar year. Participants can contribute their total annual contribution over the first couple of checks in the year (referred to as front loading), spread out their contributions equally over the 26 pay periods or wait towards the end of the year and contribute from the remaining pay checks of the plan/calendar year. If you are considering “front loading” your account, be sure to review below question, “What is a 13-month testing period?”

Pre-tax deductions cannot be made after the end of the plan/calendar year for the prior plan year. Contributions for the prior plan year can and must be made on a post-tax basis directly to the account through the HSA trustee/custodian by the April 15 IRS deadline. The tax credit is then claimed on your federal and state tax forms.


What is a 13-month testing period? See next question for information regarding the no-proration rule for mid-year enrollees. An individual who takes advantage of the no-proration rule must remain HSA eligible (for reasons other than death or disability) during a 13-month “testing period” (beginning with December of the year for which those contributions were made and ending on the last day of the
twelfth month following that December). To remain “eligible” during the testing period, an individual is not required to keep the same level of HDHP (i.e., self-only or family) coverage during the testing period. If an individual does not remain HSA eligible during the testing period, he or she will suffer adverse tax consequences. Those contributions will be includible in gross income for the taxable year containing the first day during the testing period that individual ceases to be an eligible individual and a 20% additional tax will apply to the amount includible. The no-proration rule applies to both the HSA contribution limit and the additional catch-up contribution limit.

What is the No-Proration Rule for Mid-Year HDHP Enrollees? An individual who becomes covered under an HDHP in a month other than January and who is HSA-eligible no later than December 1 is treated as having been an eligible individual during every month of the year and will be allowed to make contributions for those months prior to actually being enrolled in an HDHP. However, if the individual makes the maximum contribution but does not remain HSA eligible (for reasons other than death or disability) during the 13-month “testing period” he or she will suffer adverse tax consequences.

Contact Human Resources at ext. 9-3318 if you have questions or need assistance calculating a prorated premium.

What is my maximum contribution if I have a qualifying event mid-year? The above questions address the no-proration rule and 13 month testing period for mid-year enrollees. However, guidance is not clear regarding mid-year qualifying events. Therefore, the following conservative process will be followed. Statutory maximum limit will be prorated based on the number of months a participant is enrolled in single versus employee+1/family coverage.

Contact Human Resources at ext. 9-3318 if you have questions or need assistance calculating a prorated premium.

When must an HSA distribution occur? (Reimbursement of eligible medical expenses.) There is no time limit on when an HSA distribution must occur. An account holder can choose to delay taking an HSA distribution to pay or reimburse qualified medical expenses incurred in the current year and can use a current-year HSA distribution to pay or reimburse qualified medical expenses incurred in any prior year, so long as the expenses were incurred after the HSA was established. The account holder is required to keep records sufficient to prove that the expense was 1) a qualified medical expense, 2) not previously paid or reimbursed by another source and 3) not taken as an itemized tax deduction in any prior taxable year.

Do I still have to complete and file Form 8889 – Health Savings Accounts (HSAs) with my Form 1040 or 1040NR? Yes. The Clinic’s HSA Section 125 Salary Reduction Plan allows you to receive the tax credit during the year but you still need to report your pre-tax contributions and any additional post-tax contributions you or someone on your behalf may make outside of the HSA Salary Reduction Plan. See IRS Form 8889 and Instructions for Form 8889 for additional details.

Can I participate in the Clinic’s general purpose MEFSA and also contribute to an HSA? No! The Clinic’s general purpose MEFSA is considered impermissible coverage.

Can I participate in the Clinic’s limited purpose FSA and also contribute to an HSA? Yes! The Clinic’s LP-FSA is permissible coverage. However, be sure you carefully review the limited list of eligible expenses under the LP-FSA.