# HEALTH SAVINGS ACCOUNTS CONSIDERATIONS FOR EMPLOYERS


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# Health Savings Accounts Considerations for Employers

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The health savings account ("HSA") has become, since its creation in 2003, an increasingly popular option for employers to subsidize employee group health costs. Employees with HSAs can save money, on a tax-free basis, for medical expenses that aren't otherwise covered. The account's interest earnings and distributions (for qualified medical expenses) are also tax-free. The popularity of the HSA is likely to continue and may become as common among employers for subsidizing employee group health benefits as its cousin, the 401(k), has become among employers for subsidizing employee retirement benefits. Surveys indicate significant growth in HSAs since 2003 and, in 2016, the Kaiser Family Foundationestimated that nearly 30% of employees already utilize this or another consumer driven option. Moreover, one feature the multiple proposed "Obamacare replacements" have in common is expansion of HSAs (Sen. Rand Paul's Obamacare Replacement Act, Sen. Bill Cassidy's Patient Freedom Act, House Speaker Paul Ryan's A Better Way, and Rep. Tom Price's Empowering Patients First Act).

Do your employees have the resources and wherewithal to benefit from a consumer-based option like the HSA? Proponents tend to believe that HSAs help drive down the cost of health care because HSA owners, as consumers, control spending by making informed decisions about their health care needs and options. The theory, generally, is that a consumer-minded patient will take better care of himself or herself, will be informed about comparative provider charges and quality ratings, will chose providers based on cost and quality information, and will not blindly comply with "doctor's orders" to take prescribed medicines or undergo costly tests or other procedures. In fact, studies have shown that HSA owners do spend less on health care. However, some critics suggest that lower spending by HSA owners indicates HSA owners forego necessary health care. At least one study that found HSA owners had overall lower health care spending also found a correlation among lower-income HSA owners and higher hospitalization rates. Without having available, and using, adequate resources to make informed decisions about health care needs and options, employees will not benefit from the HSA option.

Do your employees have enough income to benefit from the tax-favored treatment of the HSA? Like employer contributions made to subsidize an employee's group health coverage, an employer's contribution to an employee's HSA is deductible to the employer and is not treated as taxable income to the employee, provided the employee is an "eligible individual" within the meaning of Internal Revenue Code section 223. But, as with other tax-favored benefit arrangements, HSAs are subject to monetary limits, distribution restrictions, and other compliance requirements. For 2017, the inflation-adjusted HSA contribution limit (not counting "catch-up" contributions for individuals who've attained age 55) is $3,400 for self-only coverage and $6,750 for family coverage (regardless of whether the contributions are made by the employee, the employer, or a combination of sources). For an employee with income so low he or she doesn't pay federal income taxes or an employee who lives paycheck-to-paycheck, tax-deferred contributions to an HSA are as meaningful as tax-deferred contributions to a 401(k) plan.

Could anticipated changes to HSA rules make a difference for your employees? Several of the proposed Obamacare replacements would loosen the contribution limits and restrictions on distributions in ways that might make HSAs even more popular. For example, some would change the rules to permit employees with health coverage other than under a high deductible health plan to make HSA contributions. Others would change the rules so that HSA accounts could be used to pay for health coverage premiums and over-the-counter medications.

Bottom line: HSAs have become a fixture in the group health plan arena and may be worth consideration by employers not currently offering this option.