EPISCOPAL CHURCH
MEDICAL TRUST

2016 – 2017 HSA Fact Sheet for Administrators

This *HSA Fact Sheet for Administrators* is for groups offering a Consumer-Directed Health Plan[1]/Health Savings Account (CDHP/HSA) through The Episcopal Church Medical Trust (Medical Trust). It provides detailed information about HSAs and instructions on how to fund accounts when using HealthEquity, our HSA vendor.

HSA Basics

- Accounts are owned by the employee
- Accounts are portable from employer to employer
- Unused funds roll over from year to year
- HSA funds can earn interest
- Funds in the HSA may be invested (once any applicable minimum threshold is met)
- Withdrawals from the HSA are not subject to federal income tax when they are used to pay for qualified medical expenses
- Employees may not be covered under any health plan that is not a qualified high deductible health plan (HDHP) such as the CDHP, must not be enrolled in Medicare, and may not be claimed as a dependent on another individual's tax return
- Employees who are 65 years or older and are enrolled in Medicare may no longer fund an HSA, but they may continue to spend amounts previously contributed for qualified medical expenses and Medicare premiums.

HSA Overview

A qualified CDHP – such as the Cigna CDHP, the Kaiser CDHP, and the Anthem Blue Cross and Blue Shield (Anthem BCBS) CDHP – offered through the Medical Trust, allows employees to open an HSA if certain requirements are met. Employees pay no federal income taxes on contributions (or on earnings from contributions) to their HSAs up to the annual limit established by the IRS. Withdrawals from an HSA (including earnings) are not subject to federal income tax when they are used to pay for qualified medical expenses.

Employees may choose to pay for expenses out-of-pocket and let the tax-favored funds grow in their HSA for future healthcare expenses, or they may choose to use the HSA funds as needed. Additional information about HSAs may be found in our ***CDHP/HSA Fact Sheet for Members*** available on ***www.cpg.org/mtdocs***. You may also visit HealthEquity's member resource site.

Because of their tax-favored status, HSAs are subject to specific legal requirements. (See IRS *Publication 969*.) We have provided some information in this document; however, **we recommend you work with your tax, accounting, and legal resources to ensure all requirements are being met regarding funding and tax reporting**.

HSA Eligibility

To open an HSA, individuals must be enrolled in a qualifying HDHP. Generally, other health coverage is not permitted, with these exceptions: supplemental health coverage; separate dental and vision coverage; and disability coverage. Disqualifying health coverage includes non-HDHP coverage under a plan of your spouse's or domestic partner's employer, Medicare, and healthcare flexible spending account (FSA)

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[1] *Formerly referred to as High Deductible Health Plans*

coverage. However, coverage is permitted under a limited-purpose flexible spending account (LPFSA), which is designed to work with an HSA. In addition, you may not be claimed as a dependent on another individual's tax return.

Annual HSA Employer & Employee Combined Contribution Limits

2016	2017
Individual $3,350	Individual $3,400
Family $6,750	Family $6,750

Employees who are age 55 or older by the end of the year may make an additional contribution, up to $1,000. **The employee is responsible for ensuring the maximum annual contribution limit is not exceeded.**

The deadline for making HSA contributions for a year is the filing deadline for that year for an individual's federal income tax return without extensions (i.e., 2016 contributions must be made no later than April 17, 2017).

Employee contributions can be made:

- On a pre-tax basis through salary reductions as part of a cafeteria plan
- On a post-tax basis with a corresponding adjustment to income when filing your taxes
- By other family members who are qualified individuals.

Employer contributions can be made on a tax-favored basis:

- Employer contributions must be "comparable" for similarly situated employees (unless contributions are made through a cafeteria plan, as described below)
- More information on comparability appears in the "Comparable Contributions" section of this document; you may also refer to pages 140 and 152 of the *HSA Guide Book* (see "HSA Information from HealthEquity" on page 4).

Employer HSA Contributions

Each employer (parish, diocese, or other Episcopal organization) is responsible for defining its own contribution strategy and ensuring it meets IRS requirements. You may need to work with your own tax experts to ensure compliance with tax requirements. For guidance, refer to pages 139-156 of the *HSA Guide Book*.

The contribution strategy will define the amount of funds, if any, the employer will be depositing to an employee's HSA, the frequency with which these contributions will be made (biweekly, weekly, monthly, quarterly, or annually), and who will be eligible for any such contributions. The employer is responsible for communicating its contribution information to employees on an annual basis.

Prerequisites for HSA Contributions

Contributions can be deposited into a member's account only:

1. If the member is an eligible individual (i.e., has qualifying CDHP coverage and does not have other disqualifying health coverage)
2. After the member's HSA is opened
3. Once the qualifying CDHP coverage is in force.

HSA Member Setup

Members may choose their own bank to administer their HSA, or use HealthEquity, the Medical Trust's HSA vendor. The Medical Trust covers the cost of the administrative fees charged by HealthEquity to create and maintain online portals for employer groups. Members who enroll in any CDHP through the Medical Trust will automatically have an HSA created by HealthEquity and will receive a welcome kit, but it is up to the member to decide whether to use HealthEquity.

If the member uses HealthEquity as the HSA custodian, there are no setup fees for the HSA and maintenance fees for the subscribing member only are waived, provided the member is employed with a participating employer. If a subscriber's employment is terminated or if the member is no longer enrolled in a Medical Trust CDHP, s/he will be responsible for all fees.

Members who do not wish to use HealthEquity as their HSA custodian can choose, after consulting with their employer, to establish an HSA with any appropriate institution (e.g., those qualified to administer IRAs), but they will be responsible for all fees. **Employees who do so, however, will likely not be able to direct to that financial institution contributions by their employer (if any) or pre-tax salary reduction contributions.** Consequently, such employees may lose valuable employer contributions and the ability to make contributions through convenient payroll deduction. (They will still be able to make after-tax contributions up to the applicable contribution limit and claim a corresponding deduction on their federal income tax return.)

Employer Submission of Contributions to HSAs

Beginning on October 18, 2016, employers who offer CDHPs through the Medical Trust will no longer fund their employees' linked HSAs through Northern Trust. Between October 18 and 24, employer groups will transition to a secure online portal maintained by HealthEquity that will enable the direct transfer of contributions to member accounts. Funding HSAs through HealthEquity's online portal has multiple advantages, including streamlined contributions, greater control, and access to detailed account records. You will be able to:

- Make contributions directly to your employees' HSAs
- Link bank accounts to facilitate HSA contributions
- View contribution history for payments made through the online portal
- Access reports
- Add additional administrative users/logins for other staff in your group
- Access the HSA vendor's forms and documents resource library.

Once your online portal has been created, you will receive an email from HealthEquity with a link to an Employer Welcome Kit, and instructions for registering your online portal. If you do not receive the welcome kit email, you can still register your online portal by contacting HealthEquity's Employer Services team. The team will assist you with the registration process and is also available to conduct individual online portal demonstrations.

- For inquiries *prior to* the start of the new funding process, please contact your IBAMS account representative, or Client Services at (855) 215-5990, Monday – Friday, 8:30AM – 8:00PM ET (5:30AM – 5:00PM PT), excluding holidays.
- For inquiries *after* the start of the new funding process, contact HealthEquity's toll-free Employer Services line at (866) 382-3510.
- To access HealthEquity's Employer Welcome Kit after the start of the new funding process, go here.

Please note: if you *do not* use HealthEquity as your group's HSA administrator, this new process will not affect your group. Funding of HSAs should continue as it is done now. *In this case, you should also disregard any informational materials you receive from HealthEquity regarding the online employer portal.* If you are interested in learning more about HealthEquity HSAs, please contact your IBAMS account representative.

Special Information for Domestic Partners and Same-Gender Spouses

If your group allows domestic partners to be covered as dependents on your health plan, then an employee's domestic partner can be enrolled in a CDHP. However, the IRS does not permit an employee's HSA funds to be used to cover the healthcare expenses of domestic partners, unless the domestic partner otherwise qualifies as the employee's federal tax code dependent. The domestic partner can open his or her own HSA, which you as the employer may choose to fund or not. Note, however, that an employer contribution to the HSA of a non-employee would be included in the employee's taxable income.

Same-gender couples who are legally married can use the account in the same way as an opposite-gender married couple.

Important Tax-Related Information

You must report all employer contributions to an HSA (including an employee's contributions through an Internal Revenue Code section 125 cafeteria plan) in box 12 of Form W-2 with code W. Do not include

after-tax employee contributions to an HSA in Box 12. The employee will report after-tax contributions on Form 8889. For further information, refer to *IRS Publication 969.*

Comparable Contributions

If you decide to make employer HSA contributions, you must make comparable contributions to the HSAs of all comparable participating employees (as defined below). Your contributions are comparable if they are either:

- The same amount
- The same percentage of the annual deductible limit under the CDHP covering the employees.

Note: The complicated comparability rules discussed below do not apply to pre-tax contributions made through a section 125 cafeteria plan maintained by the employer.

Comparable Participating Employees Defined

Comparable participating employees:

- Are covered by your CDHP and are eligible to establish an HSA
- Have the same category of coverage (either self-only or family coverage)
- Have the same category of employment (part-time, full-time, or former employees).

To meet the comparability requirements for eligible employees who have not established an HSA by December 31 or have not notified you that they have an HSA, you must meet a notice requirement and a contribution requirement.

- You will meet the notice requirement if by January 15 of the following calendar year you provide a written notice to all such employees. The notice must state that each eligible employee who, by the last day of February, establishes an HSA and notifies you that s/he has established an HSA, will receive a comparable contribution to the HSA for the prior year. For a sample of the notice, see page 5.
- You will meet the contribution requirement for these employees if by April 15 of the following calendar year, you contribute comparable amounts plus reasonable interest to the employee's HSA for the prior year.

Note: For purposes of making contributions to HSAs of non-highly compensated employees, highly compensated employees shall not be treated as comparable participating employees.

Excise Tax

If a participating employer makes contributions to employees' HSAs that are not comparable, the employer must pay an excise tax of 35% of the amount contributed to the IRS.

Employment Taxes

Employer contributions to their employees' HSAs are generally not subject to employment taxes (e.g., Social Security and Medicare).

HSA Information from the U.S. Treasury Department

www.treasury.gov/resource-center/faqs/Taxes/Pages/Health-Savings-Accounts.aspx

The HSA section of the IRS website includes links to informational brochures, current regulations, FAQs, IRS forms, and publications such as:

Publication 502 – A list of qualified medical expenses

Publication 969 – A detailed explanation of HSAs and how the IRS treats them

HSA Information from HealthEquity

Complete information about HSAs is available online from HealthEquity:

Member resource site	***http://healthequity.com/ed/ecmt/***
HSA Guide Book	***http://healthequity.com/ed/resources/docs/HSA_guidebook.pdf***
Invest Your HSA Dollars	***http://healthequity.com/ed/resources/docs/HSA_invest.pdf***

Sample Notice

Portions requiring customization appear in blue.

Notice to Employees Regarding Employer Contributions to HSAs:

This notice explains how you may be eligible to receive contributions from [employer name] if you are covered by a Consumer-Directed Health Plan (CDHP) through The Episcopal Church Medical Trust. [Employer name] provides contributions to the Health Savings Account (HSA) for each employee who is [insert employer's eligibility requirements for HSA contributions] ("eligible employee"). If you are an eligible employee, you must do the following in order to receive an employer contribution:

(1) Establish an HSA on or before the last day in February of [insert year after the year for which the contribution is being made] and

(2) Notify [insert name and contact information for appropriate person to be contacted] of your HSA account information on or before the last day in February of [insert year after year for which the contribution is being made]. [Specify the HSA account information that the employee must provide (e.g., account number, name and address of trustee or custodian, etc.) and the method by which the employee must provide this account information (e.g., in writing, by email, on a certain form, etc.)].

If you establish your HSA on or before the last day of February in [insert year after year for which the contribution is being made] and notify [employer name] of your HSA account information, you will receive your HSA contributions, plus reasonable interest, for [insert year for which contribution is being made] by April 15 of [insert year after year for which contribution is being made]. If, however, you do not establish your HSA or you do not notify us of your HSA account information by the deadline, then we are not required to make any contributions to your HSA for [insert applicable year]. You may notify us that you have established an HSA by sending an [email or] a written notice to [insert name, title, and, if applicable, email address]. If you have any questions about this notice, you can contact [insert name and title] at [insert telephone number or other contact information].