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HSA Guide

An Employer's Guide to
Health Savings Accounts

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Healthcare Landscape

Healthcare is expensive and insurance premiums keep rising, while coverage continues to decrease. Employers seem to be stuck between a financial rock and a hard place when offering affordable healthcare for employees. Ever wonder if healthcare is the biggest financial threat to an employee's long-term financial security and savings?

Let's look at the numbers:

- Healthcare costs are the **#1 source of credit card debt** for Americans. The average American household spent almost **$5,000 per person on healthcare** last year.
- Health insurance premiums for employers account for more than $4,708 per employee each year and oftentimes these costs are passed onto their employees.

Because of this, many employers and employees are looking for a solution that could wedge us out of this predicament. Enter the Health Savings Account (HSA). HSAs have grown 23% over the last year resulting in over 21 million accounts largely based on the growth of High Deductible Healthcare Plans (HDHP), which now account for **29% of all employer-sponsored health plans**.

The number of employees enrolled in HDHPs has **risen to 30% in 2019**. We expect these trends will accelerate in the next several years as costs continue to rise along with HSAs. We've put together this guide to help you navigate all things HSA, and how they can benefit your company.

Health Savings Account 2.0

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A Brief History of the HSA

Health Savings Accounts were established as part of the **Medicare Prescription Drug, Improvement, and Modernization Act** in 2003. They were developed to replace medical savings accounts (MSA) in terms of usage.

An HSA or Health Savings Account is a personal savings account designated specifically for health expenses. In more technical terms, an HSA is an interest-bearing savings account that can be used for health-related expenses with contribution limits set annually by the IRS. Think of it like a 401(k) for healthcare, but with extra tax savings. You can use the money in an HSA for all qualifying health related expenses, tax-free.

An HSA is not a healthcare plan, but can (and should) be used in conjunction with an HSA eligible healthcare plan (like a high-deductible healthcare plan (HDHP)).

HSAs Today

HSAs were quickly adopted by large financial institutions, but were hindered by the lack of technology. The modern HSA, includes customer-centric features such as:

- Paperless sign up (for employers and employees) in under 5 minutes
- Automated payroll deductions so you can fully automate the process and never worry about it
- Simple and transparent pricing structures
- HSA investments with no minimum balance (Providers often require at least a $1k cash balance minimum)

Adding an HSA to benefits offerings before, during or after open enrollment should save money and time. A modern HSA ensures the features you and your employees expect are at your fingertips.

"I knew I needed to set up an HSA, but it seemed complicated and like a potential paint to deal with given I don't know much about it. However, Lively has been increadibly easty to set up and fund. It feels like I did a good adult thing for myself!"

- **Lively Customer Review**
April 2019

HSA Eligibility

2020

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What Health Plans are HSA-Eligible?

The value of HSA savings and spending is clear. However, the rules that govern HSAs can be confusing. To take advantage of these opportunities, employees must be eligible to set up a health savings account.

Health Plan Requirements for HSA Eligibility

1. In 2020, the health insurance plan must have an annual minimum deductible of $1,400 for individuals and $2,800 for families.

2. In 2020, the yearly out-of-pocket maximum can't be more than $6,900 for individuals and $13,800 for families. This definition only applies to in-network services. The minimum annual deductible and maximum out-of-pocket amounts are indexed by the Internal Revenue Services (IRS) annually for inflation and are subject to change.

3. The health insurance plan must be structured so that the individual or family pays the initial costs of healthcare (including prescriptions) up to the deductible before any insurance payments kick in. Preventative care is excluded from this definition.

4. Family coverage is defined by having an insurance policy that covers the insured and at least one other person.

For an HDHP to qualify as HSA-eligible in 2020 it must:

For an individual
Have a deductible of at least $1,400 and yearly out-of-pocket expenses of no more than $6,900.

For a family
Have a deductible of at least $2,800 and yearly out-of-pocket expenses of no more than $13,800.

Out-of-network services don't apply to the annual out-of-pocket maximum.

A plan which meets all of these requirements is known as a qualified High-Deductible Health Plan. You may often see it referred to as an HDHP.

Employee Requirements for HSA Eligibility

1. Before employees can open an HSA, they must be covered by a qualifying High-Deductible Health Plan.

2. Employees cannot concurrently enrol in any other non-HSA qualified health insurance plan.

3. Employees can't have or use a general-purpose Flexible Spending Account (FSA). However, they are allowed to have a limited-purpose FSA for dental, vision, and/or dependent care if theirHDHP doesn't cover those services.

4. Employees cannot be claimed as a dependent on someone else's tax return.

5. Employees cannot enroll in Medicare (Part A and Part B) or Medicaid.

How an HSA Works

Health Savings Account contributions limits are set by the IRS each year. In 2020, enrollees can contribute up to $3,550 for individuals and $7,100 for families. Account holders can use an HSA to pay for any qualified medical related expenses and unlike an FSA, there is no "use it or lose it" policy. All remaining funds are maintained in their account to pay for medical expenses next year or in the years to come.

Also, all HSA contributions are eligible for personal use (non-health-related expenses) after they turn 65 years old. After 65, an individual or family normally pays regular income taxes for any non-medical expenses. If funds are used before age 65, the HSA operates like a 401(k) – ordinary income taxes and a penalty are due. An HSA is a great way to save for health expenses and retirement.

2020 Contribution Limits

For an individual
$3,550

For a family
$7,100

55+ (Catch Up Contributions)
+1,000

If an employee makes a change to their healthcare coverage, and are no longer enrolled in a high-deductible health plan, they forfeit their HSA eligibility. Understanding these HSA-eligibility requirements will ensure that employees stay IRS-compliant and are able to take advantage of the extensive list of HSA benefits.

HSA Benefits

For Employers & Employees

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HSA Employer and Employee Benefits

Employee sponsored healthcare plans are changing, as more move toward CDHPs. They are however, not going away anytime soon. HSAs provide a great service for employers at a very lost cost to employers. Here are a few more benefits that you'll see providing an HSA for your employees:

Employer Benefits

1 Employee Costs

As we mentioned, healthcare costs are the **# 1 source of credit card debt** for Americans. Individuals pay **$9,990 per year**, on average. Your employees are working without a safety net. How do you think this affects your company, your culture and your profit margins?

2 Employee Productivity

Companies live and die by employee productivity. Did you know that over **$530 billion** is wasted each year from "lost productivity"? This includes health-related issues such as sick days, but does not include the normal stress of day-to-day life that limits overall productivity (like those health costs we mentioned above).

3 Business Impact

Employee culture, recruitment, and retainment are huge parts of your company value, offering and market value. If you are unable to recruit and retain employees how can you grow your business? Enhancing your benefits offering is an easy way to differentiate your company in the market without overcompensating with increased salaries.

Adding low cost HR and healthcare benefits like an HSA that will increase your employee's productivity is a simple, direct and a positive influence in this cost vs. benefits equation.

Employee Benefits

1 Tax-Free Money

Paying for healthcare costs with your HSA mean that employees are saving 25%* off the retail cost. magical words: triple tax benefits. HSAs allow for tax-deductible contributions, tax-free growth through investments & interest and tax-free withdrawals (for medical expenses) which means they can use tax-free money from your HSA to pay for health expenses.

2 Save For Today and Tomorrow

The flexibility of a health savings account (HSA) is multi-faceted. Unlike an FSA, there is no "use it or lose it" policy so employees can add money today and use it for years to come. To that point, employees own their HSA account and can take it with them if they leave their current employer and roll it over into a new account just like a 401k.

Most importantly, as an employer you are creating a long-term savings strategy to help employees pay for health expenses throughout their life. Even with Medicare, average healthcare expenses for couples in retirement are expected to exceed **$275,000**. Having an interest-bearing HSA will help mitigate these health costs.

3 Sign Up in Minutes

With all of these financial incentives, you would think signing up for an HSA would be challenging. We can't speak for other providers, but **signing up for an HSA with Lively** is easy.

HSAs for Employees

Which Employees Should Consider an HSA?

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HSA Value for Employees

Value of an HSA for Young Individuals

Younger individuals commonly have lower health costs than other individuals. Using an HSA coupled with an HSA-eligible plan (like a High Deductible Health Plan) is a great healthcare strategy to save both employers and employees money. Younger employees can save money tax-free for expected health costs in years to come.

Value of an HSA for the Growing Family

There is no question, income allocation and savings gets harder when employees add dependents to their household. Little Johnny might not understand the value of an HSA today, but they can wow him with their HSA balance in years to come. HSAs provide a great opportunity to pay for unexpected health costs, even if you need to contribute after the fact. Remember once an employee has established their HSA, they can use tax-free dollars to pay for medical bills and other qualified out-of-pocket medical expenses, even if they add those contributions after the qualifying life event.

Value of an HSA for Older Employees

Retirement is full of wonder, leisure, and relaxation, but it’s also filled with health costs. Retirement healthcare costs are expected to exceed $275,000 for couples – on top of Medicare! Maxing out an HSA prior to retirement creates the only way to save tax-free money and pay for qualified medical expenses tax-free. Any HSA money employees don’t use for medical expenses, after 65 years of age, can be used for anything, just like an IRA or 401k.

Common HSA Myths

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Common HSA Myths:

1 Employers can only add (or switch) an HSA during Open Enrollment.

Unlike health plans and other benefits selection, HSAs are not constricted to open enrollment. Employers can offer a new provider or switch HSA providers at anytime of the year. In fact, the flexibility of an HSA in an otherwise stringent health benefits space allow you to evaluate, review and select an HSA provider at any point in time, not just during open enrollment. It's a great way to add a low cost, high value offering to your HR benefits.

2 HSAs increase employer and employee health costs.

An HSA is not a healthcare plan but can be used in conjunction with qualifying healthcare plans to save money. As an employer, you get to choose how much you contribute for your employees. In many cases, adding an HSA and it's triple tax advantages will save your company money over the long term.

3 HSAs are only for healthy and young employees.

There is no question, HSAs are a great option for healthy young employees to save for future health costs. They are willing to have higher deductibles in exchange for increased health savings. But why does it have to be an either/or scenario? For employees with higher expected (or unexpected) out-of-pocket healthcare costs, HSAs provide a way to save tax-free dollars for their expenses. It's like a 25%* discount off the sticker price.

Older employees have a great perk to look forward to if they contribute to an HSA. In addition to saving health money for retirement, after 65 years of age, employees can use their health savings account (HSA) money in the future for non-health related expenses. It's just another interest bearing account similar to your 401(k) or IRA.

*Assumes 25% state and federal income taxes for individuals or families

What to Look for in an HSA Provider

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What to Look for in an HSA Provider

Not all HSAs are created equally, and it shows by how well account holders utilize their benefits. A modern HSA needs to minimize your administrative tasks and maximize employee engagement and savings.

Cost-Reducing Benefits Strategies

Rising healthcare costs are likely a significant influence in the movement from higher coverage healthcare plans to HSA-eligible plans. These cost-reducing benefits strategies are essential to balance the benefits costs for your business. By adding an HSA, employers can extend their benefits offering, while keeping their cost-reducing plan in place. On top of that, they are creating a benefit offering that employees can use for years to come. Understanding you can lower benefits costs and expand offerings through this unique opportunity can further your engagement opportunities and benefits enrollment. It's truly a win-win for everyone involved.

Employer Contribution Strategy

Employer cost savings that result from the selection of an HDHP vs. PPO or HMO can be transferred (fully or partially) to employer HSA contributions. This is one of the only ways employers can add long-term savings value to an employee's healthcare. While healthcare plans are limited to annual selection, HSAs go with employees from job-to-job, year-over- year. Like a 401(k), employees can use an HSA as a savings vehicle over their lifetime and build a health savings nest-egg for retirement. Helping your employees understand this long-term value can help rebalance short-term versus longer-term benefits offerings.

Payroll Integration

Adding new partners seems to always mean more work. We took this to heart and built our HSA platform to work with various online payroll providers. This makes the onboarding and management process seamless.

HSA Education

While HSAs aren't new to the market, the transition from traditional health plans to HDHPs, or how to combine an HDHP with an HSA is new to many employers and employees. Assisting them in understanding eligibility, contributions, and tax requirements should be part of the sales and engagement process.

Features like HSA investments enhance the opportunity to increase health savings, but may also increase the offering's complexity, requiring added education and greater understanding. These features can dramatically alter how employers and employees perceive the value of an HSA and their overall benefits selection.

Partner With Lively to Help CDHPs Succeed

To make the transition to a Consumer-Driven Health Plan smooth and effective for employers and employees, it's imperative to partner with a dependable and innovative provider.

User-centric Design

Lively's dashboards and mobile apps provide an intuitive and modern experience that makes it simple for employees to manage their HSAs, even while on the go. Employers can quickly review actions and notifications at-a-glance.

Engaging, Ongoing Education

From informative email newsletters and seasonal communications, to on-demand resources and useful online tools, Lively makes sure employers and employees are always up-to-date.

Unparalleled Customer Service

Employees will benefit from access to the knowledgeable and responsive Lively support team. And each employer is assigned a dedicated customer success manager to guide them through onboarding, and serve as a valuable resource during the year.

Scalable, Proprietary Technology

Lively's industry-leading technology is not white-labeled and seamlessly integrates with payroll systems and benefits administration platforms in a fraction of the standard time. And all for one single fee, with zero hidden costs.

About Lively, Inc.

Lively is a modern Health Savings Account (HSA) platform for employers and individuals, built by pioneers of the HSA industry with decades of health, benefits, financial, and insurance industry.

Lively's top-rated, user-centric solution creates an intuitive user experience allowing consumers to get the most out of their HSA. Lively HSAs work alongside HSA-compatible plans to make healthcare easier for everyone. Lively's mission is simple: Inspire people to confidently embrace a healthy future.

Lively is headquartered in San Francisco, CA.
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