Frequently Asked Questions About The Hawaii Health Savings Account (HSA) Bill

The Hawaii HSA Bill

What is a Hawaii Health Savings Account plan or Hawaii HSA?

The Hawaii HSA bill proposes to allow employers to include an HSA option to offer to their employees. The Hawaii HSA would be a tax-exempt employee account funded by employer contributions that can be used by employees to pay for health care expenses. To receive approval to offer an HSA option, employers would be required to contribute about 80% or more of $1,350 (for individuals) or $2,700 (for families) to the Hawaii HSAs of their employees who are enrolled in HSA-eligible (high deductible) plans. Employees can also make contributions to their HSAs, but are not required to do so.

What does it mean when an HSA is described as tax-exempt?

Employer's contributions and the money that's deducted from an employee's paycheck that goes into an HSA is not taxed. Much like when an employee enrolls in a 401K, the employer's and employee's money that's contributed to the HSA is not counted as part of the employee's gross income at the time of contribution. The funds are tax exempt when withdrawn to pay for medical expenses, and interest earned on the HSA are also tax free.

Why would an employee contribute to his or her HSA?

Not only are contributions deducted from an employee's gross income, which lowers the amount of income tax he or she must pay, but the contributions can also be invested and earn tax-free interest to increase the amount of funds in the account. Plus, when the funds are used for eligible medical expenses they can be withdrawn tax free.

Are you taxed when you withdraw funds from an HSA that are not used for medical expenses?

Yes, if you withdraw funds for non-medical expenses then you will pay a 20% penalty. At age 65, you can take penalty-free distributions from the HSA for any reason but non-medical expense withdrawals may be subject to ordinary income taxes.

Why would an employee want to build up the funds in an HSA?

The HSA fund can be a way to save tax-free for future medical costs, or on premiums for COBRA, long-term care insurance, Medicare premium (not Medigap policies), and supplemental insurance premiums for things like dental care, vision care, certain diseases and insurance that pays a fixed amount per day (or other stipulated period) for hospitalization. HSA account funds can also be used to pay for medical devices, such as hearing aids.

Eligibility

How do you enroll in an HSA?

An employee must work for a company that offers an HSA-eligible plan. Once enrolled in an HSA-eligible plan, an employee may open an HSA and the employer and employee may begin making contributions to the HSA.

Eligibility (continued)

What is an HSA-eligible plan?

To qualify as an HSA-eligible plan under federal regulations it must have an annual deductible of at least $1,350 for individual coverage or $2,700 for family coverage, and the plan's out-of-pocket maximum may not be greater than $6,650 for individual coverage or $13,300 for family coverage, with the deductible counting toward this limit. Under the Hawaii Prepaid Health Care Act, the HSA plan is expected to have an out-of-pocket maximum not to exceed about $3,000 for individuals and about $9,000 for families.

Are any medical services exempt from the deductible and covered in full by an HSA-eligible plan?

Yes, primary preventive services designed to prevent the onset of diseases are often exempt, as well as preventive services required by the Affordable Care Act.

Are there any other restrictions on enrollment in an HSA?

Yes, an individual may not be enrolled:

- In other health coverage, such as a spouse's plan, unless that plan is also an HSA-eligible plan.
- In an HSA plan if they are claimed as a dependent on another person's tax return.
- In Medicare.

Contributions

Can both individual employees and employers contribute to HSAs?

Yes, and it provides the employee with three possible tax benefits: (1) contributions are excluded from the employee's gross income when employers pay their portion of the health care deductible into the employee's HSA, (2) withdrawals from the HSA for eligible medical expenses are tax-free, and (3) interest earned in the HSA is tax-free.

How much can a worker with individual coverage be allowed to contribute to an HSA?

For 2018, the IRS allows up to $3,450 for an individual and for an employee with family coverage the IRS allows up to $6,900. These limits include contributions made by your employer. These contribution amounts are indexed to inflation and are recalculated periodically. Workers over the age of 55 who are not enrolled in Medicare may make an additional $1,000 catch-up contribution.

Investments

How can the funds in an HSA be invested?

HSA funds can be invested in the same kinds of financial instruments approved for individual retirement accounts (IRAs), such as bank accounts, certificates of deposit (CDs), money market funds, stocks, bonds and mutual funds.