Everence HSAs – A Summary for Employers

Everence Federal Credit Union HSAs make it easier for your employees to save and pay for qualified medical expenses. If you have questions about how Everence HSAs work, call 800-451-5719.

If you have a question about the tax implications of an HSA, we recommend you check with your tax advisor or accountant. Everence is not authorized to provide tax, investment, or legal advice with respect to HSAs.

For more information on HSAs, visit the IRS website (irs.gov) and review Publication 969 (Health Savings Accounts and Other Tax-Favored Health Plans).

This document provides a summary of the key points in the Everence HSA Disclosure Statement and Custodial Agreement. The employee's Certificate of Coverage or Summary Plan Description governs the high-deductible health plan.

The HSA information provided in this document is divided into the following sections:
- General information
- Employer/employee contributions
- Distributions
- Tax-related information

General information

Q: Is there a difference between expenses eligible for distribution from an HSA and those covered by a high-deductible health plan?

A: Although they are intended to complement each other, the HSA and the high-deductible health plan differ significantly regarding eligible medical expenses. For more information on medical expenses covered by your high-deductible health plan and those that are eligible for distribution from the HSA, please review the disclosure and the Summary Plan Description or Certificate of Coverage.

Q: What are the HSA eligibility restrictions for employees?

A: Generally, employees are eligible to open and contribute to an HSA for a given month if they are covered under a qualified high-deductible health plan on the first day of the month and are otherwise eligible. See the disclosure for more information on eligibility and other allowable coverage.

Q: What happens when an employee goes from single (self-only) to family coverage or vice versa?

A: The deductible and the HSA maximum contributions will change accordingly. The maximum contributions will be calculated by prorating the number of months of family coverage and the number of months of single (self-only) coverage.

Q: What happens when an HSA account owner dies?

A: If the spouse is named as the HSA account owner's beneficiary, the account automatically becomes the spouse's HSA. Otherwise, the account is terminated and the account balance is distributed to the HSA account owner's named beneficiary or estate.

Q: What happens when an employee leaves the company or terminates coverage under the high-deductible health plan?

A: As employees leave your employment or terminate health coverage, they can continue to access the account for qualified medical expenses, but cannot contribute to it unless they continue to be eligible.

Employer/employee contributions

Q: How are employer contributions made?

A: There are two ways to make employer contributions:

1. You can make contributions to your employees' HSAs by electronic funds transfer. You will need to set this up through your financial institution and ask your employees to provide you with their Everence HSA account numbers.
2. You complete the Everence HSA Group Contributions form, clearly indicating the tax year for the contribution. Then, mail the form (along with a check made payable to Everence FCU) to Everence HSA Administration, 2160 Lincoln

Highway E., Suite 20, Lancaster, PA, 17602. This form is available online at everence.com/hsa-forms. The form may be requested from a service representative at 800-451-5719.

Q: Do I need to make employer contributions to any HSAs requested by my employees?
A: No, you are allowed to make HSA contributions only to HSAs established through the HSA custodian or trustee you designate.

Q: What is the annual maximum HSA contribution?
A: The annual contribution limits, adjusted each year for inflation, are different for single and family health coverage. The annual contribution limit for single coverage is $3,550 for 2020 and $3,600 for 2021. The annual contribution limit for family coverage is $7,100 for 2020 and $7,200 for 2021. To determine the maximum contribution limits in future years, visit the IRS website (irs.gov) and review Publication 969 (Health Savings Accounts and Other Tax-Favored Health Plans).

Eligibility is generally determined on a monthly basis as of the first day of each month. Under this rule, the monthly contribution limit is prorated and is 1/12th of the annual contribution limit. The individual's maximum annual contribution depends on the number of months the individual is eligible to make contributions during the year.

The one exception to the monthly eligibility rule is that a person who is an eligible individual for the last month of the person's tax year (December for a calendar-year taxpayer) is treated as having been an eligible individual during every month of the year. The person is treated as having been a participant in the same high-deductible health plan that covers the individual in the last month.

A penalty is imposed if a contribution is made for a person under the last month eligibility rule and the person does not remain an eligible individual until the end of the following tax year. In this case, the extra contributions that were made in reliance on the last month rule (which are pretax dollars in the HSA) are treated as taxable income for the year in which the person became ineligible. These extra contributions are also subject to an additional 10 percent tax. This penalty is not imposed if ineligibility is caused by the death or disability of the eligible individual. These extra contributions are not treated as excess contributions, and they cannot be withdrawn from the HSA as an excess contribution.

Q: Is the contribution limit increased for older people?
A: An eligible individual who will reach age 55 before the end of the year for which contributions are being made can contribute an additional amount that is known as a "catch-up contribution" to his or her own HSA. Someone who meets this age test and is eligible for the entire year can contribute an additional $1,000. The catch-up contribution is subject to the monthly eligibility and last month eligibility rules.

Q: What if an employee and his or her spouse have health coverage under separate high-deductible health plans and both have HSAs?
A: Together they are limited to one family maximum contribution amount if at least one person has family health coverage. They may divide the maximum contribution between their HSAs in any manner they choose, except any catch-up contributions must be made to the HSA of the individual to whom it applies.

Q: What is the frequency and timing of employer HSA contributions?
A: You can make contributions for a tax year at any time during that year and up to the tax filing deadline for that year (generally April 15). However, since eligibility is determined on a monthly basis, you may wish to contribute monthly, on or after the first day of each month.

Or, you may want to make your total annual contribution to your employees' HSAs at the beginning of the year to provide for unaffordable medical care or to reduce the number of transactions. This is allowable and easy to administer, but if an employee leaves your employment before the full contribution is "earned," this money cannot be returned to you.

Q: Can employers make different contributions for different employee HSAs?
A: Employer contributions made outside of a Section 125 (cafeteria) plan must be equal as defined by the HSA comparability rules. If you are making contributions for your employees, you must contribute equally for each employee in the same category (single or family coverage, part-time or full-time – 30 or more hours per week). You must allow either the same dollar amount for everyone or the same percentage of the deductibles for each category. Employers may, however, make larger HSA contributions for non-highly compensated employees than for highly compensated employees.

Comparability rules do not apply if employees have the option to make pretax HSA contributions through your Section 125 (cafeteria) plan. In this instance, employer contributions are considered to be made through the Section 125 (cafeteria) plan and are subject to nondiscrimination rules.

Married employees

If you have two employees married to each other who are enrolled in your health plan and covered under the same agreement, you are not required to make the family contribution to each employee's HSA. You only need to make the family contribution to the primary insured's HSA.

However, this applies only if you make HSA contributions to eligible employees electing coverage under **your** employer sponsored qualified high-deductible health plan. If you make HSA contributions to employees covered under **any** high-deductible health plan (not just yours), you must make the family contribution to both employees' HSAs.

Q: What if an employer does not contribute equally to employee HSAs (aside from those who make contributions through a Section 125 plan)?

A: Employers who fail to contribute equally are subject to penalties of up to 35 percent of their aggregate HSA contributions. Remember, once a contribution is made to an HSA, you can't get it refunded. Only the employee has access to the funds in his or her HSA.

Q: How do employees make contributions to their HSAs?

A: Employees may make after-tax contributions directly to Everence Federal Credit Union or pretax contributions through a Section 125 (cafeteria) plan if you offer one and the plan is designed to include this option. These contributions are considered to be employer contributions and must be reported as such. Or, if you do not offer a Section 125 (cafeteria) plan, you may simplify the process for them by setting up an after-tax payroll deduction.

Q: Can employees transfer funds from an IRA into an HSA?

A: Eligible individuals are entitled to one lifetime irrevocable tax-free distribution of IRA* funds to their HSA, not to exceed their maximum annual HSA contribution amount. It must be a direct trustee-to-trustee transfer. The amount transferred is not allowed as a tax deduction, but is considered an HSA contribution for that tax year. However, the individual must remain eligible for the entire month of the transfer and the following full 12 months. Otherwise, they will pay income taxes and a 10 percent penalty on the amount transferred, unless eligibility was lost due to death or disability.

The individual must fill out a *Transfer of IRA Funds to an Everence HSA* form, which is available at your local Everence branch office or or at everence.com/hsa-forms. The form may also be requested from a service representative at 800-451-5719. This form must be sent to their IRA custodian.

**Excluding ongoing SEP or SIMPLE IRAs that will receive an employer contribution for the plan year ending with or within the individual's tax year in which the transfer is made.*

Q: Do I need to help make sure my employees don't go over the contribution limit?

A: No. We will help them keep track by sending them monthly statements on their accounts. Individuals may also call us at any time to find out how much they have contributed to their HSA.

The most important thing you can do is communicate how much your contribution will be so they can plan their contributions.

Distributions

Q: Do I have to handle my employees' requests for distributions from their HSAs?

A: No. Everence handles that.

Q: Are there any rules regarding distributions I need to be aware of?

A: You may find it helpful to let your employees know that distributions may only be taken for services dated after the account is established. If they have outstanding medical bills at the time they establish the HSA, those services are not eligible for reimbursement from the account.

The established date for any additional HSA the employee opens later is considered to be the date the prior HSA was established, if the prior HSA has a balance at any time during the 18-month period ending on the date the later HSA is established.

Tax-related information

Q: Do I have to report my contributions to the IRS?

A: Yes. You report your contributions, along with the employee contributions made through your Section 125 (cafeteria) plan, on your employees' W-2 statements.

Q: Are there other reports I have to prepare?

A: No. Everence Federal Credit Union, as custodian, is responsible to handle all other reporting.

Q: What tax advantages do for-profit employers receive?

A: You receive a federal tax deduction for your contributions to your eligible employees' HSAs, just as you do for the amount you pay toward their health insurance premiums.

Q: How are HSA contributions treated for partners and 2% shareholders?

A: The Internal Revenue Service has ruled that partnerships and S corporations in general can't deduct their contributions to the HSAs of their partners and 2% shareholders/employees.

However, employers can make contributions to the HSAs of individual partners or shareholders, which will be treated as the partner's or shareholder's contribution. To receive tax credit, the individual would need to claim such contributions as an above-the-line deduction on his or her individual income tax returns (similar to the treatment for any eligible individual making a contribution to an HSA directly with after-tax funds). Whether or not you, as the employer, can receive tax credit and whether the contribution is taxable income to the partner or shareholder will depend on whether the HSA contribution is made by a partnership or an S corporation and on whether a partnership contribution is treated as a distribution of cash or as a guaranteed payment.

To apply these general rules to your specific situation, you should consult your accountant or tax advisor.

Everence Federal Credit Union
2160 Lincoln Highway E., Ste. 20
Lancaster, PA 17602-1150
everence.com
Toll-free: 800-451-5719
F: 717-735-8331
infocu@everence.com