QUALIFIED HIGH DEDUCTIBLE HEALTH PLAN (QHDHP)

Understanding the Plan and the HSA

QHDHP

The plan is referred to as a Qualified High Deductible Health Plan because it meets the IRS minimum requirements which would qualify the policy holder for a Health Savings Account.

The QHDHP has a first dollar annual deductible that must be satisfied before the plan starts paying claims.

The IRS sets the minimum deductible which increases ever 2 – 3 years. For 2021, the IRS minimum deductible is $1,400 for single coverage and $2,800 for family coverage.

The QHDHP can be set up with or without copays. If it is set up without copays, once the deductible is satisfied, all in-network medical and prescriptions are covered at 100%. If it is set up with copays, the copays will only apply after the deductible has been met.

QHDHP Claims

- Preventive Care is covered at 100% before the deductible is satisfied and **does not** apply to the deductible. Preventive care is identified on the carrier's preventive care schedule which is updated periodically.
- Until your deductible is satisfied, you will be responsible for the negotiated rate for the non-preventive services you receive from providers and prescriptions you fill.
  - *Example: Instead of a copay at the time of service at your PCP, the negotiated rate may be between $75 - $100.*
- At providers, you will pay nothing at the time of service. Instead, the provider will process the claim with your insurance company, and send you a bill once the claim processes for the negotiated rate.
- At the pharmacy, you will pay the negotiated rate at the time of service.
- The QHDHP will be set up on the same networks that you currently have, so you will have access to the same providers and prescriptions that you currently have.

Satisfying the Deductible

Single Deductible
$1,400

All of your medical and Rx expenses combine to satisfy the deductible

Family Deductible
$2,800

The medical and Rx claims of all family members accumulate to satisfy the deductible

Once the deductible is satisfied, the plan will begin to pay claims at 100% unless there is an applicable copay.

Once the deductible is satisfied, the plan will begin to pay claims at 100% for all family members unless there is an applicable copay.

HEALTH SAVINGS ACCOUNT (HSA)

What is a Health Savings Account?

A health savings account ("HSA") is an IRS regulated bank account; it is not your health plan.

The HSA can ***only*** be tied to a QHDHP and is set up so both the employer and the employee can contribute money into the account.

The HSA has preferential tax treatment so that the account holder can save for eligible medical expenses.

The HSA is your account and is portable meaning that the account and all of the money in the account will remain with you even after you leave employment.

HSA Tax Benefits

The HSA is regulated by the Internal Revenue Service and is set up for each employee who is eligible. The IRS sets minimum QHDHP deductibles and maximum contribution limits.

Contributions are tax free and will not be taxed at the federal, state, or local level. This includes both contributions from the employer and the employee. If an employee contributes money with after tax dollars, they will take an above the line deduction on their next tax form to realize the tax savings.

All interest and/or capital gains from investments in the account are tax free.

Distributions from the account when used for eligible medical expenses are tax free.

HSA IRS Limits

Limit Type		2020	2021	Change
HSA Contribution Limits	Self Only	$3,550	$3,600	$50 Increase
	Family	$7,100	$7,200	$100 Increase
Additional HSA Catch-Up Contribution	HSA Account Holder is Age 55 or Older	$1,000	$1,000	No Change
HDHP Minimum Deductible	Self Only	$1,400	$1,400	No Change
	Family	$2,800	$2,800	No Change

Eligibility Rules

1. The account holder must be enrolled in a QHDHP

2. The account holder cannot have any other type of medical or prescription drug coverage that is not a QHDHP.

3. The account holder cannot be enrolled in Medicare or TRICARE.

4. The account holder cannot be claimed as a dependent on someone else’s tax return.

5. Limit on other tax favorable accounts held by either the account holder or the account holder’s spouse:

   - *Not permitted → General purpose FSA and general purpose HRA*
   - *Permitted → Limited Purpose FSA and Limited Purpose HRA*

Regulations on use of hsa

You can use money from your HSA for qualified medical expenses.

Qualified medical expenses are those expenses incurred by the following individuals:

- *You and your spouse.*
- *All dependents you claim on your tax return.*
- *Any person you <u>could have</u> claimed as a dependent on your tax return unless:*
  - The person filed a joint return;
  - The person had gross income of $4,300 or more; or
  - You and your spouse, if filing jointly, could be claimed as a dependent on someone else's tax return.

You should always check with a tax expert to review your specific situation.

Age 26 Dependents

- The Affordable Care Act allows you to keep your children on your health coverage until they reach age 26 regardless of other coverage availability, marital status, etc. Whether you keep your child on your coverage until they reach age 26 is up to you. All the ACA does is require your employer to give you the option to keep your child on coverage until they reach age 26.

- The ACA did not change the IRS definition of "dependent", and since HSAs are governed by the IRS, eligible medical expenses are incurred by you, your spouse, and people who meet the IRS definition of "dependent". Generally, your child must be under the age of 19 at the end of the year or under the age of 24 at the end of the year if enrolled as a full-time student to be considered a dependent for the IRS. But you should always check with a tax professional about whether you can qualify your child as a dependent for tax purposes.

  - *The easiest test to follow for whether you can use the money in your HSA for your child is whether you <u>can</u> claim them as a dependent on your most recent tax return.*

HSA benefits and flexibility

The HSA is your bank account. The money that you and/or employer place into the HSA stays with you until you decide to spend it. There is no need to spend it down before the end of the calendar or benefit year.

The HSA stays with you in retirement or if you change employers.

You can continue to use HSA funds even if you are no longer covered by a QHDHP or otherwise become ineligible for the HSA. All ineligibility means is that you are no longer permitted to contribute to your HSA.

You can use the funds to pay for eligible medical expenses that are not covered under your medical and prescription drug plans (e.g., dental and vision expense).

Eligible medical expenses

Eligible Expenses

- ✓ Claims that hit your deductible by you, your spouse, or any person you cold claim as a tax dependent.
- ✓ OTC Medication
- ✓ Lasik Surgery
- ✓ Eyeglasses / Contacts
- ✓ Braces
- ✓ Medicare and COBRA premiums

Not Eligible Expenses

- × Health Club Fees
- × Special Food and Beverages
- × Cosmetic Surgery
- × Spa Treatments
- × Gym Equipment
- × Herbal Supplements
- × Marijuana

HSA and Retirement Planning

- It is estimated that the average couple will need $280,000 in today's dollars for medical expenses in retirement, including long term care.
- Knowing that medical and prescription drug expenses are going to play a large role in retirement, an account holder may elect to maximize HSA contributions prior to saving in traditional retirement vehicles such as 403(b) plans, IRAs, 401(k) plans, etc. If the account holder spends the HSA funds on eligible medical expenses, the money is never taxed.
- If the account holder doesn't have any medical or prescription drug expenses (they will unless they pass suddenly), the account holder can withdraw the HSA funds post age 65 and pay income tax on the withdrawals, just like some of the above retirement accounts.

HSA and Retirement Planning

Medicare Premiums - HSA funds may also be used for certain Medicare premiums for the account holder and account holder's spouse, but only if the account holder is over the age of 65. Eligible Medicare premiums include Part B premiums for medical insurance, Medicare Advantage Plan premiums, and Part D premiums for prescription drug. However, HSA funds cannot be used for premiums for a Medicare supplement policy such as Medigap.

COBRA Premiums - An employee planning to retire could start to save money on a pretax basis to cover their eighteen (18) months of COBRA premiums once they leave employment. This could be done to carry the employee to Medicare age, where HSA funds could then be used to cover the aforementioned Medicare premiums and costs discussed below.

Medicare Costs – Medicare deductibles, copayments, and coinsurance are qualified medical expenses that are able to be paid from an HSA. These are costs that most all employees are going to have once they retire. Employees will want to take advantage of the triple tax benefit discussed above.

We're Here To Help

If you need assistance or have any questions regarding your benefit coverages or claims, please contact:

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