UVA Health Savings Account Employee Educational Guide

A health savings account (HSA) works with a high deductible health plan (HDHP), and lets you set aside a portion of your paycheck, on a pretax basis, into an account to help you pay for qualified medical expenses that are not covered by the health plan. It can also help you save for future medical expenses.

At UVA, the Health Savings option is our HDHP. You must enroll in the HSA to be covered under the Health Savings option.

The following employees are **NOT** eligible to have an HSA:

- Wage Employees;
- J-1 Visa Employees;
- Employees enrolled in Medicare* or Medicaid, or Employees listed as a dependent on another's tax return;
- Employee, or employee's spouse, with a balance in a Full Healthcare FSA, or who are currently part of an FSA grace period, or who currently are participants in an employer plan in which the plan year is not over;
- Employee who received healthcare benefits from the Veteran's Administration (TRICARE) within the last three (3) months;
- Employee's spouse or parent is currently enrolled in a healthcare plan, including a Health Reimbursement Account, which is providing the Employee with benefits before meeting the annual IRS minimum deductible;
- Employees who have already contributed the annual federal limit to another HSA, medical Savings Account (MSA), or HRA in the same calendar year.

***NOTE**: BE alert that the year you enroll in Medicare a unique rule applies that may result in an excise tax. To avoid this scenario:

Employees currently contributing to an HSA who plan to start Medicare coverage the month they turn 65:

- Make sure all HSA contributions end before the month you turn 65.
- If your birthday is on the first of the month, make sure you stop your contributions by the beginning of the month before your birthday month.

Employees who continue to work after age 65 and the HSA is still being funded by the employee and/or the employer:

- Stop making contributions to your HSA up to 6 months <u>**before applying**</u> for Medicare Part A only or Part A and Part B <u>***or***</u> starting your Social Security retirement benefits.

- When you receive Social Security retirement benefits, your Part A coverage is back-dated 6 months (but no earlier than the first month you become eligible for Medicare) to give you 6 months of back-dated benefits. If you contribute to your HSA during those 6 months, you may face a 6% excise tax and an income tax for those contributions.
- This "6-month lookback" starts when you enroll in Medicare or begin your Social Security retirement benefits. However, you can avoid the excise tax if you do the following:
    1. Withdraw your excess contributions by your due date, including extensions, for the year you made them, and
    2. Withdraw any earnings attributed to the withdrawn excess contributions and include the earnings in "other income" on your tax return for the year you withdrew them.

Health Savings Account (HSA) Facts:

It belongs to you – Funds in your HSA follow you, even if you change jobs. If you are no longer covered by a HDHP, your account stays active, and you can use any remaining funds for medical expenses. Account balances roll over each year and accrue interest.

It reduces your taxable income – HSA funds are tax free, both when you make your contributions, and when you spend HSA funds to cover qualified medical expenses.

It helps you plan for the future - If you have money in your HSA when you turn 65, you can spend your HSA funds however you want — but if you aren't spending it on qualified medical expenses, it will be taxed as income at your then current tax rate. You must stop contributing to your HSA when you enroll in any part of Medicare.

How it Works

Funding: The HSA may be funded by both employee and employer contributions. Seed funds from UVA to eligible employees are $1,000 for employee-only coverage and $1,500 for family coverage.

This contribution is limited to permanent full- and part-time benefits-eligible academic and medical center employees who are enrolled in the HDHP, who are active employees receiving a paycheck on the date that UVA makes the annual contribution.

- UVA reserves the right to modify the dollar amount of annual seed funds available.
- Eligibility for annual Employer Contribution Seed Funds is determined at the beginning of each Plan Year.
- There will be no pro-rating of employer contributions for employees who were on unpaid leave when employer contribution seed funds were distributed.
- Unpaid leave includes, but is not limited to, unpaid educational leave and FMLA. Employees on unpaid leave when Employer Contribution Seed Funds were disbursed will not be eligible for employer contributions upon their return to active employment during the same plan year.

Annual contribution maximums are set by the IRS and will vary year to year. Additionally, contribution maximums may change for employees experiencing a Qualifying Life Event.

Key Timing Details

There are procedural steps Participants must take to authorize and finalize the opening of their HSA account. Until a Participant completes the opening of their HSA account as required by Fidelity, funds contributed by Participant and/or the Employer will be placed in an HSA Holding Account.

The Holding Account holds eligible contributions until an employee's HSA is ready to receive contributions. ***Contributions can be held a maximum of 90 days in the HSA Holding Account***.

After 90 days, if an Employee has not authorized and opened their personal HSA account, contributions will be returned to UVA and the Employee will ***forfeit*** the Employer HSA seed fund contribution for the Plan Year.

Newly hired or newly eligible Employees during the fourth quarter of the calendar year wishing to participate in the HSA must elect to enroll and fully open an HSA account no later than December 2nd to receive Employer contributions for the current Plan Year. Due to administrative and calendar constraints, fourth quarter new hires and newly eligible Employees will not have 90 days to authorize and finalize the opening of their HSA account. Fourth quarter enrollees who fail to authorize and fully open their HSA prior to December 2nd will forfeit current year Employer HSA seed fund contributions received in the holding account, and those funds will be returned to the Employer. Employee contributions remaining in the holding account on December 2nd will be returned to the Employee. Newly Eligible and eligible new hires may elect to participate in the HSA beginning in the new Plan Year.

Coverage Effective Date

An Eligible Employee who has satisfied the eligibility requirements will become a Participant on the first day of the month after the Employee has elected to enroll in the Health Savings Account. Enrollment entails both making and submitting the elections in Workday. Employees remain obligated to authorize and activate their HSA account within 90 days.

A complete list of common examples of qualified medical expenses can be found in IRS Publication 502.