Employer Guide to the PEBB CDHP/HSA

A. <u>Background</u>

1. Kaiser, Group Health and UMP provide Consumer Directed Health Plans (CDHP).
2. CDHPs are available to employees of all PEBB affiliated employers (state agencies, higher education institutions, employer groups, K-12 school districts/educational service districts, tribes).
3. All CDHPs come with a Health Savings Account (HSA). You can't have one without the other.

B. <u>CDHP Basics</u>

1. Same medical services and prescriptions as the traditional PEBB health plans.
2. Lower premiums. For employees of state agencies and higher education, there is a lower employee contribution each month. For employer groups, K-12/ESDs, and tribes – you set the amount of the employee contribution for your employees for CDHPs and all PEBB plans.
4. The HSA is a resource to help CDHP subscribers pay for medical expenses.
5. Employees are not eligible for the CDHP if they are:
   - On Medicare;
   - Have other comprehensive health coverage (e.g., on a spouse's health coverage);
   - Are enrolled in an Medical FSA or their spouse has a Medical FSA that has not been made limited purpose;
   - Are claimed as a tax dependent on someone else's tax return;
   - Are enrolled in Tricare;
   - Have received healthcare services from the VA or one of their facilities (including prescription drugs) within the three months prior to enrolling in the CDHP;
   - Other exclusions may apply.
6. Employees are advised to make use of the online resources to learn more about this option before enrolling. Tools include the PEBB website and PEBB Benefits comparison tool at www.hca.wa.gov/pebb, information on the HSA vendor's website www.Health Equity.com/pebb, and on the individual health plan's website.

C. <u>HSA Basics</u>

1. An HSA is essentially an employee-owned bank account to be used to pay for qualified medical expenses for the employee and their IRS tax dependents, whether or not those dependents are enrolled on the CDHP.
2. An HSA account will be opened by Health Equity for all subscribers who enroll in a CDHP.
3. The employee owns the account and all funds are deposited into it.

4. Employees are fully responsible for tracking and managing the HSA.
5. HSA funds are tax free. Deposits are tax free (either pre-tax through payroll deduction or as a tax credit at tax time), earned interest is tax free, and withdrawals spent on qualified health expenses are not taxed.
6. Unused HSA funds carry over to future years including upon separation from employment and into retirement.
7. HSA account funding includes a modest amount pulled from the regular employer premium paid to PEBB and deposited by PEBB into the employee's HSA each month. The deposited amount is determined by the subscriber's enrollment status on the CDHP - $58.34 per month ($700.08 per year) for individual CDHP subscribers and $116.67 per month ($1,400.04 per year) for CDHP subscribers who enroll with one or more dependents.
8. Employees can add their own tax-free contributions to their HSA, up to IRS annual limits for single subscribers and for families (subscriber with one or more family members enrolled in the CDHP). Subscribers age 55 or older may add an additional $1,000 per year to the HSA. These federal limits include both the employer premium based contributions and any employee discretionary contributions.
9. Employees enrolled in a CDHP with an HSA, who earn the SmartHealth wellness incentive, will have an additional $125 deposited into their HSA at the end of January of the following year. SmartHealth requirements are available on the PEBB website: www.hca.wa.gov/pebb/Pages/wellness.aspx.
10. HSA funds are only available to the employee as they are deposited.
11. HSA funds used for purposes other than qualified health expenses will be fully taxed and there may be a federal penalty applied if the subscriber is under 65. If the HSA owner is 65 years old or older, use of HSA funds for purposes other than qualified health expenses will be fully taxed as income but there will not be a federal penalty applied.
12. Health Equity is the administrator that will manage the PEBB members' HSA accounts for Group Health, Kaiser and UMP. They will also provide information and support to individuals who are considering the HSA or are enrolled in the HSA.
13. Health Equity has several charges related to the HSA accounts:
    a. Monthly maintenance fee is paid by HCA/PEBB for CDHP enrollees.
    b. There is monthly maintenance fee for individuals who are no longer CDHP enrollees and the HSA balance drops below $1,500.
    c. There is a per month fee for a paper statement. There is no charge for electronic statements.
    d. There is a fee for a paper check (reimbursing enrollees for expenses). There is no charge for electronic fund transfers.

D. <u>The CDHP/HSA Process</u>

1. Employees will receive information from PEBB on the CDHP and all PEBB plan options via newsletters, PEBB website, messages provided by PEBB to employers for forwarding to their employees, etc.

2. If employees enroll in the CDHP, they'll receive materials from their chosen carrier (e.g., Group Health, Kaiser, UMP).
3. In addition, they will be enrolled in and receive info on the HSA and a medical debit card from Health Equity.
4. From that point on, their dealings and issues regarding the HSA will be between the employee and Health Equity.
5. Each month, when PEBB receives the premium payment from the employer, PEBB will deposit the HSA contribution noted above into the employee's HSA.
6. Once employer premium based dollars are deposited into the HSA, they belong to the employee and can only be retrieved if the employee was <u>never</u> eligible for the HSA. Connect with PEBB Outreach & Training if that situation arises.
7. Retroactive <u>enrollments</u> into the CDHP will be accepted in the same manner as other retro enrollments.

E. <u>What Employers Need To Do</u>

1. Refer employees with questions about the CDHP and the HSA to the resources provided by PEBB including the PEBB website (www.hca.wa.gov/pebb), Health Equity website ([www.Health Equity.com/pebb](www.HealthEquity.com/pebb)) and customer service line (1-877.873.8823), and the individual health plans. PEBB does <u>not</u> expect you to counsel your employees regarding their options or choices.
2. Given the IRS's ruling that premium based contributions deposited into the HSA are essentially irretrievable in the event of an erroneous deposit, once an eligible employee has enrolled in the CDHP with the HSA, it will be very important to stay current on keying or alerting PEBB Outreach & Training (if we key for you) of situations where an employee's contribution to the HSA should be reduced or discontinued (e.g., separations from employment, loss of benefit eligibility, all dependents are removed from the account). The critical date for keying or alerting PEBB is typically before the 23^{rd} of the month.
3. For employers that may have a medical FSA from a source other than PEBB (e.g., employer groups, K-12s, tribes), your employees will not be able to choose the CDHP/HSA unless the medical FSA can be made limited purpose (funds used only for vision and dental but not medical care). With that in place, employees can choose the CDHP/HSA.
4. For employers that make VEBA contributions to active employees, you will need to determine if the VEBA account can be made limited purpose. Employees who choose the CDHP will then be limited in their use of VEBA dollars to non-medical purposes (e.g., dental, vision).

F. <u>What Employers Do not Need To Do</u>

1. PEBB does not expect you to counsel your employees on their eligibility or their choices, including the CDHP, the HSA, or any other PEBB offering. We suggest you refer inquiring employees to the PEBB resources and their tax advisor or to Health Equity for help related to the HSA.

2. You won't need to do anything related to the premium based employer contribution to the HSA each month. Once you make your premium payments to HCA/PEBB, PEBB will pull funds from the premium payment to make the employer contribution to the HSA.
3. You won't need to do anything related to the management of your employees' HSA accounts. That is entirely the responsibility of the employee, with counsel and help from Health Equity. Refer employees with questions to Health Equity.

G. <u>Discretionary Payroll Deductions to the HSA</u>

1. Federal rules allow for HSA enrollees to make additional discretionary contributions to their HSA up to the maximum contribution levels. They may do so in at least two ways: 1) payroll deductions if you as their employer choose to make payroll deductions available and 2) personal deposits of funds (e.g., via electronic transfer or personal checks sent to Health Equity).
2. Employers have the option to set-up the mechanisms for payroll deductions to HSAs.

   Employers may determine how often an employee may change their payroll deduction amount. However, per IRS regulations, employers must allow employees to change their contribution at least monthly (12 times per year). Employers may allow employees to change more frequently than monthly, if requested. Changes must be prospective and made before the employee's salary is available. *Exception: The effective date for newly eligible employees is the same day as benefits begin when the form is received within 31 days of the date of eligibility.*

   The following is employer specific information:

   a. <u>State Agencies</u> - DES has the capacity within HRMS for employees of state agencies to make discretionary payroll deductions for their HSA. DES will allow unlimited changes to the amount of the discretionary deduction, recognizing that the only applicable request will be the one which exists at the time payroll is completed. State agencies may be more restrictive on how often you will accept changes, but must allow changes at least once per month. DES will process HSA payroll deductions as pre-tax unless requested otherwise. HCA has developed a form which may be used to request deductions or may be used as a template by state agencies (see the Forms page of either the PEBB website [www.hca.wa.gov/pebb] or the Perspay website [www.hca.wa.gov.perspay] under "Miscellaneous").
   b. <u>Higher Education Institutions</u> have made their decisions regarding offering HSA payroll deductions.
   c. <u>Employer Groups:</u>
      - If you wish to make payroll deductions available to your employees, you as the employer must be capable of making an Electronic Fund Transfer (EFT) using routing information and member account numbers provided by PEBB. Without that, payroll deductions to the HSA cannot occur (remember, the employee may still make their own direct deposits post-tax directly to Health Equity).
      - Contact PEBB/HCA through the Fuze email system. Identify your employees (name, SSN) who have enrolled in a CDHP/HSA and ask for their employee HSA account

number. PEBB will provide you the routing number (which gets the funds routed to Health Equity) and the employee's HSA account number. Turnaround time for this request will probably be a day or two but may take longer. Note that you can initiate this payroll deduction option any time during the year.

- There is no charge to employers for setting up these accounts.

3. The PEBB and Health Equity websites will include information for employees on making discretionary payroll deductions for their HSA.
4. PEBB has a form (Employee Authorization for Payroll Deduction to Health Savings Account) which you may incorporate into your process (e.g., use the form, use parts, use none). It is available in the Forms section of the Perspay website (www.hca.wa.gov/perspay).
5. Funds from discretionary payroll deductions for the HSA are transferred by DES for state employees to Health Equity. Higher Education Institutions and Employer Groups may transfer funds via EFT or wire. Contact Andy Wimmer at 801-727-1091 or awimmer@Health Equity.com for details.
6. Employees may make direct HSA contributions on-line through the Health Equity website. The employee must submit an EFT agreement with Health Equity to allow the contribution to be taken from the employee's bank account.
7. The reconciliation of discretionary deposits is between you, the employer, and Health Equity. They will provide guidance.
8. Errors in employee discretionary payroll deductions into the HSA can be corrected by adjusting future discretionary payroll deductions.
9. Discretionary payroll deductions for the HSA must be discontinued once an employee is no longer enrolled in the CDHP.
10. If an employer develops the mechanisms for payroll deductions to the HSA, both the employer and employee benefit from the reduction in gross pay (i.e., reduced SS, Medicare, and federal income tax). If the employee makes a direct, post-tax contribution, only the employee benefits and the tax savings are limited to federal income tax. Note – the HSA contribution that is made by PEBB from the employer's premium payment does not impact employer or employee taxes.