

# Employer Guide to the PEBB CDHP/HSA

## A. Background

1. Kaiser Permanente WA, Kaiser Permanente NW and UMP provide Consumer Directed Health Plans (CDHP).
2. CDHPs are available to employees of all PEBB affiliated employers (state agencies, higher education institutions, counties, municipalities, political subdivisions, tribal governments, K-12 school districts, educational service districts, and charter schools).
3. All CDHPs come with a Health Savings Account (HSA). You can't have one without the other.

## B. CDHP Basics

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 all other employers – you set the amount of the employee contribution for your employees for all PEBB plans.
3. The HSA is a resource to help CDHP subscribers pay for medical expenses.
4. Employees must meet certain eligibility requirements to enroll in a CDHP/HSA. If they are not eligible for a CDHP/HSA and still enroll, they may be liable for tax penalties.
5. Employees are not eligible to enroll in a CDHP with an HSA if they are:
  - Enrolled in Medicare Part A or Part B or Medicaid (called Apple Health in Washington State).
  - Enrolled in another comprehensive medical plan – for example, on a spouse's or state-registered domestic partner's plan.
  - Enrolled in a Medical Flexible Spending Arrangement (FSA) or Health Reimbursement Arrangement (HRA). This also applies if their spouse has a Medical FSA, even if they are not covering their spouse on their CDHP. This does not apply if the Medical FSA or HRA is a limited purpose account, or for a post deductible Medical FSA.
  - Claimed as a tax dependent on someone else's tax return;
  - Enrolled in Tricare;
  - Other exclusions may apply. Check IRS *Publication 969—Health Savings Accounts and Other Tax-Favored Health Plans* at [www.irs.gov](http://www.irs.gov), contact your tax advisor, or call [HealthEquity](http://HealthEquity) toll-free at 1-877-873-8823 to verify whether you qualify.
  - See [The Complete HSA Guidebook](#) for full details.
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:
  - <https://www.hca.wa.gov/public-employee-benefits/employees/medical-plans-and-benefits>;
  - The HSA vendor's website [www.HealthEquity.com/pebb](http://www.HealthEquity.com/pebb);

- The individual health plan's website via <https://www.hca.wa.gov/public-employee-benefits/employees/contact-plans>.

### **C. HSA Basics**

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 an employer contribution 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, any employee discretionary contributions and the wellness incentive, if earned. The IRS annual limits can be found at the PEBB website: <https://www.hca.wa.gov/public-employee-benefits/employees/medical-plans-and-benefits>.
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/public-employee-benefits/smarthealth-wellness](http://www.hca.wa.gov/public-employee-benefits/smarthealth-wellness).
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 both Kaiser WA and Kaiser NW, as well as 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:

- Monthly maintenance fee is paid by HCA/PEBB for CDHP enrollees.
- There is monthly maintenance fee of \$3.95 for individuals who are no longer CDHP enrollees, but only if the HSA balance drops below \$2,500.
- There is a per month fee of \$1.00 for a paper statement. There is no charge for electronic statements.
- There is a fee for a paper check (reimbursing enrollees for expenses) of \$2.00. There is no charge for electronic fund transfers.

#### **D. The CDHP/HSA Process**

1. Each month, when PEBB receives the premium payment from the employer, PEBB will deposit the HSA contribution noted above into the employee's HSA.
2. Once employer premium based dollars are deposited into the HSA, they belong to the employee and can only be retrieved if the employee was never eligible for the HSA. Connect with PEBB Outreach & Training if that situation arises.
3. Retroactive enrollments into the CDHP will be accepted in the same manner as other retro enrollments.

#### **E. What Employers Need To Do**

1. Refer employees with questions about the CDHP and the HSA to the resources provided by PEBB including the PEBB website (<https://www.hca.wa.gov/public-employee-benefits/employees/medical-plans-and-benefits>), Health Equity website ([www.HealthEquity.com/pebb](http://www.HealthEquity.com/pebb)) and customer service line (1-877-873-8823), and the individual health plans. PEBB does not 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<sup>rd</sup> 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 that are enrolled in your medical FSA will not be eligible to enroll in a 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. What Employers Do *not* Need To Do**

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. Discretionary Payroll Deductions to the HSA**

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 HSA's.

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. State Agencies – HRMS has the capacity for discretionary payroll deduction for employees of state agencies. Unlimited changes to the amount of the discretionary deduction are allowable, 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. HSA payroll deductions will be processed through HRMS as pre-tax unless requested otherwise.
- b. Higher Education Institutions have made their decisions regarding offering HSA payroll deductions.
- c. Employer Groups:
  - 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. 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. It is available in the [Forms](#) section of the Perspay website ([www.hca.wa.gov/perspay](http://www.hca.wa.gov/perspay)).
  5. Funds from discretionary payroll deductions for the HSA are transferred by HRMS for state employees to Health Equity. Higher Education Institutions and Employer Groups may transfer funds via EFT or wire. Contact Kim Cardwell at 801-727-1062 or [kcardwell@HealthEquity.com](mailto:kcardwell@HealthEquity.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.