Lively

HSA Guide

The Value of a Health Savings Account

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Introduction

Did you know that the average couple retiring today is estimated to spend $285,000 on healthcare in retirement? With healthcare costs at an all-time high and steadily increasing, saving for expenses today and the costs of tomorrow becomes a delicate balancing act.

Enter the Health Savings Account (HSA). With its unparalleled triple tax advantages, an HSA is one of the smartest and most efficient ways to manage today's and tomorrow'shealthcare costs.

HSA Overview

What is a Health Savings Account?

An HSA or Health Savings Account is a personal savings account for health expenses. In more technical terms, an HSA is an interest bearing health account that can be used for health-related expenses with contributions limits set annually by the IRS.

HSAs are owned by individuals (not employers) and can be transferred from job to job or institution to institution, similar to a 401k or IRA. Contributions are 100% tax deductible (until you reach the federal limit) and HSAs have triple tax advantages (tax-deductible contributions, tax-free interest and tax-free withdrawals for medical expenses).

An HSA is not a healthcare plan, but can (and should) be used in conjunction with all high-deductible healthcare plans (HDHP) in the US.

Fully Portable

The HSA account is fully portable between employers; the individual owns the account.

Carry-Over

All unused amounts carry over year-to-year.

Interest Accrual

Interest may accrue depending upon the custodian and the type of deposit account.

Other Fund Usage

Funds can be used for ineligible expenses, but are subject to a 20% penalty unless after account beneficiary's death, disability or reaching age 65.

No Adjudication

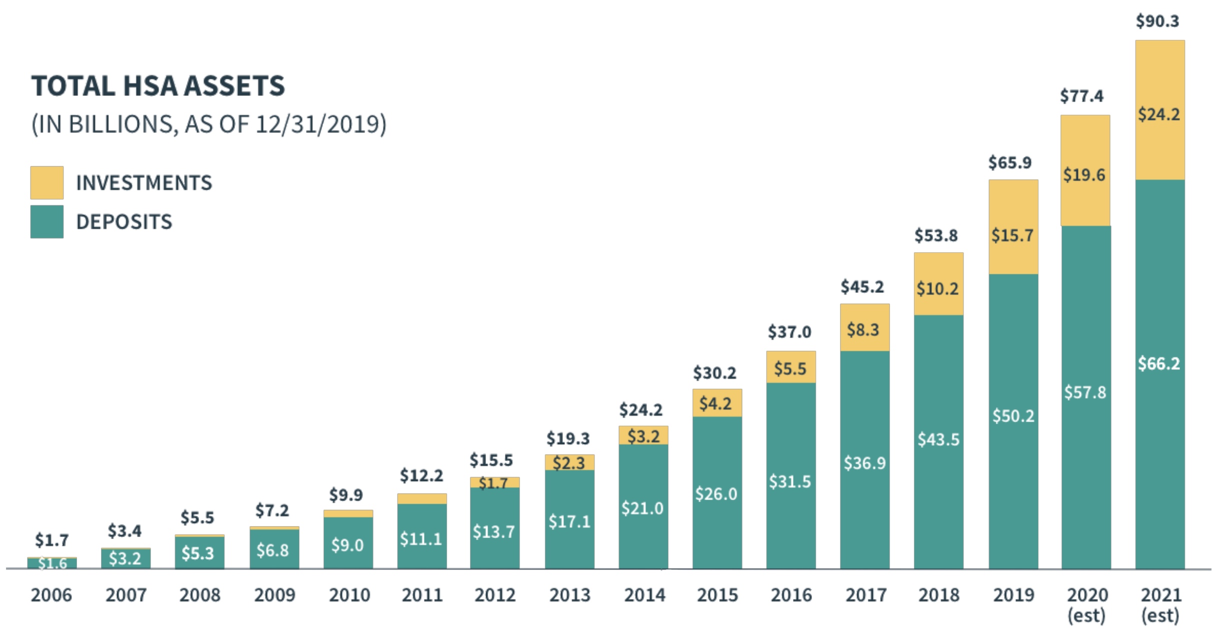
Claims do not need adjudication.

> "HSAs are like a 401(k) for your health, but better."

What Percentage of Employers Offer an HSA?

Between 2018 and 2019, HSAs grew 13% resulting in over 28 million total accounts and $66 billion in total assets.This growth is primarily based on the rise of High-Deductible Healthcare Plans (HDHP), which now accounts for 29% of all employer-sponsored health plans.

HSA Growth



The number of employees enrolled in HDHPs has increased by 20% in the last two years. We expect these trends will accelerate over the next several years as costs continue to rise, and with them, HSAs.

How Do HSAs Play a Role in Your Conversation with Clients?

Wouldn't it be great if you could expand your benefits offering with employers, simplify the value proposition, and get paid to do so? HSAs provide a clear path to success with all those boxes checked. On top of that, they are one of the only benefits that last for longer than one year from the plan start date. Employees can use HSAs and add to their value for years to come.

Engage your clients to help enhance their benefits offering with an HSA. Lively makes all this easy with transparent pricing, revenue sharing, and the modern benefits experience you (and your clients) expect.

HSA Eligibility Requirements

2020

Is My Health Plan HSA-Eligible?

The value of HSA savings and spending is clear. However, the rules that govern HSAs can be confusing. To take advantage of these opportunities, employees must be eligible to set up a health savings account.

Health Plan Requirements for HSA Eligibility

1. In 2020, the health insurance plan must have an annual minimum deductible of $1,400 for individuals and $2,800 for families.

2. In 2020, the yearly out-of-pocket maximum can't be more than $6,900 for individuals and $13,800 for families. This definition only applies to in-network services. The minimum annual deductible and maximum out-of-pocket amounts are indexed by the Internal Revenue Services (IRS) annually for inflation and are subject to change.

3. The health insurance plan must be structured so that the individual or family pays the initial costs of healthcare (including prescriptions) up to the deductible before any insurance payments kick in. Preventative care is excluded from this definition.

4. Family coverage is defined by having an insurance policy that covers the insured and at least one other person.

For an HDHP to qualify as HSA-eligible in 2020 it must:

For an individual
Have a deductible of at least $1,400 and yearly out-of-pocket expenses of no more than $6,900.

For a family
Have a deductible of at least $2,800 and yearly out-of-pocket expenses of no more than $13,800.

Out-of-network services don't apply to the annual out-of-pocket maximum.

A plan which meets all of these requirements is known as a qualified High-Deductible Health Plan. You may often see it referred to as an HDHP.

Employee Requirements for HSA Eligibility

1. Before employees can open an HSA, they must be covered by a qualifying High-Deductible Health Plan.

2. Employees cannot concurrently enrol in any other non-HSA qualified health insurance plan.

3. Employees can't have or use a general-purpose Flexible Spending Account (FSA). However, they are allowed to have a limited-purpose FSA for dental, vision, and/or dependent care if their HDHP doesn't cover those services.

4. Employees cannot be claimed as a dependent on someone else's tax return.

5. Employees cannot enroll in Medicare (Part A and Part B) or Medicaid.

How an HSA Works

Health Savings Account contributions limits are set by the IRS each year. In 2020, enrollees can contribute up to $3,550 for individuals and $7,100 for families. Account holders can use an HSA to pay for any qualified medical related expenses and unlike an FSA, there is no "use it or lose it" policy. All remaining funds are maintained in their account to pay for medical expenses next year or in the years to come.

Also, all HSA contributions are eligible for personal use (non-health-related expenses) after they turn 65 years old. After 65, an individual or family normally pays regular income taxes for any non-medical expenses. If funds are used before age 65, the HSA operates like a 401(k) – ordinary income taxes and a penalty are due. An HSA is a great way to save for health expenses and retirement.

2020 Contribution Limits

For an individual
$3,550

For a family
$7,1000

55+ (Catch Up Contributions)
+1,000

If an employee makes a change to their healthcare coverage, and are no longer enrolled in a high-deductible health plan, they forfeit their HSA eligibility. Understanding these HSA-eligibility requirements will ensure that employees stay IRS-compliant and are able to take advantage of the extensive list of HSA benefits.

HSA Employer and Employee Benefits

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To create the most attractive health plan for employees and to maximize the impact and ROI of employee benefits, we suggest offering a balanced health plan mix, robust HSA contributions, and a proactive education and communications plan within a multi-year roll-out strategy.

Employer Benefits

The one-size-fits-all benefits strategy has long since been replaced. Employees expect benefits that are tailored to their personalized needs and within their financial limits. And employers are pigeonholed with the requirement of offering more benefits at lower costs. Employers are faced with the difficulty of increased benefits costs. On top of that, managing more benefits providers increases time commitments and payroll complexity.

As the cost of benefits increases each year (you already know this, but it is essential to call out), employers are faced with what may seem like an impossible challenge—better benefits at lower costs. This balance can be outlined with these mandatory requirements:

1. Benefits must improve employees productivity or create a financial safety net.

2. New benefits must be low-cost.

3. Unique benefits must integrate with existing systems.

These requirements ensure employers and employees increase productivity, at low costs, and keep from avoiding a new time suck.

Tax-Free Money

Paying for healthcare costs with an HSA means saving 25%* off the retail cost—magical words: triple-tax benefits. HSAs allow for tax-deductible contributions, tax-free growth through investments & interest, and tax-free withdrawals (for medical expenses), which means tax-free money from an HSA can be used to pay for health expenses.

Save For Today and Tomorrow

The flexibility of a Health Savings Account is multifaceted. Unlike an FSA, there is no "use it or lose it" policy so funds added today can be used for years to come. To that point, an HSA is owned by the account holder and can be taken with them if they leave their current employer and roll it over into a new account, just like a 401(k). Most importantly, they are creating a long-term savings account to pay for health expenses throughout their life. Even with Medicare, average healthcare expenses for couples in retirement are expected to exceed $285,000. Having an HSA will help mitigate these healthcare costs.

Who is an HSA right for?

HSA Value for Young Individuals

Younger individuals commonly have lower healthcare utilization and costs than other individuals. Using an HSA coupled with an HSA-eligible health plan is a great healthcare strategy to save both employers and employees money. Enrollees can also save money tax-free for expected health costs in the years to come.

HSA Value for the Growing Family

There is no question, income allocation and savings get harder as dependents are added to a household. Little Johnny might not understand the value of an HSA today, but he'll be wowed by the family's HSA balance in the years to come. HSAs provide an excellent opportunity to pay for unexpected health costs, even if contributions are needed after the fact. Remember, once an HSA is established, tax-free dollars can be used to pay for medical bills and other qualified out-of-pocket medical expenses, even if those contributions are added after the qualifying event.

HSA Value for Retirees

Retirement is full of wonder, leisure, and relaxation, but it's also filled with health costs. Retirement healthcare costs are expected to exceed $285,000 for couples – on top of Medicare. Maxing out an HSA prior to retirement (with an HSA-eligible plan), is the only way to save tax-free money and pay for qualified medical expenses tax-free. Any outstanding HSA funds not used for medical costs, after 65 years of age, can be used for anything, just like an IRA or 401(k).

What to Look for in an HSA Provider

What to Look for in an HSA Provider

Not all HSAs are created equally, and it shows by how well account holders utilize their benefits. A modern HSA needs to minimize an employer's administrative tasks and maximize employee engagement and savings.

Cost-Reducing Benefits Strategies

Rising healthcare costs are likely a significant influence in the movement from higher coverage healthcare plans to HSA-eligible plans. These cost-reducing benefits strategies are essential to balance the benefits costs for employers. By adding an HSA, employers can extend their benefits offering, while keeping their cost-reducing plan in place. On top of that, they are creating a benefit offering that employees can use for years to come. Helping employers understand they can lower benefits costs and expand offerings through this unique opportunity can further your engagement opportunities and sales offering. It’s truly a win-win for everyone involved.

Employer Contribution Strategy

Employer cost savings that result from the selection of an HDHP vs. PPO or HMO can be transferred (fully or partially) to employer HSA contributions. This is one of the only ways employers can add long-term savings value to an employee’s healthcare. While healthcare plans are limited to annual selection, HSAs go with employees from job-to-job,year-over- year. Like a 401(k), employees can use an HSA as a savings vehicle over their lifetime and build a health savings nest-egg for retirement. Helping employers understand this long-term value can help rebalance short versus. longer-term benefits offerings.

Payroll Integration

Adding new partners seems to always mean more work. We took this to heart and built our HSA platform to work with various online payroll providers. This makes the onboarding and management process seamless.

HSA Education

While HSAs aren't new to the market, the transition from traditional health plans to HDHPs, or how to combine an HDHP with an HSA is new to many employers and employees. Assisting them in understanding eligibility, contributions, and tax requirements should be part of the sales and engagement process.

Features like HSA investments enhance the opportunity to increase health savings, but may also increase the offering's complexity, requiring added education and greater understanding. These features can dramatically alter how employers and employees perceive the value of an HSA and their overall benefits selection.

Partner With Lively to Help CDHPs Succeed

To make the transition to a Consumer-Driven Health Plan smooth and effective for employers and employees, it's imperative to partner with a dependable and innovative provider.

Here are a few ways Lively stands apart from traditional providers:

1. **User-centric design:** Lively's dashboards and mobile apps provide an intuitive and modern experience that makes it simple for employees to manage their HSAs, even while on the go. And employers can quickly review actions and notifications at-a-glance.
2. **Engaging, ongoing education:** From informative email newsletters and seasonal communications, to on-demand resources and useful online tools, Lively makes sure employers and employees are always up-to-date.
3. **Unparalleled customer service:** Employees will benefit from access to the knowledgeable and responsive Lively support team. And each employer is assigned a dedicated customer success manager to guide them through onboarding, and serve as a valuable resource during the year.
4. **Scalable, proprietary technology:** Lively's industry-leading technology is not white-labeled and seamlessly integrates with payroll systems and benefits administration platforms in a fraction of the standard time. And all for one single fee, with zero hidden costs.

About Lively, Inc.

Lively is a modern Health Savings Account (HSA) platform for employers and individuals, built by pioneers of the HSA industry with decades of health, benefits, financial, and insurance industry.

Lively's top-rated, user-centric solution creates an intuitive user experience allowing consumers to get the most out of their HSA. Lively HSAs work alongside HSA-compatible plans to make healthcare easier for everyone. Lively's mission is simple: Inspire people to confidently embrace a healthy future.

Lively is headquartered in San Francisco, CA.
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