2022

An Overview of how HDHP and HSA's Work

COUNTY OF JACKSON, MICHIGAN
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What's Inside

Have questions? Contact the HR Benefits team!

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Consumer Driven Health Plan (CDHP)

A CDHP pairs a lower premium High Deductible Health Plan (HDHP) with a tax-free Health Savings Account (HSA) to reimburse you for current and future medical expenses such as deductible and coinsurance.

"Qualified" High Deductible Health Plan: IRS sets rules

- Minimum deductibles and out-of-pockets maximums determined annually
- Deductible first, then all services subject to medical plan payment—full family deductible
- Mandated cost-free preventive care not subject to deductible

Health Savings Account: IRS sets rules

- Individual and family maximums determined annually
- Employee-owned, tax-free, interest-bearing account
- Employee decides on contributions
- Pays for qualified medical expenses for self, spouse, and qualified tax-dependents
- Employee recordkeeping: account holder must report HSA account activity on your tax return, including contributions and distributions
- Portable from employer to employer
- Balance rolls over from year to year
- Possible long-term savings

Health plan

High Deductible Health Plan (HDHP)

In order for a medical plan to be “qualified”, it must meet certain minimum deductible requirements and certain maximum out-of-pocket requirements for in-network providers.

2022	IRS Minimum	IRS Maximum Out-of-Pocket
Individual	$1,400	$7,500
Family	$2,800	$14,100

Even with a higher deductible, the plan still provides full services, including routine medical, mental health, substance abuse and prescription drug benefit coverage. This plan has some other distinguishing key features:

- You pay the full cost for all medical services and prescriptions until you have satisfied your annual deductible.
    - The only exception is preventive care services, which are covered in-network at 100% (not subject to deductible).
- Once you have met your annual deductible, the plan will begin in sharing the cost of services (called coinsurance) and you will be responsible for your portion of the cost share and the applicable copayment for your prescription drugs. Once you have met your annual out-of-pocket maximum, the plan will pay for eligible expenses at 100% of eligible charges, including prescriptions, for the remainder of the year.
- By qualifying as a HDHP, it provides access to a Health Savings Account (HSA) that can help pay for medical expenses.

Still have questions about Qualified Medical Plans?

Watch this short video to learn more!

Please remember that your savings account may have a different interest earning level. Please check with your bank for interest and fee details.

For Jackson County’s specific medical plan details, please review the *2022 Benefits Guide*.

Health Savings Accounts (HSA)

A Health Savings Account (HSA) is like a 401(k) for healthcare. It is a tax-advantaged personal savings or investment account that you can use to save and pay for qualified healthcare expenses, now or in the future. Paired with a qualified high deductible health plan (HDHP), an HSA is a powerful financial tool that empowers consumers to be more actively involved in their healthcare decisions.

However, unlike other financial savings vehicles (Roth IRA, Traditional IRA, 401K, etc.), an HSA has the unique potential to offer triple tax savings through:

- Pre-tax or tax-deductible contributions to the HSA
- Tax-free interest or investment earnings
- Tax-free distributions, when used for qualified medical expenses

Tax-free withdrawals can be made to pay for qualified healthcare expenses incurred by you, your spouse, children and other tax dependents.

HSAs are portable, which means that you keep your HSA and can take it with you if you ever leave the County. Also, since the account is owned by you, there is no “use-it-or-lose-it” provision, like with a Flexible Spending Account (FSA). Instead, unused contributions roll over each year, with interest and/or investment earnings compounding on a tax-free basis, like an IRA or 401(k). HSAs offer the potential for long-term, tax-free savings that can be used for future healthcare expenses, such as Medicare premiums and certain long-term care insurance.

Here is a quick video explaining this type of account.

Please remember that your savings account may have a different interest earning level. Please check with your bank for interest and fee details.

Employees can contribute to the HSA up to the annual IRS maximum.

2022 IRS Limits are $3,650 Single / $7,300 Family

For those aged 55 or older—you are able to contribute an additional $1,000 known as a catch-up contribution.

HSA Principles

- You must be enrolled in our qualified HDHP to open or contribute to a Health Savings Account (HSA).
- The money in your HSA is yours.
- You are in charge of your HSA funds, making you and your doctor the decision makers.
- There is no time limit as to when you can reimburse yourself for your healthcare expenses; you just need to keep legible receipts and records in case you are audited.
- You can choose to spend your HSA funds as qualified medical expenses are incurred or save your HSA funds for retirement. After age 65 (or if you’re disabled), funds can be withdrawn for non-qualified expenses without being subject to the 20% penalty, however it would be considered taxable income.
- IRS Publication 502 provides a list of most allowable HSA expenditures.
- A partial list of allowable (tax-free) and non allowable (not tax-free) expenditures from your HSA have been included in this guide.

Eligibility Rules

- You must be in an HSA-qualified high deductible health plan. Our High Deductible Health Plan option is a qualified plan.
- You cannot be covered by any other health insurance that reimburses you for health expenses you incur, unless it is another HSA-qualified HDHP. If a family has all its members covered under two HSA-qualified HDHPs, or some family members are on one qualified plan and the other family members are under another qualified plan, the maximum annual contribution to the account remains in force. Just because you have coverage with two HSA-qualified HDHPs does not mean you can double your HSA contribution.
- For those covered by two HSA-qualified HDHPs, it is a violation of the coordination of benefit rules to be paid by each plan for the same expense.
- Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) may make you ineligible for an HSA unless they are: (1) "limited purpose" (limited to dental, vision, child care, or preventive care) or (2) "post-deductible" (pay for medical expenses after the plan deductible is met). HRAs that set aside money only for retiree health expenses are also acceptable as are ones that are suspended.
- If you are enrolled in Medicare or Medicaid, you cannot open, nor contribution, to an HSA.
- Tricare (military healthcare) does not currently offer an HSA-qualified HDHP. Therefore, if you are on Tricare, you cannot have an HSA.
- You may not contribute to an HSA if you have used your Veterans Administration benefits in the last three months.
- If you are Medicare eligible and are not enrolled in Medicare, you can open or contribute to an HSA if you have an HSA-qualified HDHP.
- You cannot establish separate HSA accounts for your minor dependent children.
- You do not have to have earned income from employment to have an HSA.
- Unlike an IRA, there are no income limits to having an HSA.
- You do not have to itemize your deductions on your federal income taxes to deduct your contributions to an HSA.
- You can open an HSA and also have specific disease or illness, accident, disability, dental, vision, and long-term care insurance, and be enrolled in Employee Assistance, disease management, drug discount, and wellness programs.

Contribution Rules

- You must have an HSA-qualified plan to open or contribute to an HSA. Our High Deductible Health Plan option is qualified. If you no longer have an HSA-qualified HDHP, you cannot contribute anymore, but you can maintain and spend the funds in your account.
- The maximum annual contributions for 2022 are $3,650 for single coverage and $7,300 for family coverage.
- As long as you are enrolled in an HSA-qualified plan for the last full month of the year, you can make a full HSA contribution for that year, but you must remain enrolled in an eligible plan for the entire following calendar year.
- Individuals 55 and older can make additional "catch-up" contributions of $1,000 annually until they enroll in Medicare. If you did not have HDHP coverage for the full year, you must pro-rate your "catch-up" contribution.
- If you have a family plan with multiple deductibles, you cannot deposit more into the HSA than the maximum amount allowed for family coverage. For example, a family of two with a $4,000 per person deductible cannot deposit $8,000 into their 2022 family HSA; rather, the maximum contribution is $7,300.
- If you become covered by a HDHP in a month later than January, you can make full contributions for the preceding months up to January. If, however, you fall out of qualifying insurance coverage (for reasons other than death or disability), all the months of HSA contributions for which you are not eligible are includible in your gross income and you face a 10% additional tax.
- You can deposit funds into your HSA in a lump sum or in any amounts or frequency you wish.
- If you have contributed an amount into your HSA which exceeds your maximum allowable deposit, you may withdraw the excess amount and any earnings on the excess amount prior to the tax filing deadline, typically April 15, of the following year without paying a tax penalty. However, you must pay income tax on your excess contributions and income tax on any earnings of the excess contribution.

Spending Rules

- There is a wide range of allowable tax-free HSA expenditures, including vision and dental expenses, and, for example, braces for your children. A description of eligible HSA expenditures can be found at www.irs.gov. Enter “Publication 502” into the search field.
- If a distribution from your HSA is used for purposes other than a qualified medical expense, then the amount withdrawn is subject to both income tax and a 20% penalty, unless the person who makes such a withdrawal from their HSA is over the age of 65. If that person is over the age of 65 then only normal income tax would apply.
- Withdrawals that were made for what the HSA owner thought were qualified medical expenses, but turned out not to be, can be returned prior to the tax filing deadline, typically April 15, of the year following, if there is clear and convincing evidence that the expenditure was a mistake of fact.
- Other qualified expenses from an HSA include out-of-pocket healthcare expenses while enrolled in Medicare (including Medicare premiums, deductibles, coinsurance and co-pays but not “Medigap”), employee share of health insurance premiums for employer-based coverage (for employees over age 65 only), premiums for COBRA continuation health insurance coverage from a former employer, premiums for qualified long-term care insurance coverage subject to the age limits in the Internal Revenue Code, and medical services provided in other countries.
- Long-Term Care Insurance is a qualified medical expense if the policy meets these criteria:
    - is guaranteed renewable
    - not provided for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed
    - restricts refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract, must be used only to reduce future premiums or increase future benefits
    - generally does not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.
- Everyone with an HSA must keep their receipts showing their expenditures. There are two key reasons to do this: (1) if you exceed your deductible, you may need the receipts to send to your insurer, and (2) in case you are audited by the IRS, you need to explain your HSA expenditures.
- You may use funds from your HSA to reimburse expenses from a previous year, but only if you had an HSA at the time the expenses were incurred and were enrolled in a qualified HDHP plan.
- HSA funds cannot be used to pay for health insurance premiums unless the individual is receiving federal or state unemployment benefits.

Non-Allowable HSA Expenses

Advance Payment for Future Medical Expenses
Automobile Insurance Premium
Boarding School Fees
Commuting Expenses for the Disabled
Cosmetics and Hygiene Products
Diaper Service
Electrolysis or Hair Removal
Hair Transplant
Household Help
Illegally Procured Drugs
Medigap Premiums
Premiums for Life or Disability Insurance
Premiums for your HSA-qualified health plan
Swimming Lessons
Travel for General Health Improvement
Athletic Club Membership
Babysitting (for healthy children)
Bottled Water
Controlled Substances
Dancing Lessons
Domestic Help
Funeral Expenses
Health Programs at Resorts, Health Clubs, & Gyms
Illegal Operations and Treatments
Maternity Clothes
Nutritional Supplements
Premiums for Accident Insurance
Scientology Counseling
Teeth Whitening
Tuition in a Particular School for Problem Children

Allowable HSA Expenses

The list below shows some commonly allowed HSA expenses. This is not all inclusive. For a complete list, please visit www.irs.gov. Enter “Publication 502” into the Search field.

Acupuncture	Alcoholism Treatment	Ambulance
Artificial Limb	Artificial Teeth	Bandages
Prescription Birth Control	Breast Reconstruction Surgery	Car Special Hand Controls
Certain Capital Expenses (for the disabled)	Chiropractors	Christian Science Practitioners
COBRA Premiums	Contact Lenses	Cosmetic Surgery (trauma or disease)
Crutches	Dental Treatment	Dermatologist
Diagnostic Devices	Disabled Dependent Care Expenses	Drug Addiction Treatment (inpatient)
Drugs (prescription)	Eyeglasses	Fertility Enhancement
Guide Dog	Gynecologist	Health Institute (prescribed)
H.M.O. (certain expenses)	Hearing Aids	Home Care
Hospital Services	Laboratory Fees	Lasik Surgery
Lead-Based Paint Removal	Learning Disability Fees	Legal Fees (if for mental illness)
Life-Care Fees	Lodging (for out-patient treatment)	Long-Term Care (medical expenses)
Long-Term Care Insurance (To limit)	Meals (associated with receiving treatments)	Med Conferences (ill spouse/dependent)
Medicare Premiums	Medicare Deductibles	Nursing Care
Mentally Retarded (specialized homes)	Obstetrician	Nursing Homes
Operations - Surgical	Operating Room Costs	Optician
Ophthalmologist	Organ Transplant (including donor	Optometrist
Orthopedic Shoes	Orthodonture	Osteopath
Orthopedist	Over-the-Counter Medicines (if prescribed)	Medicare Out-of-pocket expenses
Pediatrician	Oxygen and Equipment	Podiatrist
Personal Care Services (for chronically ill)	Prenatal Care	Post-Nasal Treatments
Prosthesis	Prescription Medicines	Psychiatric Care
PSA Test	Psychoanalysis	Psychiatrist
Psychologist	Psychoanalyst	Radium Treatment
Qualified Long-Term Care Services	Special Education for Ill/Disabled	Smoking Cessation Programs
Spinal Tests	Specialists	Sterilization
Splints	Telephones and Television for	Surgeon
Therapy	Transportation Expenses for Health	Vitamins (if prescribed)
Vaccines	Wheelchair	Weight Loss Programs
X-Rays	Wig (hair loss from disease)	