

HEALTH SAVINGS ACCOUNT (HSA)

If you elect coverage under the diocesan \$3500 or \$6350 deductible medical insurance, you have the option of participating in a diocesan-sponsored health savings account (HSA). The health savings account is basically a savings account that allows employees to pay medical expenses not covered by their insurance plan using tax-free dollars. The HSA is similar to the flexible spending account, but is superior in many ways.

You can only participate in an HSA if you are covered under the \$3500 or \$6360 deductible plan. You cannot participate in an HSA if you are covered under our \$500 deductible plan. If you have family members who have health insurance elsewhere, the HSA cannot be used to cover their expenses unless they are covered under an HSA-compliant health plan.

Both the employer and the employee can contribute money to the HSA. Employer contributions to the HSA are tax-free for the employee; check with your employer to see if they provide contributions for employees who elect to participate in an HSA. Employees can contribute money through pretax payroll deductions. There is a maximum amount that can be contributed into an HSA each year; for information on the limits, see the benefits administrator at your parish.

The money in the HSA can be used to pay any medical or dental bills not covered by the employee's insurance. The employee will pay the bill, and will then receive reimbursement from the HSA if there is money available in the account. As long as the money in the account is used to pay for eligible expenses, it remains tax-free. The money can be taken out and used for other purposes, but there is a penalty for doing so, and the money also becomes taxable at that point.

The HSA does not have a use-it-or-lose-it rule. At the end of the year, if you have money remaining in the HSA, that money carries over and will be available to pay expenses in future years.

The money in the HSA grows on a tax-free basis. The interest rate varies from 2% to 5.2%, depending on how much is in your account. When you have \$1000 in your account, you have the option of investing the money in mutual funds; there is a charge of \$18 a year if you choose this option.

The HSA is administered by MII Life, which is a subsidiary of Blue Cross Blue Shield of Minnesota. There is a crossover provision in the plan; once Blue Cross has finished processing a claim, they will automatically forward the claim to the HSA for processing. That means the employee won't have to fill out claim forms unless requesting reimbursement for something outside the medical insurance (such as a dental bill).

The HSA belongs to the employee, not the diocese. When you leave employment, the HSA goes with you. When you retire, you will still have the HSA to cover medical expenses. The HSA can also be used as an IRA. If you are married, the HSA will transfer to your spouse when the employee dies.

If an employee participates in an HSA and a flexible savings account (FSA), then the FSA must be a limited FSA. Keep this in mind if you are enrolled in an FSA through your spouse.

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