

AUGUST 05, 2024

SSG COMPLIANCE ADVISOR

What every HR leader should know about compliance.



Open Enrollment 2025 – Health Savings Accounts (HSAs)

Employers who sponsor high deductible health plans (HDHPs) that are compatible with health savings accounts (HSAs) should prepare for open enrollment by:

- Ensuring that employees understand how HSAs work, including the benefits of opening an HSA; and
- Updating their HDHP's design and communicating any plan changes to employees.

There are many advantages to selecting an HDHP/HSA option at open enrollment time—for example, HSAs have three levels of tax savings and HDHPs typically have lower monthly premiums. However, many employees may not be aware of these advantages or understand how the HSA rules apply to them. Employers should help their employees understand key HSA features during the open enrollment process.

In addition, to be compatible with HSAs, HDHPs must comply with IRS limits regarding the plan's annual deductible and out-of-pocket maximum. The IRS adjusts these limits for inflation each year. Employers should review their plan limits to make sure they comply with the limits for the plan year beginning on or after Jan. 1, 2025.

LINKS AND RESOURCES

- [IRS Publication 969](#), Health Savings Accounts and Other Tax-favored Health Plans
- [IRS Revenue Procedure 2024-25](#), which includes the inflation-adjusted HSA limits for 2025

HSA Features

Employers with HSA-compatible HDHPs should help their employees make informed decisions at open enrollment time by explaining the:

- Key advantages of HSAs, including their powerful tax savings;
- Eligibility rules for making HSA contributions; and
- HSA contribution limits for 2025.

HDHP Plan Design

To prepare for open enrollment, employers with HDHPs should:

- Review their plan's deductible and out-of-pocket limits to ensure they comply with the IRS' limits for 2025;
- Confirm the plan will not pay benefits for telehealth before the annual minimum deductible has been met; and
- Communicate any plan changes to employees.



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Communicating HSA Rules to Employees

As part of the open enrollment process, employers that offer HSA-compatible HDHPs should help their employees understand the benefits of opening an HSA and making tax-free contributions. Employees may be confused about the rules surrounding HSAs and may not realize all the advantages associated with these accounts.

Strategic Services Group can provide sample resources for communicating the HSA rules to employees.

HSA Advantages

Open enrollment is an ideal time for employers to highlight to eligible employees the advantages of selecting an HDHP/HSA coverage option. These advantages include the following:

- **Lower premiums:** HDHPs typically have lower monthly premiums than health plans with lower deductibles, which makes them a cost-effective option for many employees. Employees who enroll in HDHPs can contribute to an HSA to help offset the higher deductible.
- **Tax savings:** HSAs have three levels of tax savings: (1) HSA contributions can be deducted from employee's pay on a pre-tax basis, which means they are not subject to federal income and employment taxes; (2) HSA funds grow tax-free; and (3) HSA withdrawals are nontaxable if they are used for qualified medical expenses.
- **Employee ownership:** HSAs provide more flexibility than other medical savings accounts because they are individually owned accounts. For example, employees keep their HSAs even if they switch jobs. Also, employees can continue to use their HSA money on a tax-free basis to pay for medical expenses even when they no longer meet the eligibility criteria for making HSA contributions.
- **Savings opportunity:** There is no deadline for employees to use their HSA money. Unused HSA funds roll over from year to year, allowing employees to save for future medical expenses.
- **Ease of use:** HSA funds can be used on a tax-free basis to pay for a broad range of medical expenses, including over-the-counter medicine and drugs. In addition to their own medical expenses, employees can use their HSAs to pay medical expenses incurred by their spouses and dependent children.
- **Open at any time:** During open enrollment, employers should encourage their HSA-eligible employees to set up an HSA if they have not done so already. However, an eligible employee can set up an HSA at any time, not just during open enrollment. Also, employees can generally elect to start making pre-tax contributions to their HSAs at any time during the plan year, even if they did not elect HSA contributions during open enrollment. This is an exception to the irrevocability (or "election lock") rule that applies to most other pre-tax benefits.

HSA Eligibility

Employers should help employees understand the eligibility rules for HSAs so they can make an informed decision about their health coverage during open enrollment. There are strict rules for HSA eligibility that employees should consider before electing coverage under an HDHP and setting up an HSA. To be eligible for an HSA, an employee must:

- Be covered by an HDHP;
- Not be covered by other health coverage that is not an HDHP, including coverage under a traditional health flexible spending account (FSA) or health reimbursement arrangement (HRA), with certain limited exceptions;
- Not be enrolled in Medicare; and
- Not be eligible to be claimed as a dependent on another person's tax return.



HSA Contribution Limits

At open enrollment time, employers should communicate the HSA contribution limits to employees. These limits are adjusted for inflation each year and vary based on whether an employee has self-only or family coverage under an HDHP. Self-only HDHP coverage is HDHP coverage for only one HSA-eligible individual. Family HDHP coverage is HDHP coverage for one HSA-eligible individual and at least one other individual (regardless of whether the other individual is HSA-eligible).

Effective Jan. 1, 2025, the annual HSA contribution limits are:

- **\$4,300 for individuals with self-only HDHP coverage; and**
- **\$8,550 for individuals with family HDHP coverage.**

In addition, individuals who are age 55 or older by the end of the year are permitted to make additional HSA contributions, called “catch-up contributions.” The maximum annual catch-up contribution is \$1,000. The catch-up contribution limit is not adjusted for inflation, which means it remains the same year after year.

In general, all HSA contributions made by or on behalf of an HSA-eligible individual are aggregated for purposes of applying the maximum contribution limit.

Type of Limit		2024	2025	Change
HSA Contribution Limit	Self-only	\$4,150	\$4,300	↑ \$150
	Family	\$8,300	\$8,550	↑ \$250
HSA Catch-up Contributions <i>(not subject to adjustment for inflation)</i>	Age 55 or older	\$1,000	\$1,000	No change
HDHP Minimum Deductible	Self-only	\$1,600	\$1,650	↑ \$50
	Family	\$3,200	\$3,300	↑ \$100
HDHP Maximum Out-of-Pocket Expense Limit <i>(deductibles, copayments and other amounts, but not premiums)</i>	Self-only	\$8,050	\$8,300	↑ \$250
	Family	\$16,100	\$16,600	↑ \$500



Updating HDHP Plan Design

To prepare for open enrollment, employers should update their HDHP’s design to ensure it complies with the IRS’ adjusted cost-sharing limits for 2025. Employers should also be aware that certain coverage options for telehealth and COVID-19 testing and treatment are not available for the 2025 plan year. Any changes to the plan design should be communicated to plan participants through an updated summary plan description (SPD) or summary of material modifications (SMM).

Cost-sharing Limits

Employers must confirm that their HDHP’s cost-sharing limits comply with the IRS’ adjusted limits for 2025. These limits include a minimum deductible and an out-of-pocket maximum and are effective for plan years beginning on or after Jan. 1, 2025. The following table contains the HDHP limits for 2025 compared to 2024.

Type of Limit		2024	2025	Change
HDHP Minimum Deductible	Self-only	\$1,600	\$1,650	↑ \$50
	Family	\$3,200	\$3,300	↑ \$100
HDHP Max Out-of-Pocket Expense Limit <i>(deductibles, copayments and other amounts, but not premiums)</i>	Self-only	\$8,050	\$8,300	↑ \$250
	Family	\$16,100	\$16,600	↑ \$500

Expiration of Design Options

To be eligible for HSA contributions for a month, an individual must be covered under an HDHP as of the first day of the month and have no other impermissible coverage. In general, except for preventive care benefits, no benefits can be paid by an HDHP until the minimum annual deductible has been satisfied. However, there are a few narrow exceptions to the minimum deductible requirement, including the following exceptions that are expiring:

- For plan years ending after Dec. 31, 2024, an HDHP is no longer permitted to provide benefits for **COVID-19 testing and treatment** without a deductible (or with a deductible below the minimum deductible for an HDHP); and
- For plan years beginning on or after Jan. 1, 2025, an HDHP is no longer permitted to provide benefits for **telehealth or other remote care services** before plan deductibles have been met.

Due to these changes, employers with HDHPs should take these steps for plan years beginning in 2025:

- ✓ Confirm that HDHPs will not pay benefits for COVID-19 testing and treatment before the annual minimum deductible has been met;
- ✓ Confirm that HDHPs will not pay benefits for telehealth or other remote care services (except for preventive care benefits) before the annual minimum deductible has been met; and
- ✓ Notify plan participants of any changes for the 2025 plan year regarding COVID-19 testing and treatment and telehealth services through an updated SPD or SMM.

