Open Enrollment 2024 – 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, 2024.

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.

Wits Financial 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, 2024, the annual HSA contribution limits are:

- **$4,150** for individuals with self-only HDHP coverage; and
- **$8,300** 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.

Updating HDHP Plan Design

To prepare for open enrollment, employers should update their HDHP's design to ensure that it complies with the IRS' adjusted cost-sharing limits for 2024. Employers should also review their coverage options for telehealth and COVID-19 vaccines, testing and treatment. Any changes to the plan design should be communicated to employees at open enrollment time.

Cost-sharing Limits

Employers must confirm that their HDHP's cost-sharing limits comply with the IRS' adjusted limits for 2024. These limits include a minimum deductible and an out-of-pocket maximum and are effective for plan years beginning on or after Jan. 1, 2024. The following chart shows these cost-sharing limits for 2024 as compared to 2023.

Type of Limit		2024	2023	Change
HDHP Minimum Deductibles	Self-only Family	$1,600 $3,200	$1,500 $3,000	Up $100 Up $200
HDHP Maximum Out-of-Pocket Expense Limits (deductibles, copayments and other amounts, but not premiums)	Self-only Family	$8,050 $16,100	$7,500 $15,000	Up $550 Up $1,100

HDHP Design Option – Telehealth

At the beginning of the COVID-19 pandemic, Congress temporarily relaxed the rules for HDHPs to allow them to provide benefits for telehealth or other remote care services before plan deductibles were met without jeopardizing HSA eligibility. This relief has been repeatedly extended and currently applies for **plan years beginning before Jan. 1, 2025**. This means that HDHPs may waive the deductible for any telehealth services for plan years beginning in 2024 without causing participants to lose HSA eligibility. This provision is optional; HDHPs can continue to choose to apply any telehealth services toward the deductible.

To prepare for open enrollment, employers should determine whether their HDHP will waive the deductible for telehealth services for the plan year beginning in 2024. Any changes for the upcoming year should be communicated to plan participants through an updated summary plan description (SPD) or a summary of material modifications (SMM).

Coverage for COVID-19 Vaccines, Testing and Treatment

Because the COVID-19 public health emergency has ended, health plans are no longer required to cover COVID-19 diagnostic tests and related services without cost sharing or other medical management requirements. Non-grandfathered health plans are still required to cover recommended preventive services, including COVID-19 immunizations, without cost sharing, but this coverage requirement can now be limited to in-network providers.

Also, for **plan years ending after Dec. 31, 2024**, an HSA-compatible 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). As such, employers should take these steps:

- Determine whether an HDHP will make any changes to its COVID-19-related benefits for the upcoming plan year, such as imposing cost-sharing requirements, prior authorization or other medical management requirements on COVID-19 testing;
- Confirm that HDHPs that do not have a calendar year as the plan year will not pay benefits for COVID-19 testing and treatment before the annual minimum deductible has been met for plan years ending after Dec. 31, 2024; and
- Notify plan participants of any changes for the 2024 plan year through an updated SPD or SMM.

LINKS AND RESOURCES

- IRS Revenue Procedure 2023-23, which includes the inflation-adjusted HSA limits for 2024
- IRS Notice 2023-37, which addresses HDHP coverage of COVID-19 testing and treatment

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