Employer Compliance Resource: Health Savings Account (HSA) Requirements

*Presented by **IBT Consulting – Innovative Benefits***

What Is an HSA?

A **Health Savings Account (HSA)** is a tax-advantaged savings account that allows eligible individuals to save and pay for qualified medical expenses.

HSAs are governed primarily by the **Internal Revenue Code (IRC §223)** and are often paired with **High Deductible Health Plans (HDHPs)**.

While HSAs are individually owned by employees, **employers have specific compliance responsibilities** when offering or contributing to an HSA-compatible benefit structure.

Why HSA Compliance Matters for Employers

Employers that offer an HSA-compatible plan—or contribute to employee HSAs—must ensure:

- The underlying medical plan qualifies as an **HSA-eligible HDHP**
- Employees meet **eligibility rules** before contributions are made
- Employer contributions comply with **tax and nondiscrimination requirements**
- Payroll deductions and reporting are handled correctly

Improper setup or administration can result in **loss of HSA eligibility, taxable contributions, and employee dissatisfaction**.

What Makes a Health Plan HSA-Eligible

To be HSA-compatible, a medical plan must:

- Meet IRS-defined **minimum deductible** requirements
- Not exceed IRS-defined **maximum out-of-pocket limits**
- Provide **no first-dollar coverage** for non-preventive services

Certain benefits, such as preventive care, are permitted without affecting HSA eligibility.

Employers must confirm plan design annually, as IRS thresholds **change each year**.

Employee Eligibility Requirements

An individual may contribute to an HSA only if they:

- Are enrolled in a qualified **HDHP**
- Are **not enrolled** in other disqualifying coverage
- Are **not enrolled in Medicare**
- Are **not claimed as a dependent** on another person's tax return

Employer contributions made for ineligible individuals may become **taxable and subject to penalties**.

Employer Contribution Rules

Employers may choose to contribute to employee HSAs, but must comply with:

- **Annual contribution limits** set by the IRS
- **Comparability rules** (for employer contributions outside a cafeteria plan)
- **Section 125 rules** if contributions are made through payroll

Improper contribution structures can trigger **excise taxes or corrective filing requirements**.

Payroll, Reporting, and Tax Considerations

Employers are responsible for:

- Correct payroll handling of pre-tax HSA contributions
- Proper reporting of employer HSA contributions on **Form W-2**
- Coordinating contributions with eligibility and plan enrollment

While HSA custodians handle account administration, **employers remain responsible for payroll and plan coordination accuracy**.

Common Employer Compliance Pitfalls

- Assuming all HDHPs are automatically HSA-eligible
- Allowing HSA contributions while an employee is enrolled in a general-purpose FSA or HRA
- Failing to stop contributions when employees enroll in Medicare
- Misapplying employer contribution comparability rules

These issues are often discovered **after the fact**, requiring corrections.

Documented Regulatory Sources

Employers may reference the following authoritative sources:

- **Internal Revenue Code §223 – Health Savings Accounts**
  https://www.law.cornell.edu/uscode/text/26/223
- **IRS – Health Savings Accounts Overview**
  https://www.irs.gov/publications/p969
- **IRS – HSA Contribution Limits & Eligibility**
  https://www.irs.gov/taxtopics/tc451

These sources establish eligibility, contribution, and tax treatment requirements.

How IBT Consulting Supports Employers

IBT Consulting supports employers by:

- Verifying HSA-compatible plan design
- Reviewing eligibility and contribution structure
- Aligning HSAs with Section 125, ERISA, and payroll compliance
- Supporting coordination with HSA custodians
- Helping employers proactively reduce compliance risk

Our role is to help employers **structure HSAs correctly from the start and maintain ongoing compliance**.

Final Thoughts for Employers

HSAs can be a powerful benefit tool—but only when properly designed and administered.

Clear documentation, eligibility coordination, and payroll accuracy are essential to protecting both employers and employees.

Contact IBT Consulting

IBT Consulting – Innovative Benefits
Trusted advisor to employers navigating benefits, compliance, and fiduciary responsibility.

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