

HEALTH SAVINGS ACCOUNTS & EMPLOYERS: A QUICK GUIDE

The following information provides a general overview of Health Savings Accounts and is intended for educational purposes only. Before implementing an HSA program for your employees, it is recommended that you consult with your tax professional.

What is a Health Savings Account (HSA)?

HSAs are tax-advantaged accounts for individuals with qualifying high-deductible health plans (HDHP) in which you and your employees place funds for partial coverage of their eligible health care needs.

Employees can place their own money into their HSA as part of their pretax payroll deductions or through transfers and deposits. Your business can offer matching funds to do the same for business payroll tax reductions.

The HSA's funds are available at all times for your employees to keep growing or to spend on their health care costs. An employee's HSA is theirs to keep, and accumulated funds roll over year after year with interest accumulation. Your employees also keep the account and all funds that it contains if they switch to another job.

Many financial experts tout HSAs as a smart way for employees to save for medical expenses, even in retirement, citing their triple tax benefits:

- Contributions are made pretax.
- The money in the account grows tax free.
- Withdrawals for qualified medical expenses are tax free.

Why Employers Offer HSAs to their Employees

HSAs for employee health coverage are rising in popularity. The key pros for employers offering HSAs to their employees include:

- **Tax benefits.** Any funds up to the legal limit that you contribute toward an employee's HSA can be deducted from your payroll taxes, which means a lower overall tax burden for your business. A federal tax deduction is also available for businesses that fund HSAs for their employees.
- **Transfer of health care responsibility.** By offering your employees an HSA, you're also giving them partial responsibility in paying for and handling their health care costs. You may still need to contribute agreed-upon tax-deductible funds to



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Top Reasons Why Employers Offer HSAs to Their Employees

- Tax benefits
- Employees take more responsibility for their health care
- Serves as a hiring incentive
- Transfers if your health care plans change
- To remain competitive

the account, along with what your employees contribute, but other administrative aspects are removed from your hands.

- **Hiring incentive.** Many potential employees like the idea of having an HSA and the autonomy it provides and working with businesses that offer matching funds programs. This can make working for you especially attractive to them.
- **Easy to transfer.** HSAs can be easily transferred; in case you decide to change your health care benefits provider or insurance plan.
- **Market competitiveness.** As an employer, you don't have a legal obligation to contribute to your employees' HSA. However, if you're offering them as a competitive salary package benefit of working with your company, you'll probably want to contribute.

Educating Employees About HSAs

Employers often promote HSAs and encourage employees to boost their contributions during open enrollment. However, it is a good idea for Human Resources and benefits leaders to start that conversation in April or May when the IRS releases its HSA limits.

For employers looking for ways to capture their employees' attention on the advantages of HSAs, this is "good news" to use to help promote healthy behavior and engagement with their employees. This can also be a good time to help employees better understand their healthcare spending and impact HSAs can have on their long-term retirement preparation.

First National Bank values its partnerships with employers who make contributions to their employees' HSAs opened at the bank. Our team works with employers and employees to set up the account and explain how contributions can be made and automated.

Are all my employees eligible for an HSA?

While HSAs are highly flexible and open to many current or potential employees, not everyone is eligible to have one. To be eligible, the employee must be enrolled in a High Deductible Healthcare Plan (HDHP).

For 2025, a high-deductible health plan means:

- It has an annual deductible of at least \$1,650 for self-only coverage and \$3,300 for family coverage.
- Its out-of-pocket maximum does not exceed \$8,550 for self-only coverage and \$16,600 for family coverage.

For 2026, a high-deductible health plan must have a deductible of at least \$1,700 for self-only coverage, or \$3,400 for family coverage. Annual out-of-pocket expense maximums (deductibles, co-payments, and other amounts, but not premiums) cannot exceed \$8,750 for self-only coverage or \$17,000 for family coverage.

According to the IRS, an employee can open and contribute to an HSA if they:

- Are covered under a qualifying high-deductible health plan which meets the minimum deductible and the maximum out-of-pocket threshold for the year.
- Are not covered by any other medical plan, such as a spouse's plan.
- Are not enrolled in Medicare.
- Are not enrolled in TRICARE or TRICARE for Life.
- Are not claimed as a dependent on someone else's tax return.
- Have not used Veterans Administration medical benefits in the past three months (exceptions apply to veterans enrolled in a high-deductible health plan who either have a service-connected disability or have only accessed disregarded coverage and preventive services in the past three months).
- Do not have any disqualifying alternative medical savings accounts, like a Flexible Spending Account or Health Reimbursement Account.

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Health savings accounts are becoming more and more popular with employers.

The main reason is the **cost savings**.

Health care costs continue to rise and as a result, so do the costs of health plans.



HOW EMPLOYERS CAN CONTRIBUTE FUNDS TO AN HSA

All employer contributions to employee HSAs are made on a “pre-tax” basis. Employers may make pre-tax contributions to their employees’ HSAs either through a Section 125 Plan or through direct contribution. Deposited funds belong to the employee. The combination of employer and employee contributions cannot exceed the IRS annual limits.

Direct Employer Contributions (outside a Section 125 Plan)

- Employer contributions can generally be excluded from federal income tax, Social Security tax, Medicare tax, federal unemployment taxes (FUTA), and state unemployment taxes.
- Employers must make “comparable” contributions to their employees’ HSAs, on behalf of all eligible employees, to be tax-deductible as an employee benefit. To be considered “comparable,” the IRS requires that the amount be either an equal dollar amount or percentage of the deductible for the high deductible health plan. Employers are allowed to treat different categories of employees differently for the purposes of contributions. Those categories include:
 - Full-time versus part-time
 - Self only, self plus one, self plus two, or self plus three or more
 - HSA-eligible versus non-eligible

An exception to the comparability rules allows employers to contribute more to the HSAs of non-highly compensated individuals. For this purpose, the definition of “highly compensated employee” is based on the same definition used for qualified retirement plans.

Failure to comply with these rules may result in a 35 percent penalty, so employers are encouraged to consult their tax adviser or legal counsel to make sure they comply with these rules.

- Employers are not allowed to take an additional deduction for the payroll taxes (Social Security tax, Medicare tax and FUTA) associated with employee “post-tax” contributions.

Employer Contributions through a Section 125 Plan

Employers may choose to make contributions to their employees’ HSAs as part of a Section 125 Plan (also known as a “cafeteria plan” or a “salary reduction plan”).

Employers gain greater savings by allowing their employees to contribute on a “pre-tax” basis to their own HSA via payroll deduction.

Employer and employee contributions may be combined and forwarded directly to the savings institution.

- Employer contributions can generally be excluded from federal income tax, Social Security tax, Medicare tax FUTA, and state unemployment taxes.
- Employers also derive HSA tax benefits by not paying Social Security tax, Medicare tax, and FUTA on their employees’ contributions. These tax savings are only achievable through the Section 125 Plan.
- Employers contributing through a Section 125 Plan are not subject to the comparability rules described previously, but are subject to a different set of rules that require the employer to ensure the contributions do not favor highly compensated employees. If an employer chooses to offer “Matching Contributions,” it must be done through a Section 125 Plan.

HSA Contribution Limits

Every year, the Internal Revenue Service (IRS) sets the maximum that can be contributed to an HSA. The amount the employer and employee combined can contribute to an HSA is determined by whether the employee is enrolled in a self-only (single) plan or family coverage (family plan). You can review IRS Publication 969 each year to determine the current limit.

For 2025, the limit is \$4,300 from both the employee and the employer for employees enrolled in a single plan. For employees who have dependents on their insurance plan, the contribution is \$8,550. Employees age 55 or older have an additional \$1,000 “catch-up” contribution.

Annual contribution limits for 2026 are increasing. The HSA contribution limits for self-only coverage is \$4,400 and \$8,750 for family coverage. Those 55 and older can contribute an additional \$1,000 as a catch-up contribution.

The maximum annual contribution to an HSA is the sum of the limits determined separately for each month, based on status, eligibility, and health plan coverage as of the first day of the month.

All HSA contributions made by or on behalf of an eligible individual are aggregated for purposes of applying the limit. The same annual contribution limit applies whether an employee, an employer, a self-employed person or a family member makes the contributions. (Family members may make contributions to an HSA on behalf of another family member as long as that other family member is an eligible individual.)

Contributions may be made by or on behalf of eligible individuals even if the individuals have no compensation or if the contributions exceed their compensation.

For an individual with more than one HSA, the aggregate annual contributions to all HSAs are subject to the same limits.

What Are the Most Common Approaches to Employer Contributions?

Employers have the choice between up-front lump-sum contributions or flat contributions. With an up-front

lump sum contribution, employees benefit by having immediate access to funds early in the year to cover high expenses.

For employers choosing the up-front lump-sum contribution, their concern is with company cash flow and the loss of employees who may quit their jobs early in the year.

Employers choosing to make flat contributions are finding this option to be more beneficial as they can manage their cash flow. This option also puts the contributions on the level of being earned each pay period. Instead of employees having access to a lump sum immediately, the contribution is per pay period.

Employees faced with high expenses early in the year may need to pay those expenses with personal funding or negotiate payment terms.

A hybrid approach to contributions allows employers to deposit a portion of the contribution — around 40 to 50 percent — in a lump sum at the beginning of the year. The remaining percentage of the contribution is deposited in installments throughout the rest of the year.

By using the combination of up-front lump sum and flat contributions, the employer is providing the employee with funds in case they are needed at the beginning of the year. For the employee to have access to the remaining funds being contributed through the rest of the year, the employee must continue his or her employment. This serves as a safety feature for employers.

An employer may also choose to make contributions at set periods throughout the year. In some cases, an employer may split the contributions into quarterly or semiannual deposits. This approach serves two purposes. First, it minimizes the number of deposits an employer makes, and second, it protects an employer from employees who take the lump-sum contribution and quit their jobs.

What Documentation Is Needed for Pre-Tax Contributions?

An employer should have information providing the details of the HSA contribution program included in their employment documentation for employees. This information should include:

- A thorough explanation of how employer and employee contributions are made using Section 125. This information should be available if the program is being allowed by the employer.
- Information on the requirements to be eligible to contribute and participate in the program.
- The total amount an employer may contribute to the program.
- Information on how much an employee can contribute.
- An explanation for employees regarding any changes in timing or restrictions to the options they've elected for their plan.
- Employer contributions and pretax deductions from employee payroll deposits to Section 125 HSA plans are reported by both employees and employers on their respective W-2 filings each year.

Rollovers

Rollover contributions from other HSAs into an HSA are permitted at any time. A rollover from an HSA to another HSA of the same participant must be completed within 60 days after the day on which the participant receives the payment or distribution, and only one rollover from an HSA to another HSA is allowed within a one-year period ending on the day of such receipt.

A taxpayer may make one tax-free rollover from a traditional or ROTH IRA to an HSA. The rollover contribution from an IRA may not exceed the taxpayer's maximum contribution for the year and is also not subject to the 10% early distribution penalty tax. The rollover must be made directly to the HSA by the IRA trustee.

Making HSA Contributions to Employee Accounts Opened at First National Bank

Opening an HSA is basically the same as opening any other bank account, except for the additional rules around its management. Employees can open an account through First National Bank, or they can use an institution with

which their employer already has a working relationship. Once an employee picks an institution and opens their HSA, they can deposit their own contributions into it and withdraw funds for eligible health expenses as needed. Your business can add your matching funds to these same accounts.

First National Bank's HSA specialists can assist employees and employers in setting up HSAs.

**Call First National Bank's Customer Service Center at:
515-232-5561 or 641-342-6581
and ask to speak to an HSA specialist.**

Do my HSA contributions have to be the same each month?

Not necessarily. While you will be bound to abide by the HSA plan you've contractually agreed to with your employees, your monthly payments can be variable or delivered in decreasing monthly amounts. You can also pay in full or partially in lump sums. See the previous section regarding "common contribution approaches used by employers."

The information provided in this document is general in nature. It is not intended, nor should it be construed, as legal or tax advice. Because the administration of an HSA is a taxpayer responsibility, you are strongly encouraged to consult with your employer and tax advisor before opening an HSA.

You are also encouraged to review information available from the Internal Revenue Service (IRS) for taxpayers, which can be found on the IRS website at www.irs.gov. You can find IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans, and IRS Publication 502, Medical and Dental Expenses (including the Health Coverage Tax Credit), online, or you can call the IRS to request a copy of each at 800.829.3676.