

HSA & FSA Account Interaction

How does Health FSA participation affect HSA eligibility?

To be eligible to make or receive contributions to an HSA, an employee generally cannot have health coverage other than through an HSA-qualified HDHP or certain otherwise permitted insurance (e.g., preventive care, dental and vision). Put simply, this means that an HSA-eligible employee cannot be covered by any other health plan that provides coverage before he or she has met his or her HDHP minimum deductible.

Thus, traditional Health FSA coverage will prevent an employee from being eligible to contribute to an HSA. Additionally, employees are not HSA-eligible if they are also covered by their spouse's traditional Health FSA, because that Health FSA could reimburse the employee's medical expenses before the employee has met his or her HDHP deductible.

Employees may remain HSA-eligible if they participate in a Health FSA that is specially designed as a Limited-purpose Health FSA. A limited-purpose Health FSA reimburses only qualifying dental and vision expenses.

Does coverage under a Health FSA grace period impact HSA eligibility?

Yes. When an employee has a Health FSA balance at the end a plan year, coverage under the Health FSA's grace period will prevent the employee from being HSA-eligible until the first calendar month following the end of the grace period.

However, when employees have no balance at year-end (i.e., they exhausted their Health FSA funds during the plan year), the employees may disregard their grace period coverage and may become HSA eligible as of the start of the next plan year. Notably, this rule only applies to employees who had a \$0 balance, determined on a cash basis. Cash basis means the balance was actually \$0 as of the last day of the plan year. Therefore, employees who wish to disregard their grace period coverage should make sure all claims are submitted and settled to ensure their Health FSA balance is actually \$0 by the last day of the plan year.

How does a Health FSA carryover affect HSA eligibility?

When a cafeteria plan includes a carryover provision, and an employee carries over a Health FSA balance to the next plan year, the employee is unable contribute to an HSA during the next plan year. This is true even if the employee does not elect to participate in a Health FSA or exhausts his or her carry over balance in the next plan year.

To combat this issue, an employer may design its cafeteria plan to allow employees to decline or waive their carryover balances prior to the beginning of the next plan year to enable employees to become HSA-eligible.

Employers may also design their cafeteria plans to allow employees to, prior to the beginning of the next plan year, elect to convert their traditional Health FSA carry over into a limited-purpose Health FSA carry over. All such special provisions must be included in the employer's cafeteria plan document.

Can individuals receive distributions while simultaneously covered under a health plan that is not a HDHP?

Yes, coverage under a non-HDHP does not prevent eligibility for HSA distributions. Non-HDHP coverage only precludes employees from making or receiving HSA contributions.

Can an employee contribute to a HSA, and later in the same plan year contribute to a general purpose Health FSA?

An individual can contribute to an HSA and a general purpose Health FSA during the same year . . . just not at the same time.

An employee recently got married, terminated her HDHP mid-year, stopped contributions to her HSA and enrolled under her spouse's plan. Can the employee participate in the Health FSA mid-year due to this change in status event? If yes, what is the maximum amount that be contributed towards the Health FSA?

When an employee ceases HSA contributions because he or she is no longer in a HDHP due to a change in status event, the employee may enroll in a Health FSA as long as the election is prospective only (there is a limited exception to this rule for birth or adoption). In such a case, the employee may enroll and elect coverage pursuant to the plan's rules governing Health FSA elections. The plan may permit the employee to elect the annual Health FSA maximum – or provide that the maximum election amount be reduced on a pro-rata basis based on the number of months remaining in the plan year. It's important to always check a plan's rules on election changes, timing and election amounts to determine what is permissible under a particular plan.
