ARIZONA
DEPARTMENT OF ADMINISTRATION
HUMAN RESOURCES

BENEFIT SERVICES DIVISION
STATEWIDE POLICY

Policy Number: BSD	**Effective: January 1, 2021**
Title: Health Savings Account (HSA) Contribution Policy	**Revised:**
Policy Owner: Benefit Services Division (BSD)	**Last Reviewed:**

PURPOSE:
This policy describes who is eligible to receive contributions to a health savings account as an active employee and/or university employee.

SCOPE:
All State government entities that participate in the Arizona Department of Administration (ADOA) - administered employee health insurance benefit plans. For the purposes of this policy, "State Government Entity" includes agencies, authorities, boards, commissions, councils, departments, and offices of the State of Arizona; the Legislature and legislative agencies; Arizona State School for the Deaf and Blind; Board of Regents; and all departments and agencies of the State Supreme Court and the Court of Appeals.

AUTHORITY:
A.R.S. § 38-651, Expenditure of monies for health and accident insurance; definition
A.R.S. § 38-653, Rules and Regulations
A.R.S. § 20-191, Payment of premiums by mail; date of payment
A.A.C. R2-5A-C602(D)
A.A.C. R2-5A-D601(G)
A.A.C. R2-5A-D602(E)
A.A.C. R2-6-107
Family and Medical Leave Act (FMLA)
IRS Publication 969
Uniformed Services Employment and Reemployment Rights Act (USERRA)
Workers' Compensation Act
29 CFR 825.212, Employee Failure to Pay Health Plan Premium Payments
USA Patriot Act

In general, the following rules and regulations take precedence in the following order:

1. Federal Constitution, laws, rules and regulations;
2. State Constitution, statutes, laws, and Administrative Code;
3. The most recent Human Resources Division policy.

In all cases of conflict between an ADOA BSD policy and other laws, rules and regulations, contact your ADOA Benefit Services Division representative.

DEFINITIONS:

"**Benefit premiums**" means the amount the employee and/or agency is required to pay to purchase Health Plans coverage for the employee and qualifying dependents. Benefit premium costs are divided into two portions: the portion covered by the employee, which is usually deducted from the employee's paycheck through payroll deductions, which is referred to as the "employee premium"; and the portion covered by the agency which is referred to as the "employer premium".

Customer information Process-

"**Days**" means calendar days, unless otherwise specified.

"**Department**" means the Arizona Department of Administration.

"**Due Date**" means the date the Health Plan premiums must be paid to prevent benefits coverage from being terminated.

"**Health Plans**" means all medical, dental, life, vision, disability, medical, and/or dependent flex plans offered by the Arizona Department of Administration.

"**Over-Payment**" means payment in excess of the premium amount due to pay for Health Plan's coverage.

"**Partial-Payment**" means payment that is less than the full premium amount due to pay for Health Plan's coverage.

"**Retro-terminate**" means benefit coverage that is terminated back to the last day of the pay period for which benefit premiums were paid in full.

"**Scheduled Pay Date**" means the date all State employees receive their paycheck and pay benefit premiums for a particular two-week current coverage period.

POLICY:

When electing the High Deductible Health Plan, an employee may be eligible to receive contributions from the employer and/or contribute their own funds to a Health Savings Account (HSA). Contributions are automatically deducted every pay period during the biweekly payroll cycle on a pre-tax basis.

An HSA is a special type of personal savings account that allows individuals enrolled in a high deductible health plan (HDHP) to set aside money to pay for current health expenses and save for future qualified medical health expenses on a tax-free basis. Employees are responsible for managing the funds in their health savings account.

Eligibility to Contribute

Eligibility to contribute to an HSA is generally determined by whether the employee is enrolled in an eligible HDHP plan. If the employee is eligible for Medicare but is not enrolled in Medicare (Parts A, B, C, and/or D), the employee is eligible to contribute or receive contributions into their HSA. If the employee is eligible and enrolled in Medicare or Medicaid, they are not eligible to contribute into an HSA; however, the employee can still use the funds in the account. Medicare members are not eligible to contribute to an HSA account effective the month of Medicare entitlement (effective date of Medicare Parts A and/or B). Please refer to IRS Publication 969 for more information on HSA eligibility requirements.

Contribution Options

All contributions made to the Health Savings Account are subject to the annual maximum amount as determined by the IRS (see the chart below for 2021 contribution limits). Using the chart below the employee may calculate the amount of contributions they can elect using the following methods:

- Pre-tax Payroll deductions up to 26 pay periods annually
- Checks, or money orders, sent directly to the HSA Administrator (Optum Bank)
- Electronic funds transfer from personal bank account to the health savings account
- Rollover from IRA (one-time transfer from IRA up to permitted annual HSA contribution limit)
- Trustee to Trustee transfer from Archer MSA or other HSA

Please note that the IRS determines the limits that can be contributed into your HSA each year. The contribution limits shown in the chart below reflect the 2021 annual contribution amounts.

<table>
<tr><th colspan="4">HSA CONTRIBUTION</th></tr>
<tr><th>Coverage Type</th><th>State Contribution</th><th>Employee Annual Contribution Maximum</th><th>Annual IRS Contribution Maximum</th></tr>
<tr><td>Employee</td><td>$27.69 per pay period
Up to $719.94 annually*</td><td>$2,880.06</td><td>$3,600.00</td></tr>
<tr><td>Employee + Adult</td><td rowspan="3">$55.38 per pay period
Up to $1,439.88 annually*</td><td rowspan="3">$5,760.12</td><td rowspan="3">$7,200.00</td></tr>
<tr><td>Employee + Child</td></tr>
<tr><td>Family</td></tr>
</table>

*Subject to effective date of enrollment and remaining pay periods.

Additional Contribution

If the employee is an eligible individual who is age 55 or older, their total annual contribution limit may be increased by $1,000 as an additional “catch-up” contribution.

Excess Contribution

If the employee contributes more to the HSA than what they are allowed to contribute for the year (IRS Maximum), the employee has an excess contribution. The HSA Administrator will email or send a letter to the employee when contributions exceed the annual maximum. The employee should withdraw the excess contribution by filling out an Excess Contribution and Deposit Correction Request Form requesting funds be returned to the employer. The funds would then be returned to the employee as taxable income on their next paycheck. The employee is responsible for determining any possible tax implications if they do not withdraw the excess contribution and should consult with a tax advisor.

Customer Identification Process

The Health Savings Account Administrator is required to confirm some of the employee's personal information prior to opening and receiving contributions to the Health Savings Account. This includes their correct name, address, date of birth, and Social Security Number. It is a process known as the "Customer Identification Process" (CIP). In order to be eligible for contributions, employees need to pass the CIP and/or the non permitted coverage process. When the employee passes the CIP process, the account is opened and ready to accept contributions. The HSA Administrator will mail a welcome kit and debit card to the employee within 10 days.

If the HSA Administrator is unable to verify the employee personal information within one (1) day, the vendor will send a letter or email to the employee to explain the reason why CIP is failing and request additional information (see below for more information on the documentation that may be requested). If there is no response or if the employee is still failing CIP, a second notice will be sent to the employee after ten (10) days. If there is no response or if the employee is still failing CIP after the second notice, a third notice will be sent to the employee after fifteen (15) days by email only. If there is no response or if the employee is still failing CIP, a fourth notice will be sent to the employee after thirty (30) days by email only. A fifth and final notice will be sent to the employee after forty-five (45) days.

The HSA Administrator will provide ADOA with a report containing the information on the employee's failing CIP. ADOA will attempt to contact employees and their agency to assist with obtaining correct or missing information. The employee has seventy-five (75) days of initial enrollment to complete the request in order to open the HSA and have contributions deposited into an account.

If an employee does not pass CIP, the request to open an account will be cancelled and no contributions will be provided going forward. The previously sent employer and employee contributions are sent back from the HSA Administrator to ADOA. The employee will be refunded the employee contributions only via payroll, if applicable. The refunds may take up to two (2) payroll periods starting on day 75. If an individual is no longer employed with the State, a manual check will be issued. The employer contributions will be refunded back to the agency.

If, after 75 days, an employee wishes to set up their HSA, they must contact the HSA Administrator directly to restart the CIP process and open a health savings account. If an employee passes CIP, employer contributions will begin on the pay period following the vendor notifying ADOA that the employee has an active health savings account.

Common reasons that employees may not pass CIP:

- Addresses that do not match
- P.O. Boxes are not permitted
- Not legally changing their name after a marriage or divorce

- Use of a nickname
- Inconsistent use of middle initial
- Americanized version of name
- Different spelling of name

Additional documents that may be requested by the health savings account administrator:

- Photocopy of a valid photo identification card showing residence (driver's license, passport, state or government-issued photo ID)
- Photocopy of the employee's Social Security card
- If the employee's photo identification card does not list their current address, they need to also send a photocopy of a utility bill with name and current address.

Non-Permitted Coverage

If an employee has reached the age of 65, or if ADOA identifies that the employee is eligible to enroll in Medicare and is currently contributing or receiving a contribution from the State to their Health Savings Account (HSA), ADOA will contact the employee by mailing them a letter with a non-permitted coverage form and an HSA cancellation form. If the employee decides to continue with the contributions, there may be possible tax implications that may apply. The employee would be responsible for determining any possible tax implications and should consult with a tax advisor.

Employees are not eligible to contribute for the following non permitted coverage:

1. Employees and dependents (including spouses) enrolled in an HSA do not qualify for a traditional Medical Flexible Spending Account; instead they qualify for a Limited Flexible Spending Account. The only qualifying expenses for this Limited Flexible Spending Account are dental and vision care expenses.
2. The employee (or their spouse, if the spouse is on the employee's HDHP plan) cannot have a regular Flexible Spending Account or Health Reimbursement Account. If the employee or their spouse has one of these, the employee is not eligible to contribute to an HSA.
3. If the employee is enrolled in Medicare or Medicaid, they are not eligible for an HSA. If the employee had an HSA when they enrolled in Medicare or Medicaid, they can still use the funds. The employee cannot contribute to the account. Note: If the employee is eligible for Medicare but not yet enrolled, they can still contribute to the HSA.
4. If the employee is enrolled in Tricare, they are not eligible for an HSA (Tricare is health coverage for people in the military.) If the employee had an HSA when they started on Tricare, they can still use the funds, however, they can no longer contribute to the account.
5. If the employee receives care from the Veteran's Administration (VA), that may affect their HSA eligibility. Generally, when they receive VA care, they are not eligible for an HSA for the next three months. This means that they cannot contribute for the next three months after having VA care.

If an employee is identified as following non-permitted coverage, the employee will receive a letter from ADOA regarding the need to confirm the employee's validity or invalidity of non-permitted coverage . The employee needs to respond to the letter within 30 days to stop the contributions.

- If the employee responds and does not have the non-permitted coverage, the contributions will continue.

- If the employee responds and has one of the non-permitted coverages, the contributions will stop going forward. The employee must submit a Contribution Cancellation Request Form.
- If the employee does not respond within 30 days of the letter, the contributions will continue.

Supporting Documentation

Contribution Cancellation Request Form
Excess Contribution and Deposit Correction Request Form
Non Permitted Coverage Form