

Campus Signal:

A Practical Guide to Health Savings Accounts (HSAs)

Why HSAs Matter for Public Employers

Public sector employers are facing continued pressure from rising healthcare costs, tight operating budgets, and increased scrutiny over taxpayer dollars. Health Savings Accounts (HSAs), paired with High-Deductible Health Plans (HDHPs), offer a structured way to:

- Stabilize long-term healthcare costs
- Provide employees with meaningful tax advantages
- Reduce payroll tax liability
- Shift healthcare dollars into employee-owned accounts

For local governments, this approach can help protect instructional and public service budgets while still offering competitive benefits.

School systems may be limited in offering Health Savings Accounts (HSAs) depending on the health plans available through their State Health benefit programs, as an HSA can only be offered if the state program includes a qualifying High Deductible Health Plan (HDHP).

For example, in Georgia, employees enrolled in the UnitedHealthcare HDHP may contribute to an HSA, provided they are not also enrolled in a general-purpose Flexible Spending Account (FSA), which would make them ineligible.

School systems should ensure the HDHP meets federal HSA requirements, only eligible employees are permitted to contribute, and employees understand that enrolling in a general-purpose FSA will disqualify them from HSA eligibility.

What is an HSA

A Health Savings Account (HSA) is a tax advantaged account employees can use to pay for qualified medical expenses. HSAs through payroll deduction offer a triple tax advantage:

1. Contributions are tax-free
2. Investment earnings grow tax-free
3. Withdrawals for qualified medical expenses are tax-free

Unlike FSAs or HRAs, the HSA is owned by the employee. Funds:

- Never expire
- Roll over year to year
- Stay with the employee if they leave employment

For public employers, this reduces administrative burden and long-term liability.

Clear communication and proper enrollment controls are essential to avoid compliance issues and unintended tax consequences.



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HSA Eligibility: What Employers Must Know

An employee may only contribute to an HSA if they are enrolled in a qualified High-Deductible Health Plan (HDHP).

Employees Must Also:

- Be covered by a qualified HDHP
- Have no other disqualifying coverage
- Not be enrolled in Medicare
- Not be claimed as someone else's tax dependent

2025-2026 HDHP Requirements

| Requirement | 2025 | 2026 |
|-----------------------------|----------|----------|
| Minimum Deductible (Self) | \$1,650 | \$1,700 |
| Minimum Deductible (Family) | \$3,300 | \$3,400 |
| Max Out-of-Pocket (Self) | \$8,300 | \$8,500 |
| Max Out-of-Pocket (Family) | \$16,600 | \$17,000 |

Special Considerations in the Public Sector

Public employers often have unique employee populations that require attention:

- Medicare Enrollment: Many school systems and local governments have employees working past age 65.
 - An employee cannot contribute to an HSA once enrolled in Medicare.
 - Important: Medicare Part A can be retroactive for up to 6 months. Employees should stop HSA contributions for 6 months before applying for Medicare to avoid tax penalties.

Veterans, TRICARE, and IHS

Employees are generally not eligible to contribute to an HSA if they:

- Are covered by non-HDHP TRICARE coverage
- Have received non-preventive care from the VA or Indian Health Services within the past three months. (Preventive care does not impact HSA eligibility.)

HR should communicate this clearly but remember employees are responsible for their personal eligibility.

Avoiding Common Compliance Issues

Public employers must review their benefit offerings carefully.

Disqualifying Coverage Examples:

- General-purpose FSA
- Traditional HRA
- Non-HDHP secondary insurance
- TRICARE

Permissible Coverage:

- Limited-purpose FSA (dental/vision only)
- Post-deductible HRA
- Specific disease policies
- Premium-only reimbursement arrangements

If contributions are made through a Section 125 Cafeteria Plan (recommended), nondiscrimination rules apply.

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Important Compliance Rule: The 13-Month Test

If an employee becomes HSA-eligible by December 1 and contributes the full annual amount, they must remain eligible through December 31 of the following year. If they lose eligibility, the excess amount becomes taxable and subject to a 20% penalty. Enrollment materials should clearly explain this so HR administration is simplified.

Financial Impact for Public Employers

FICA Savings

When Employees contribute through payroll under section 125:

- Employers save 7.65% in FICA taxes
- Employees increase take-home pay
- For example, 400 employees contributing an average of \$2,500 annually results in over \$76,000 in payroll tax savings.
- These are real dollars that can be redirected to classrooms, public safety, or infrastructure.

Lower Premium Costs

HDHPs typically have lower premiums than traditional PPO plans. This helps:

- Reduce fixed benefit costs
- Stabilize multi-year budgeting
- Improve long-term financial forecasting

Reduced Administrative Burden

Unlike FSAs and HRAs:

- Employers do not verify medical claims
- No receipt substantiation is required
- Funds are managed by the employee

Implementation Checklist for Public Employers

1. Confirm HDHP plan design meets IRS thresholds
2. Review all benefit offerings for disqualifying coverage
3. Structure contributions through a Section 125 plan
4. Ensure nondiscrimination compliance
5. Update Summary Plan Descriptions
6. Educate employees on:
 - Medicare timing
 - Eligibility rules
 - The 13-month testing period

Contribution Limits

| Coverage Type | 2025 | 2026 |
|------------------|---------|---------|
| Self-only | \$4,300 | \$4,400 |
| Family | \$8,550 | \$8,750 |
| Age 55+ Catch-Up | \$1,000 | \$1,000 |

Key Takeaway for Government Leaders:

HSAs are not simply a consumer-driven trend. For school districts, cities, and counties, they represent:

- A budget stabilization tool
- A payroll tax savings strategy
- A reduced-liability benefits model
- A portable savings vehicle for employees

When implemented carefully, an HSA-HDHP strategy can protect public resources while empowering employees with greater financial control.

Conclusion: The Future of Health Benefit Strategy

The integration of HSAs and HDHPs is no longer an optional “extra,” it is the future of health benefit strategy. A successful implementation reduces organizational overhead, generates significant FICA savings, and provides employees with a sophisticated tool for long-term wealth building and healthcare literacy.



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COMPASS COMPANION

The following document is for your organization's administration to better understand the Compass Companion guide available for your organization's employees. *For Admin Use Only*

WHAT IS COMPASS

This Benefit Signals issue is paired with an employee-facing Campus Benefits Compass guide that translates this topic into clear, practical steps for staff. The Compass piece helps employees understand what to do, when to act, and which documents they need, reducing confusion and preventing avoidable errors. Districts and municipalities can distribute the Compass piece during onboarding, open enrollment, or whenever employees experience a related event.

HOW TO USE THIS COMPASS GUIDE

Step 1: Download the Compass companion piece separately

Step 2: Fill in your contact information so employees know who to reach out to with questions.

Step 3: Distribute the piece to your employees in whatever format works best for your organization.

- Share it with employees when they are experiencing a related event.
- Include it in onboarding packets for new hires to set expectations early.
- Use it as a consistent reference tool to ensure employees follow required steps and deadlines.

** If you would like a more customized piece tailored to your specific organization, please email together@campusbenefits.com.*

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