Adult Children to Age 26 & HSAs

Health Care Reform requires health plans to cover adult children to age 26. For plan years effective after 9/23/10, plans that cover dependent children must also provide coverage for adult children through age 26. However, this new rule does not allow out of pocket expenses for these adult children to be reimbursed out of HSAs.

This brings up a number of questions for HSAs. These talking points should help you when discussing the impact to HSAs. As we learn more information we will update this document.

Tax Dependent v. Non-Tax Dependent Child

If the adult child is not a tax-dependent for the member (parent/primary account holder) then the adult child would have to establish their own HSA.

- When the child is still a tax-dependent (up to age 19 or, if full-time student, age 24), then the child's out-of-pocket medical expenses can be paid with the primary account holder's HSA. In other words, the parent can use their own HSA to pay for the child's medical expenses.
- When the child is no longer a tax-dependent but on the parent's HDHP (through age 26), then the child's out-of-pocket medical expenses cannot be paid with the primary account holder's HSA. In other words, the adult child would set up their own HSA to pay for their own medical expenses.

Mistaken Distributions

Some employers have already made their health plan benefits available to adult children.

- Some primary account holders may have used their own HSAs to pay for the adult children's out-of-pocket medical expenses.
- These primary account holders can use the Mistaken Distribution Form to pay back their HSAs for any out-of-pocket medical expenses for their adult children.

Adult Child Setting Up their Own HSA

If an adult child opens their own HSA, he or she can contribute up to the full family amount.

- *Example 1*: Sue Jones has family HDHP through her employer. She covers herself, her husband Tom and now their 25 year old son Johnny. Sue has an HSA, to which she contributes the full family contribution amount ($6,150 for 2010). Johnny opened his own HSA and he can contribute up to the full family contribution amount to his HSA.
- *Example 2*: Hank and Nora Smith are covered under a family HDHP through Hank's employer. They each have an HSA. Between the two of them they contribute the full family contribution amount ($6,150 for 2010). They have been able to add their 22 year old daughter Jennie to the HDHP. Jennie is not a full-time student so she is no longer a tax dependent of her parents'. Therefore, Jennie opened her own HSA. Jennie is able to contribute up to the full family contribution amount to her HSA.

Setting Up an HSA for an Adult Child

A Plan Sponsor can choose to set up the adult children's HSAs as part of their HSA plan.

- If the Plan Sponsor chooses to do this, they would include enrollment records on the file for these adult children.
- If the Plan Sponsor chooses not to do this, the adult children would enroll through the Unaffiliated enrollment process.

Auto Debit

If the primary account holder has Auto Debit set up for the HDHP, and has added a non-tax dependent adult child to the plan, then they would have to turn off Auto Debit.

- This is similar to the rule for domestic partners. The primary account holder's HSA cannot pay for the adult child's out-of-pocket medical expenses so Auto Debit needs to be turn off to prevent this from happening.

Payroll Deductions

The primary account holder cannot use pre-tax salary reductions to contribute to the adult child's HSA.

- If the primary account holder wants to contribute to the adult child's HSA, they must do so with after-tax money.

Employer/Incentive Funding

If the Plan Sponsor provides employer or incentive funding to their employees' HSAs, they may wish to do the same for the adult children.

- The Plan Sponsor can do this through the bulk file process.
- If the Plan Sponsor enrolled the adult child through a file but will not provide any funding to the account, they need to plan accordingly to report correctly on the files.