Better Than a Raise!
Funding an Employee’s HSA

HSA-qualified plans tend to have a lower price point than a traditional PPO plan, giving an employer the opportunity to sink some money into their employees’ HSA accounts. There are two reasons that it makes more sense for an employer to deposit the premium savings into the employees’ HSAs than to pass on that savings in the form of a premium discount or a pay raise.

- The first is perception. As Steve Neeleman, founder and CEO of HealthEquity, explains, “a $50 per month – or $600 per year – HSA contribution is going to show up every pay period in the employees’ accounts and accumulate.

  • All an employee has to do to appreciate the employer’s ‘gift’ is to log on to their member site and see the monthly contributions. On the other hand, a $50 premium discount – or, in other words, $50 more cash from their employer every month – will soon be forgotten by the employees because their pay has been adjusted and it is buried in their EFT to their bank account...out of sight, out of mind.”

- The other reason an HSA contribution makes sense for both the employer and the employee is because $50 really means $50. Neeleman continues, “When an employer puts $50 in an employee’s account, the entire amount is passed on to the employee.

  • The employer does not pay FICA taxes, and the employee receives the $50 completely tax-free.

  • But when an employer gives the employee $50 more income per month, both the employer and the employee have to pay 7.65 percent FICA taxes on that $50 [reduced to 5.65% for employees in 2012].

  • So it actually costs the employer $53.83 to give the employee $50, and the employee’s fifty bucks quickly becomes $46.17.

  • Of course, that’s not all the employee has to pay – she also owes federal and state income tax. Using a cumulative figure of 20 percent (a pretty low tax rate), another $10 disappears, leaving the employee with only $36.17 extra per month, probably divided over a couple paychecks.” No wonder she forgets about it so quickly.

Source: BenefitsPro Five reasons to enroll in an HSA