

HSA Frequently Asked Questions

Overview

Q1. WHAT IS A HEALTH SAVINGS ACCOUNT (HSA)?

An HSA is a tax-exempt trust or custodial account established exclusively for the purpose of paying qualified medical expenses. HSA contributions are only permitted for individuals covered by a “qualified” high-deductible health plan (HDHP) and have no other disqualifying coverage. For example, if you are covered by your spouse’s non-HDHP in addition to your employer’s HDHP, the IRS will not allow you to establish and/or contribute to an HSA.

Q2. WHAT IS AN HSA-QUALIFIED HIGH DEDUCTIBLE HEALTH PLAN (HDHP)?

An HSA-qualified HDHP must be structured within the guidelines set by the IRS. These guidelines require that the deductible be no less than **\$1,350** for single coverage in 2018 (**\$2,700** for family coverage) and require that the maximum out-of-pocket expenses for single coverage (including the deductible) not exceed **\$6,650** (**\$13,300** for family coverage).

The plan will offer first-dollar coverage (no deductible) for many preventive care services. Preventive care services include: periodic health evaluations, such as annual physicals, routine prenatal and well-child care, child and adult immunizations and some prescription drugs.

All other services, including non-preventive prescription drugs, fall under the deductible. You must satisfy the deductible (by paying out-of-pocket or through your HSA) before the plan pays for your medical services and procedures. If you have one or more dependents on the plan, the statutory family deductible must be satisfied (**\$2,700** for 2018).

Q3. WILL THE HDHP WITH AN HSA IMPACT MY FLEXIBLE SPENDING ACCOUNT (FSA)?

Yes. If you elect to participate in the HDHP with an HSA, you are not able to participate in the full FSA plan for healthcare expenses offered by your employer. Your HSA can be used to pay for qualified health expenses as your FSA has done in the past. **If you have a spouse who participates in a full FSA through his/her own employer, this coverage may disqualify you from HSA eligibility.** Your employer may make an HSA-compatible limited FSA available.

Contributions

Q4. AM I ELIGIBLE FOR AN HSA?

To be an eligible individual and qualify for an HSA, you must meet the following requirements:

- You must be covered under an HDHP on the first day of the month
- You must not be covered by other impermissible health coverage (e.g., a non-qualified medical plan, a spouse’s full FSA)
- You are not enrolled in Medicare
- You are not claimed as a dependent on someone else’s tax return

Q5. I AM ELIGIBLE FOR BENEFITS THROUGH THE DEPARTMENT OF VETERANS AFFAIRS (VA); AM I HSA ELIGIBLE?

Maybe.

An otherwise HSA-eligible individual who is eligible to receive VA medical benefits, but has not actually received such benefits during the preceding three months, is an HSA-eligible individual and may contribute to an HSA.

However, an individual is not HSA eligible (and thus cannot make HSA contributions) if he/she has received medical benefits, other than preventive care or other disregarded coverage, from the VA at any time in the previous three months. Veterans' benefits coverage for a service-connected disability¹ is not disqualifying coverage, and the individual would be eligible to open or make contributions to an HSA.

Q6. HOW MUCH WILL MY EMPLOYER CONTRIBUTE TO MY HSA IF I ENROLL IN THE HDHP IN 2018?

Your employer may contribute up to the IRS limit, but probably won't. You may elect to contribute additional money into the HSA on a pretax basis, through your employer's cafeteria plan, not to exceed the IRS limits shown below.

Q7. WHAT IS THE MAXIMUM AMOUNT THAT CAN BE CONTRIBUTED TO AN HSA?

Your total contribution (including any contribution made to your account by your employer) for 2018 cannot exceed \$3,450 for an individual, or \$6,900 for employees with family HDHP coverage.

Catch-up contributions are available to HSA-eligible individuals who have attained age 55 by the end of the taxable year. If you are age 55 or older at the end of the tax year (and not enrolled in Medicare), you are eligible to make a \$1,000 catch-up contribution. Thus, the above amounts increase to \$4,450 for an individual with single HDHP coverage or \$7,900 for employees with family HDHP coverage.

If both you and your spouse are eligible for and want to make catch-up contributions, you must each have a separate HSA.

Q8. HOW DO I CONTRIBUTE TO MY HSA?

You may contribute to your account through pre-tax payroll deductions or make contributions on an after-tax basis via check or Electronic Funds Transfer (EFT) at any time, in any amount, up to the maximum limit. You typically have until April 15 (the due date of your federal tax return without extensions) of the following year to make HSA contributions for the current year. You can claim a tax deduction for your after-tax HSA contributions.

Q9. DOES THE MONEY MY EMPLOYER CONTRIBUTES TO MY HSA ACTUALLY BELONG TO ME?

Yes, the money in your HSA is yours. Your employer cannot tell you what to do with the money or limit what you can spend it on. Since it is your money, it goes with you if you end your employment with your employer. Because you are in charge of your HSA funds, you and your doctor are the decision makers – not a third party. Spending your own money also means you should ask about the cost of healthcare expenditures and prescription costs throughout the year. You have the option to spend either from your account or out-of-pocket for medical expenses. If you choose to spend out-of-pocket, you can save your HSA funds for the future.

Q10. DOES THE MONEY IN MY HSA EARN INTEREST?

Yes. Your HSA funds may earn interest tax-free², and there is no minimum balance required to earn interest. In addition, once your HSA balance reaches \$2,000, the HSA investment service will be available to you. **Please contact your HSA banking institution if you have further question regarding investment services.**

Q11. HOW MUCH MAY I CONTRIBUTE TO MY HSA IF I BECOME ELIGIBLE FOR AN HSA MID-YEAR (I.E., ANY MONTH EXCEPT JANUARY)?

An individual's annual HSA contributions may not exceed the sum of the "monthly limitations" for all months during the individual's taxable year in which he or she actually is HSA eligible, unless requirements of the "full-contribution rule" are met.

¹ 38 USC 101(16): The term "service-connected" means, with respect to disability or death, that such disability was incurred or aggravated, or that the death resulted from a disability incurred or aggravated, in line of duty in the active military, naval, or air service.

² Some states may treat interest as taxable.

Briefly, the “full-contribution rule” allows an individual to make a full year’s worth of HSA contributions even though the individual is only HSA eligible for a portion of the year. Under this rule, you are considered an eligible individual for the entire calendar year if you are an eligible individual on December 1. You are allowed to make the full annual contribution to the HSA, even though you were only HSA eligible for a portion of the year. However, an individual who makes contributions under the full-contribution rule must remain HSA eligible during a 13-month testing period (December plus following 12 months of next calendar year) to avoid adverse tax consequences. For more information, see Q/A-13.

Q12. DOES MY ANNUAL CONTRIBUTION LIMIT DEPEND ON WHEN I ESTABLISH MY HSA OR WHEN MY HDHP COVERAGE BEGINS?

Your annual contribution limit depends on the months during the year in which you are HSA eligible. The amount you can contribute is not determined by the date you establish your HSA; however, medical expenses incurred before the date your HSA is established cannot be reimbursed from the account. If you become HSA eligible mid-year (i.e., a month other than January), you have two options to determine your annual contribution limit: 1) the monthly contribution rule or 2) the full contribution rule. You will need to determine which option is best suited for your situation. See Q/A-13.

Q13. WHAT IS THE DIFFERENCE BETWEEN THE MONTHLY CONTRIBUTION RULE AND THE FULL CONTRIBUTION RULE?

Monthly Contribution Rule

Regardless of when you enroll in the HSA, if you are not HSA eligible as of December 1 of the applicable tax year, your contribution limit will be the sum of the indexed contribution limits determined separately for each month you are HSA eligible. The monthly limit is determined by calculating 1/12 of the annual statutory limit. If you are HSA eligible for all 12 months of 2018, you are eligible for the full annual HSA contribution.

For example, in 2018, the annual statutory contribution limit for self-only coverage is \$3,450 (exclusive of catch-up contributions) – therefore, the monthly limit is \$287.50 (1/12 of \$3,450 = \$287.50). Assume Mary is HSA eligible only for the months of January and February of 2018 and is not HSA eligible on December 1. She may only contribute to her HSA for 2 months in 2018 for a total of \$575 (based on self-only coverage = \$287.50 x 2 months = \$575).

Full Contribution Rule

As long as you are HSA eligible on December 1, you are treated as an eligible individual for the entire year. Based on the HDHP coverage in place on December 1, and may contribute up to the full annual statutory limit. However, to take advantage of this rule, you must remain HSA eligible during the 13-month “testing period”. This requires that you remain HSA eligible through the month of December of the applicable tax year plus the entire following calendar year (December plus an additional 12 months = 13 months). If you fail to remain HSA eligible during the “testing period,” the contributed amount over the allowed monthly contribution (i.e., the months you were not HSA eligible) is included in income, taxed and subject to a 10% penalty.

For example, Chris, age 53, becomes an HSA-eligible individual on December 1, 2018. He has single HDHP coverage on that date. Under the full contribution rule, he contributes \$3,450 to his HSA. Chris loses HSA eligibility in June 2019. Because he does not remain HSA eligible during the 13-month testing period, he must include as income the contribution that could not have been made except for the full contribution rule, \$3,162.50 (\$3,450 – \$287.50, his one month of HSA eligibility), plus a 10% penalty.

Q14. IF I LEAVE THE COMPANY, IS MY EMPLOYER REQUIRED TO CONTINUE THE HSA CONTRIBUTIONS THROUGH COBRA?

No. If you leave the company, your employer is required to offer you the ability to maintain your health insurance (e.g., HDHP) through COBRA, but is not required to continue the HSA contribution.

Q15. CAN I USE THE MONEY IN MY HSA FOR EXPENSES I INCURRED BEFORE I ESTABLISH MY HSA?

No. You can only submit reimbursement for expenses incurred after your HSA is established.

Banking

Q16. WHERE WILL MY HSA BE PLACED? DO I HAVE A CHOICE?

Your employer has selected a bank to which your employer will contribute funds. If you wish to open a separate, qualified HSA at your personal bank and transfer money to that account, you may do so, but your employer cannot contribute directly to that account.

Q17. ARE THERE ANY FEES ASSOCIATED WITH MY HSA?

Yes, you may incur certain banking transaction fees.

Q18. DO I ONLY USE MY HSA DEBIT CARD TO PAY FOR MEDICAL EXPENSES, OR WILL I NEED MY MEDICAL ID CARD TO MAKE THESE PAYMENTS, TOO?

You should always use your medical ID card, as it provides you with discounts and counts claims toward your deductible and out-of-pocket maximum. Remember to use your medical card first, and then pay the bills with your HSA debit card when you receive an Explanation of Benefits (EOB) from your medical carrier stating your responsibility. The only exception to this process is at the pharmacy. You may use your HSA debit card at the pharmacy once the pharmacist has run your ID card.

Q19. IF MY DOCTOR'S APPOINTMENT COSTS ME \$150 AND I ONLY HAVE \$40 LEFT TO UTILIZE IN MY HSA, CAN I WAIT TO TAKE MY REIMBURSEMENT UNTIL MORE MONEY HAS ACCRUED?

Yes.

There is no time limit on when a distribution from the HSA must occur. You may delay distributions from an HSA to reimburse qualified medical expenses incurred in a prior year provided the expenses were incurred **after the HSA was established**. Expenses incurred prior to the establishment of the HSA are not reimbursable. It is important to keep records sufficient to show that the distributions made from the HSA were made to pay or reimburse otherwise unreimbursed qualified medical expenses incurred after the HSA is established.

Tax Impact

Q20. IS THERE A DETAILED LIST OF QUALIFIED HSA EXPENSES THAT I CAN TURN TO FOR GUIDANCE?

There are a wide range of allowable tax-free HSA expenditures, including vision and dental expenses, or orthodontia for you or your children. A description of qualified HSA expenditures can be found in IRS Publication 502: <http://www.irs.gov/pub/irs-pdf/p502.pdf>. Be aware that while Publication 502 has great examples, it is not entirely definitive.

Be aware that a recent change in the law now requires over-the-counter (OTC) medicines and drugs to be prescribed in order to be considered a qualified medical expense eligible for tax-free reimbursement from your HSA. If you are reimbursed from the HSA for OTC medicines and drugs without a prescription, the reimbursement is taxable and subject to a 20% penalty.

Q21. DO I NEED TO SAVE ALL OF MY RECEIPTS FOR EXPENDITURES?

Yes. Everyone with an HSA must keep all receipts showing expenditures from their account. If the IRS audits you, you will need to be able to back up your HSA expenditures. It is recommended that you keep a file that contains your receipts.

Q22. WILL THE FUNDS THAT YOUR EMPLOYER CONTRIBUTES BE INCLUDED IN MY INCOME FOR TAXATION?

No. Employer contributions to an employee's HSA are excluded from an employee's income.



Q23. SINCE THE MONEY IN THE HSA IS PORTABLE, CAN I ROLL IT OVER INTO A DIFFERENT SAVINGS VEHICLE WITH NO TAX PENALTIES?

The HSA is designed to pay for qualified medical expenses and **direct rollovers into another savings vehicle are not allowed**. You may, however, roll it over to another HSA if you later select a different vendor.

Taxpayers can make a one-time distribution **from** an individual retirement account (“IRA”) to fund an HSA, but subject to the annual maximum contribution limits. A second transfer is allowed within the same year if the individual changes from self-only HDHP coverage to family HDHP coverage later during the year in which the first transfer was made.

Q24. WILL THE HSA CHANGE HOW I FILE MY TAXES?

Yes. HSA contributions and distributions are reported on Form 8889, which is filed as an attachment to your Form 1040 (you cannot file your taxes using Form 1040-A or 1040-EZ when required to attach Form 8889). See IRS Publication 969 and your personal tax consultant for more information.

General Questions

Q25. CAN I USE THE MONEY IN MY HSA FOR MY DEPENDENTS’ MEDICAL EXPENSES, EVEN IF THEY ARE NOT ENROLLED IN A QUALIFIED HDHP?

Yes, unreimbursed qualified medical expenses (e.g., out-of-pocket expenditures and deductibles) for your spouse or IRS-qualified dependent can be paid through the HSA even if the spouse or dependent is insured under a non-HDHP.

Q26. IF I DON’T WANT TO USE THE HSA DEBIT CARD, HOW ELSE ARE REIMBURSEMENTS MADE FROM MY HSA?

In addition to your HSA debit card, you may use checks to make payments from your account. Checks are available for an additional fee.

Q27. WHAT INFORMATION WILL I RECEIVE ABOUT MY HSA?

Once your HSA account is set up, generally you will receive a welcome kit within 10 to 14 days. This will include your HSA debit card and important information about using your account.

Q28. CAN A SPOUSE OR DEPENDENT HAVE INSURANCE OTHER THAN A QUALIFIED HDHP WITHOUT CAUSING THE ACCOUNT HOLDER TO LOSE HSA ELIGIBILITY?

Yes, provided that the HSA account holder is not covered by the other non-qualified plan. For example, if an employee has self-only HDHP coverage and the spouse and dependent children (but not the employee) are covered under the spouse’s traditional PPO, the employee could establish and contribute to an HSA (based on single coverage), and use the HSA funds to pay otherwise unreimbursed expense of the spouse and tax dependent children.

Q29. I COVER MY DOMESTIC PARTNER ON THE HDHP. HOW WILL THAT IMPACT MY HSA?

Unless your domestic partner is considered a dependent under IRS guidelines, then you cannot use the funds in your HSA to pay for your domestic partner’s qualified medical expenses. However, your domestic partner can open up his/her own HSA with a bank of their choosing.

Q30. ARE THERE SPECIAL HSA RULES THAT APPLY TO MARRIED COUPLES?

Yes, there is a special tax rule for married couples. If either spouse has family HDHP coverage, both spouses are treated as having family HDHP coverage. Also, if one spouse has family HDHP coverage and the other spouse has single-HDHP coverage; both spouses are considered to have family HDHP coverage. A special rule imposes a joint contribution limit capped at the family statutory maximum (for 2018, \$6,900) allocated equally between spouses, unless they agree on a different division.

Example: For 2018, Jack and his wife Jane are both HSA-eligible individuals. Each has family coverage under separate HDHPs. Neither is eligible for a catch-up contribution. Under the special rule for married couples, Jack and Jane's combined HSA contributions cannot exceed the family statutory maximum of \$6,900. Jack and Jane can split the family statutory maximum contributions (\$6,900) equally between their respective HSAs (each contributing \$3,450 to their own HSA), or decide on a different contribution structure, provided the total contributed between them does not exceed the family maximum.

If each spouse is HSA eligible and elects self-only HDHP coverage, they each may contribute up to the statutory self-only limit of \$3,450.

If both spouses are eligible for a catch-up contribution (see Q/A-7), each spouse's contribution limit is increased by \$1,000. To take advantage of this, each spouse must have their own HSA. There are no joint HSAs.

Q31. BOTH MY SPOUSE AND I ARE EMPLOYED AT MY EMPLOYER AND ARE ENROLLED ON THE HDHP, MAKING CONTRIBUTIONS INTO THE HSA. DO ANY SPECIAL RULES APPLY?

Yes, the married rules described in Q/A-30 apply.

Q32. BOTH MY SPOUSE AND I ARE EMPLOYED AT MY EMPLOYER AND ARE ENROLLED ON THE HDHP AND EACH MAKE CONTRIBUTIONS INTO OUR OWN HSAs (UNDER THE MARRIED RULES DESCRIBED ABOVE). WHAT IF MY SPOUSE TERMINATES EMPLOYMENT AND ENROLLS AS A DEPENDENT ON MY PLAN? CAN MY SPOUSE KEEP THEIR HSA ACCOUNT OPEN AND CONTINUE TO CONTRIBUTE THAT ACCOUNT?

In this situation, your spouse can continue to contribute to his or her HSA (within the married couple limitations); assuming your spouse remains HSA eligible. However, your employer will not provide a contribution to the spouse's HSA, as contributions are only provided to employees. The spouse also may continue to use the funds in his or her account to pay for qualified medical expenses.

Q33. IF MY EMPLOYMENT WITH MY EMPLOYER IS TERMINATED AND I ELECT COBRA, CAN I PAY MY COBRA PREMIUMS (FOR MY MEDICAL, DENTAL AND/OR VISION COVERAGE) WITH TAX-FREE HSA DOLLARS?

Yes, you can use your HSA dollars to pay COBRA premiums.

Q34. CAN I START AND STOP MY PARTICIPATION IN MY HSA DURING THE YEAR? CAN I CHANGE MY CONTRIBUTION AMOUNT? IF I STOP PARTICIPATING AND THEN ELECT TO MAKE CONTRIBUTIONS AGAIN, WILL MY SAME ACCOUNT STILL BE AVAILABLE?

Your employer must allow employees to change their contribution at least once a month. This includes stopping their contribution as well. The account will stay open even if there are no contributions made.

Q35. WHAT HAPPENS IF I EXPERIENCE A SPECIAL ENROLLMENT EVENT, SUCH AS THE BIRTH OF A CHILD? AFTER I ADD THE CHILD TO THE HDHP, CAN I INCREASE THE AMOUNT CONTRIBUTED TO MY HSA TO THE FAMILY MAXIMUM? DOES THE AMOUNT HAVE TO BE PRORATED?

Yes, you can contribute the family maximum. Generally, the contribution amount is prorated based on the number of months you participated in single coverage and the number of months you participated in family coverage.

However, if you move from single to family coverage during the year, and have family coverage on December 1, then under the full contribution rule you may contribute up to the full family maximum for year. However, you must remain HSA eligible during the testing period. Failure to do so will result in the excess contributions for the months you was covered by single-only coverage to be taxable and subject to a 10% penalty.

Q36. WHAT HAPPENS IF, MID-YEAR, MY CURRENT ENROLLMENT STATUS OF EMPLOYEE PLUS SPOUSE CHANGES TO EMPLOYEE ONLY DUE TO A QUALIFYING EVENT (E.G., DIVORCE, CHILD REACHING LIMITING AGE)? WOULD MY HSA CONTRIBUTION HAVE TO BE REDUCED IF IT WAS OVER THE INDIVIDUAL LIMIT?

Yes, your contributions would have to be prorated based on the number of months you participated in family coverage and the number of months you participated in single coverage.

Q37. I WAS HSA ELIGIBLE AS OF JANUARY 1, BUT I DID NOT ESTABLISH MY HSA UNTIL JUNE. CAN I STILL MAKE MY MAXIMUM ANNUAL CONTRIBUTION, OR IS MY CONTRIBUTION REDUCED BY THE NUMBER OF MONTHS I DIDN'T HAVE AN HSA?

Yes, you can still make the maximum monthly contributions based on your HDHP coverage, provided you were HSA eligible from January-June. However, any qualified medical expenses that were paid out-of-pocket up until your HSA was established in June cannot be reimbursed from the account. Only qualified medical expenses incurred after the HSA is established are allowed.

Q38. CAN I ROLLOVER FUNDS FROM A PRIOR HSA TO MY NEW HSA?

Yes, you can roll over the funds from your prior employer's HSA to a new HSA. You will have to contact the new HSA vendor's member services to obtain a copy of the rollover form, fill it out and send it to the HSA vendor who manages your HSA established while at a prior employer.

Q39. WHO CAN CONTRIBUTE TO MY HSA — JUST ME AND MY EMPLOYER, OR CAN OTHER INDIVIDUALS CONTRIBUTE, TOO?

Anyone can contribute to your HSA. However, other tax rules may apply (e.g., gift taxes). Consult with a tax advisor.

Q40. WHEN WILL CONTRIBUTIONS TO MY ACCOUNT BE MADE AVAILABLE FOR WITHDRAWAL?

Contributions will be made available for withdrawal within a week from your scheduled pay date.

Q41. WHAT HAPPENS IF I CONTRIBUTE TOO MUCH TO MY HSA?

An excise tax of 6% for each taxable year is imposed on the account beneficiary for excess individual and employer contributions if not corrected prior to account holder's tax filing deadline (April 15 of the following year). This excise tax is avoided if the excess contributions (and any interest) for a taxable year are distributed to the account holder (and taxed accordingly) before the account holder's federal income tax return deadline for the taxable year (no later than April 15).