Health Savings Account (H S A)
Q&A

What are Health Savings Accounts?
Congress created Health Savings Accounts (HSAs) to help individuals save for qualified medical and retiree health expenses on a tax-free basis.
- Pairs a qualified high deductible health plan with a savings account for eligible individuals to help pay for qualified medical expenses
- Combines the pre-tax treatment of a health flexible spending account, the portability and carry-over characteristics of a 401(k) plan, and the tax-free distribution of a Roth IRA

How does the HSA work?
- You enroll in the qualified high deductible health plan
- You establish your HSA account
- You and/or your employer make contributions to the account
- You receive health care services
- You pay your out of pocket costs associated with your health plan (deductible and coinsurance)
- You decide whether to take money out of your HSA account to reimburse yourself for your out of pocket costs
- The money in your HSA account that you do not use stays with you and is available to use for future costs

Why is this a good thing?
- Opportunity for eligible individuals to lower health plan premiums while still having the security of a health plan with an annual limit on your out of pocket expenses
- Participants have more control over how to spend their health care dollars
- Opportunity for eligible participants to save on taxes – all money you put into the HSA is tax-free
- Opportunity to save for future medical expenses

What is a Health Savings Account?
For eligible individuals, it is:
- Very similar to a personal checking/savings account that is owned by you, the account holder, and used to pay for qualified medical expenses
- You and /or your employer can fund the account
- The HSA is a "custodian account" held at a trustee/bank/Insurance company
- Account balances can be carried over year to year

What is a Qualified High Deductible Health Plan (HDHP)?
- Minimum deductible and out of pocket maximum are set by law
- The deductible must apply to all covered services.
  - Exceptions can be made for some services… including preventative, vision and dental
- This means that you will not have access to reimbursement for most services until you meet your deductible

Who can participate?
- To be eligible to contribute to an HSA you:
  - Must be covered by a qualified high deductible health plan (HDHP)
  - Cannot be enrolled in Medicare (generally age 65)
  - Cannot be covered by other health insurance that is not an HDHP
    - Additional coverage for dental and vision is allowed
    - Cannot have a broad based health Flexible Spending Account through employer or spouse's employer
  - Cannot be eligible to be claimed as a dependent on another person's tax return

How much can I contribute to my HSA?
- For your plan the limit is $3,500 for an individual and $7,000 for a family for 2019.

What are the rules for HSA contributions?

- Additional catch-up contributions are allowed for those 55 years and older
- Can be made at any time throughout the year up to April 15 of the following year
- Can be invested and earn interest

How may I spend my HSA?

- Money spent is tax-free as long as it is used to pay for qualified medical expenses
- Can be used for other purposes, but if the account holder is under 65, will be subject to income taxes and an additional 20% penalty
- Can be used for spouse and tax dependants, even if they are not covered by the HDHP
- Can be used to pay qualified medical expenses that do not count toward the HDHP deductible, including vision, dental and other expenses.
- *The account holder is responsible for keeping receipts and documentation to demonstrate to the IRS that the expenses were qualified medical expenses*

What are "Qualified Medical Expenses?"

- Qualified Medical Expenses are described in section 213(d) of the Internal Revenue Service code
  - Refer to IRS Publication 502 for examples
- Health insurance premiums are not a qualified medical expense except:
  - For HSAs, the following can be reimbursed tax-free:
    - COBRA premiums
    - Qualified long term care premiums
    - Health insurance premiums while unemployed and receiving unemployment
    - Over 65 health premiums for employer sponsored plans

HSA Distributions after age 65

- Individuals age 65 and older:
  - HSA funds can be used, tax-free to pay:
    - Medicare premiums (Including Medicare Advantage HMO) but not Medicare Supplement premiums
    - out-of-pocket qualified medical expenses
    - employee share of employer-based coverage
  - HSA money can be used for non-medical reasons without the 10% penalty.

Things to consider…

- Advantages of the HDHP with an HSA
  - Tax savings
  - Potential retirement savings
  - More control over how you choose to spend your health care dollars
  - Can help cover health expenses for periods of unemployment
  - Lower health plan premiums
  - HSA belongs to you and is portable
- Concerns
  - Responsibility for tracking expenses, monitoring HSA contributions/distributions
  - More responsibility for health care decisions
  - Potentially more out-of-pocket expenses, especially if you do not fully fund the HSA account

Summary

- Individual must be eligible to contribute to an HSA; not required for distributions
- The individual is responsible for compliance with IRS rules
- Contributions are subject to limits determined in reference to HDHP annual deductible and statutory limits
- Distributions are tax free for qualifying medical expenses