

Health Savings Account (HSA)

Frequently Asked Questions



Do you like knowing what you're spending on health care costs? Do you want to pay for those health care costs using tax-free money? Then a Health Savings Account (HSA) may be just the right thing for you. It puts your health care spending in your hands, which is pretty cool.

Want to know a little more? Check out these frequently asked questions on HSAs.

Q What's an HSA?

A Think of an HSA as a special bank account for health care costs. You can put money into your HSA through pre-tax payroll deduction, deposits or transfers. As this amount grows over time, you can continue to save it or spend it on eligible expenses. The money in your HSA belongs to you and is yours to keep, even if you switch jobs. The funds roll over from year to year so you can save for future health care needs.

Q Are HSAs and HDHPs the same thing?

A No. An HSA is an account you put money into to pay for eligible health care expenses. An HDHP is a high-deductible health insurance plan that allows you to open an HSA.

Q What are the tax benefits of an HSA?

A Here are a couple of the tax benefits of an HSA:

- You're not taxed on the money you put in your HSA (up to the annual limit).
- If you contribute through payroll deduction, the amount is taken from your pay before taxes are taken out, if your employer lets you. This may even help lower your taxable income.
- If you contribute to your HSA with after-tax money, you can deduct your contributions during tax time on Form 1040.

Q Does the money in my HSA earn interest?

A Yes. You can earn interest through your HSA and through investing your HSA money. Ask your bank what options are available to you.

Q How do I know if I'm eligible for an HSA?

A To be eligible for an HSA, you must:

- Be covered under an HDHP
- Not be covered under any other non-HDHP, like Medicare or general-purpose flexible spending accounts (FSAs)
- Not be claimed as a dependent on someone else's tax return

Dental and vision plans, along with accidental and disability insurance, don't affect your eligibility.

Q Can I have an HSA and a limited-use health care FSA?

A Yes. Only a limited-use FSA may be used with an HSA.

Q If I have an FSA with a grace period (2 months, 15 days), can I enroll in an HSA?

A Yes. But you can't put money into your HSA until the FSA grace period is over.

Q Can I still open an HSA if my spouse has an FSA through work?

A You can open an HSA only if your spouse's FSA is a limited-use FSA or employee-only FSA.

Note: This document has general HSA information. Please refer to your employer's plan document for information specific to your HSA plan.

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Q How does the HSA work?

A It's just like a bank account, but for eligible medical expenses. Here's how it works:

1. You put money in your HSA through payroll deduction, deposit or transfer.
2. When you have an eligible expense, you can withdraw money from your HSA to pay for it. Like other bank accounts, you can make withdrawals with a debit card or check specific to your HSA.
3. You can use the money in your HSA to pay for care until you reach your deductible, or for coinsurance after you reach it. Or pay for other eligible expenses not covered by your HDHP, like dental or vision care.

Q Where can I open an HSA account?

A Many banks and credit unions offer HSAs. Your employer may have a preferred HSA option. Otherwise you can choose any financial institution you want that offers an HSA.

Q How soon can I open an HSA?

A As soon as your HDHP coverage is effective, if it starts on the first day of the month. If not, you can start your HSA on the first day of the following month.

Q How do I contribute to my HSA?

A Here are a few ways you can contribute to your HSA:

- **Payroll deduction** – Many employers offer the option to deposit money to your HSA automatically from your paycheck.
- **Deposit or transfer** – Write a check, transfer money from another account or deposit cash into your HSA.
- **One-time transfer from your IRA** – Make a one-time, tax-free transfer from your IRA to your HSA. This transfer must be under the annual HSA contribution limit.

You can contribute funds to your HSA account up until April 15 of the following year.

Also, some employers contribute to their employees' HSAs. Check with your employer to see if this option is available to you.

Employer contributions are reported on the Form W-2 as nontaxable earnings.

Q Do I have to deposit the same amount every month in my HSA?

A No. You can deposit one lump sum or make smaller deposits throughout the year. However, your bank may require a minimum deposit or balance.

Q Is there a limit to how much money I can put into my HSA?

A Yes. The annual limit is set by the IRS and is updated every year. Here are the maximum annual limits for 2017:

- Individual: \$3,400
- Family: \$6,750

If you're 55 years or older, you can make an extra \$1,000 contribution.

Your annual limit is based on the number of months that you're eligible for an HSA through an HDHP. You must be eligible on the last day of the month of your tax year (usually Dec. 1) in order to contribute the entire HSA annual limit.

Q Is my HSA contribution limit smaller if I open my account in the middle or toward the end of the year?

A No. However, you can't be reimbursed for medical expenses that took place before you opened your HSA.

Q Can my spouse and I both contribute to an HSA?

A Yes, as long as you're both covered by an HDHP and not enrolled in Medicare or a general-purpose FSA. However, your combined contributions can't be more than the annual family limit.

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Q What are eligible HSA expenses?

A Your HSA can be used to pay for a variety of health care expenses for you, your spouse and your eligible dependents. Some expenses include:

- Doctor visits
- Chiropractor fees
- Prescription medicine copays
- Dental and vision care

For a list of eligible health care expenses, visit healthpartners.com.

Q Can I use the money in my HSA to pay for health insurance premiums?

A Yes, there are some situations that allow you to use your HSA to pay for health insurance premiums. You can use your HSA to pay premiums for:

- COBRA continuation coverage
- Health coverage while getting unemployment compensation
- Qualified long-term care
- Medicare and other health insurance if you're 65 or older, not including Medicare supplement insurance

Q Can I use money in my HSA for something other than an eligible expense?

A Yes, however any money used to pay for anything other than eligible HSA expenses will be taxed and subject to a 20 percent penalty. Exceptions to the 20 percent penalty include expenses paid after the account owner turns 65, is disabled or dies.

Q How do I pay for expenses using my HSA?

A Many banks provide you with claim forms, debit cards or checkbooks to pay for your eligible medical expenses using your HSA.

Q How do I keep track of my HSA balance?

A At the end of each tax year you'll get Form 5498 from your HSA bank. The form lists all contributions and paid expenses for the year. Your bank may also have this form, monthly statements and other documents available through an online account.

Q What happens to the money in my HSA if I don't use it all in one year?

A The money in your HSA belongs to you. Therefore, any money left at the end of the year will stay with you and carry over into the next year.

Q What happens to the money in the HSA if I leave my employer?

A It's your money, so you can take it with you. You won't be eligible to contribute to the HSA after you leave your employer if you don't enroll in another HDHP.

Q What if I change my health plan or insurance carrier?

A You can continue to contribute to your HSA as long as you're still covered by an HDHP. If you're no longer covered by an HDHP, you can use what money is left in your HSA for eligible medical expenses, but you won't be able to put more money in your HSA. Any amount you contributed to your HSA that exceeds your eligibility amount due to a change in your HDHP coverage is considered gross income with an additional tax.

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Q What are my responsibilities as an HSA owner?

A As an HSA owner, you're responsible for:

- Making sure your contributions don't exceed the annual maximum
- Adding non-eligible expenses back to your gross income
- Keeping records of your expenses
- Completing Form 8889 at tax time
- Making sure you're not covered by any plans other than your HDHP, including a standard FSA
- Ensuring you're not being claimed as a dependent on someone else's taxes

Q Do I need to keep track of expenses paid using my HSA?

A Yes. You should keep copies of your receipts for expenses paid with HSA money. Check with your tax advisor for more information.

Q Do I need to itemize my HSA deductions on my tax return?

A No. Just complete Form 8889 and attach it to your federal tax return.

Q How can I get more information on my HSA?

A When you enroll in an HSA plan, you'll get a Summary Plan Description that explains the details of your HDHP. You can also call HealthPartners Member Services at **952-883-5000** or **800-883-2177**.

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Confused by the lingo of your high-deductible health plan? Check out these frequently asked questions on HDHPs.

Q What's a deductible?

A A deductible is the amount you pay before your health plan starts paying for your medical expenses. For example, if your deductible is \$1,500, that's what you must pay before your health plan kicks in to help cover costs. HDHP minimum deductibles are updated by the IRS each year. The minimum deductibles for 2017 are:

- Individual: \$1,300
- Family: \$2,600

Q Does an HDHP cover anything before the deductible?

A Yes. An HDHP will cover preventive services at 100 percent even when your deductible isn't met. After you've met your deductible, the plan will cover other things like office visits, lab tests, eye exams, prescriptions and other common health care services. These services are typically covered with a coinsurance or copay; check with your employer for plan details.

Q What does contract vs. embedded deductibles mean for an HDHP?

A If you have an HDHP with a family deductible, it's set up one of two ways:

1. **Contract deductible** – any one family member or a combination of family members can meet the deductible for the entire family. To qualify for an HSA, the deductible must meet the HDHP family minimum of \$2,600.

For example, a family has a \$2,600 deductible. This means they need to reach \$2,600 before the health plan kicks in.

- Scenario 1: Mom reaches \$2,600 on her own. The family's deductible is reached and the health plan kicks in for everyone in the family.
- Scenario 2: Mom spends \$1,000 on her care, Dad spends \$1,200 and Son spends \$400. The family's deductible is reached and the health plan kicks in for everyone in the family.

2. **Embedded deductible** – this means there are two kinds of deductibles:

- One for the family as a whole
- One for each individual member of the family

To qualify for an HSA, both of these deductibles must meet the HDHP family minimum of \$2,600.

If one member of the family reaches their individual deductible before the family deductible is met, the plan kicks in only for that person. In order for the health plan to cover costs for the other family members, they'll need to either:

- Reach their own individual deductible, or
- The family reaches the family deductible by any combination of family members

For example, a family has a \$5,200 family deductible with a \$2,600 embedded individual family member deductible.

- Scenario 1: Mom reaches \$2,600 on her own. Her health plan kicks in to help cover her costs. But, the rest of the family still covers their own costs.
- Scenario 2: Mom reaches \$2,600 on her own. Her health plan kicks in to help cover her costs, but not for other family members. Later, Dad spends \$2,600 on his own. The plan kicks in for Dad and everyone in the family because the family deductible is met. That includes Son who hasn't spent anything.
- Scenario 3: Mom spends \$2,000 on her care, Dad spends \$2,200 and Son spends \$1,000. The health plan kicks in for everyone in the family because the family deductible is met.

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