

Health Savings Accounts Frequently Asked Questions

What are Health Savings Accounts?

Health Savings Accounts (HSAs) are new, tax-advantaged savings accounts for individuals and families covered by high deductible health insurance plans to cover “qualified medical” expenses. HSAs allow for tax-deductible contributions, tax-free earnings on the account and distributions are tax free if distributed amounts are used for qualified medical expenses. These accounts allow consumers to take greater control over their health care expenses and offer more flexibility options than previous tax advantaged health care programs.

Who is eligible to establish an HSA?

Any eligible individual may establish an HSA. To be eligible, an individual must be all of the following:

- covered under a high deductible health plan (HDHP) on the first day of the month
- generally not covered by any health plan that is not an HDHP (exceptions exist for coverage that is not part of an HDHP for accidents, disability, dental care, vision care, long-term care, or permitted insurance)
- not enrolled in Medicare
- not able to be claimed as a dependent on another person’s tax return

What type of health plan is considered an HDHP?

A health plan is an HDHP if the plan satisfies the following annual deductible and out-of-pocket expense requirements for single or family coverage.

- **Single Coverage:** Annual deductible of at least \$1,100 and a deductible/out-of-pocket expense (deductibles, co-payments and other amounts, but not premiums) cap of \$5,600.
- **Family Coverage:** Annual deductible of at least \$2,200 and a deductible/out-of-pocket expense (deductibles, co-payments and other amounts, but not premiums) cap of \$11,200.
- **Family Coverage With Individual Deductibles:** In cases where family coverage has individual deductibles, the plan is considered an HDHP if no amounts are payable from the health plan until the family has incurred covered medical expenses in excess of the minimum annual deductible (\$2,200).

NOTE: These amounts will be indexed for cost-of-living increases and may change from year to year.

Who can be an HSA trustee or custodian?

Any Credit Union, insurance company or any bank can be an HSA trustee or custodian.

Who may contribute to an HSA?

Any or all of the following are eligible to contribute to an HSA in a given year:

- the eligible individual (defined earlier)
- his or her employer (if applicable)
- the eligible individual's family members
- any other individual

What are the form and timing requirements for HSA contributions?

- **Contribution deadline** - An HSA must be established and HSA contributions must be made by the eligible individual's tax return due date for the year, not including extensions (i.e., April 15). This same deadline applies regardless of who makes the contribution.
- **One or more payments are permitted** - Contributions for the year can be made in one or more payments. Although the annual contribution limit is determined monthly, the maximum contribution may be made on the first day of the year.
- **Aggregated contributions** - All HSA contributions, whether made by the employer or employee, are aggregated for purposes of applying the contribution limit. The annual contribution limit is also decreased by the aggregate amount of Archer MSA contributions made for that same calendar year.

How much may be contributed to an HSA in calendar year 2008?

The general rule

For an eligible individual that is covered by the same HDHP plan for the entire calendar year, the 2008 maximum annual contribution is the deductible amount (excluding any out-of-network deductible) not to exceed \$2,900 for those with single coverage, or \$5,800 for those with family coverage. In future years, these amounts will be adjusted for cost-of-living increases in increments of \$50. The individual does not need to have earned compensation in the year of the HSA contribution.

Catch-up contributions

Eligible individuals may make HSA catch-up contributions (up to \$900 for 2008). For eligible individuals who are married and have family coverage, each spouse who is an eligible individual may make a catch-up contribution. If an eligible individual will attain age 55 or older by the end of the calendar year, and he or she is an eligible individual for the entire year, he or she may make a full catch-up contribution.

What if someone is only eligible for a portion of the year?

The maximum annual contribution, which includes catch-up contributions for eligible individuals, is determined separately for each month, based on eligibility and health plan coverage as of the first day of the month.

Formula:

Deductible + Catch Up Contributions (if eligible) = **Annual Contribution**

Amount

Annual Contribution Amount / 12 months = **Monthly Amount**

Monthly Amount (X) number of months remaining in year = **Annual Limit for 2008**

EXAMPLE:

1. Joseph, who is 43-years old, begins self-only coverage on October 1, 2008, under an HDHP with an annual deductible of \$2,400. He is covered under the same HDHP for the rest of 2008. His annual contribution is computed by determining the monthly amount:

$\$2,400/12 = \200 monthly limit

$\$200 \times 3$ (October, November, December) = **\$600 annual limit for 2008**

2. The Smith Family opens a Family HSA in June 2008. Their deductible is \$5,000.

$\$5,000/12$ months = \$416.67 (per month)

$\$416.67 \times 7$ months = **\$2916.67 annual limit for 2008**

When must HSA contributions stop?**Enrollment in Medicare**

Once an individual enrolls in Medicare, contributions, including catch-up contributions, cannot be made beginning with the month the individual enrolls.

What is the tax treatment of an eligible individual's HSA contribution?**Contributions made by an eligible individual**

HSA contributions made by an eligible individual and/or his or her family members are deductible by the eligible individual when determining his or her adjusted gross income. Contributions are deductible whether or not the eligible individual itemizes deductions.

Employer contributions

HSA contributions made by an employer to employees' HSAs may be deducted by the employer. These contributions are excluded from the employees' gross income, are not subject to withholding for income tax, and are not subject to the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), or the Railroad Retirement Tax Act (RRTA).

Tax-deferred earnings

Earnings on amounts in an HSA are tax-deferred, and are not includable in gross income while held in the HSA.

What if HSA contributions in aggregate exceed the eligible individual's limit?

HSA contributions that exceed the maximum contribution limit for the year, or contributions made by an ineligible individual, are considered excess HSA contributions. An excise tax of six percent is imposed on the HSA account beneficiary for each tax year the excess contribution remains in the account. Contact your tax advisor for specific information on your account.

Are HSAs portable?

Transfer

HSA funds may be transferred from one HSA to another HSA with the same or different trustee or custodian. Additionally, a former spouse may transfer HSA funds to his or her own HSA if awarded all or a portion of a former spouse's HSA as part of a divorce settlement.

Rollover

Assets from Archer MSAs and other HSAs may be rolled over into an HSA.

When are HSA assets available for distribution?

HSA assets are payable on demand. There are no restrictions on when and how often an HSA account holder may take distributions from an HSA. Using checks and debit cards are acceptable means of withdrawing HSA assets from the account.

Federal withholding does not apply to HSAs.

How are distributions from an HSA taxed?

Distributions from HSAs may be exempt from federal income tax and penalties, depending on whether or not the distribution is used to pay for qualified medical expenses.

Qualified distributions

Distributions from HSAs for qualified medical expenses of the account beneficiary, his or her spouse, or dependents are exempt from federal income tax and penalties.

Nonqualified distributions

Distributions that are not used for qualified medical expenses are included in the individual's gross income. In addition, nonqualified distributions are subject to an additional 20 percent IRS penalty, unless the distribution is made after the account beneficiary's death, disability or attainment of age 65. Consult your tax advisor for specific information related to your account.

Account beneficiary responsible for determining qualified or nonqualified status

Account holders are responsible for making the determination as to whether an HSA distribution is qualified or nonqualified. The account beneficiary should maintain records of his or her medical expenses sufficient to show that the distributions have been made exclusively to pay for qualified medical expenses, and are, therefore, excludable from gross income. HSA trustees or custodians, as well as employers who make contributions to an employee's HSA, are not responsible for determining whether distributions are qualified or nonqualified.

What are qualified medical expenses?

Qualified medical expenses are expenses incurred after an HSA has been established, that are not covered by insurance, and are paid by the account beneficiary, his or her spouse or dependents. Some types of qualified medical expenses include (see IRS rules governing HSA's for more information):

- diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function on the body
- transportation for the essential medical care listed above
- qualified long-term care services
- premiums for qualified long-term care insurance, COBRA health care continuation coverage, health care coverage while an individual is receiving unemployment compensation, premiums for Medicare Part A or B (for individuals over age 65), Medicare HMO, and the employee share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance
- certain amounts paid for lodging while away from home that is essential to medical care
- nonprescription drugs as described in Revenue Ruling 2003-102

What is the tax treatment of an HSA after the death of the account beneficiary?

Spouse as death beneficiary

If the deceased account beneficiary's death beneficiary is a spouse, the HSA is treated as the surviving spouse's own HSA. Distributions to the surviving spouse for qualified medical expenses would be exempt from federal income tax and penalties.

Non-spouse as death beneficiary

If a nonspouse beneficiary is the HSA's death beneficiary, the HSA ceases to be an HSA as of the date of death, and the nonspouse death beneficiary includes the fair market value of the HSA in his or her income for the year of the death.

What are the IRS reporting requirements for HSAs?

Contributions to an HSA are reported on form 5498-SA. Rollover amounts and the year-end fair market value are reported on this form as well. This form is required to be filed with the IRS and sent to the account holder by May 31 of the following year. Distributions from an HSA are reported on form 1099-SA. This form is required to be sent to the recipient by January 31 and to the IRS by February 28 of the year after distributions are made.