



## WHAT IS AN HSA?

### HSA Defined

An HSA—it stands for “Health Savings Account”—is an account to which you and/or your employer may contribute.

- You use it to meet your everyday health care needs, such as a doctor’s visit or prescription medication. You spend it on the items that matter to you. It covers expenses not covered by another plan.
- But your HSA does not work alone. You also have traditional health care coverage—an insurance plan with a high deductible. Once you use up the funds in your HSA, you may have to pay out of pocket for any additional expenses, until you meet the deductible of your plan. Then, once you meet the deductible, your plan begins to pay its share of the costs. Your insurance plan gives you protection when you need it, for major items like surgery or childbirth.

### Eligibility

You’re eligible to sign up for an HSA if:

- You are enrolled in a high deductible health plan (also called an HDHP).
- You are not enrolled in Medicare
- You are not a dependent on someone else’s tax return
- You have no other health care coverage (such as being covered under your spouse’s plan, or other individual coverage.) That also means you can’t be covered under a separate prescription drug plan. You can, however, be covered under dental, vision or long term care coverage, or coverage that pays a fixed dollar amount for a disease or for a period of hospitalization, and still enroll in an HSA.

There are no income limits for HSAs. So your income is never a determining factor in whether you can establish an HSA.

### Contributions to the Account

The amount that can be contributed to an

HSA is also subject to annual limits. For 2015, you can contribute up to the HSA annual limit of:

- \$3,350 for individual coverage, and
- \$6,650 for family coverage.

In addition, if you are age 55 or older, you are eligible to make an additional “catch-up contribution”—for 2015, that amount is \$1,000. Note: these limits represent the total that can be contributed in a single year—your contributions, and your employer’s contributions, combined.

### Eligible Expenses

Which expenses can be covered by your HSA?

- Your HSA is designed to cover qualified medical expenses that are not covered by your high deductible health plan. It includes items like eyeglasses, doctor’s fees, and prescription medications.
- In addition to the items mentioned above, “qualified medical expenses” also include items such as dental treatment, long term care insurance premiums, and transportation to and from doctor’s visits. In general, you cannot use your HSA to pay for health insurance premiums.

Whose expenses can be covered? Your expenses are obviously eligible, since you are the holder of the account. But you can also claim expenses for your spouse and eligible dependents.

### How it Works

- Enroll in a high deductible health plan
- Set up your HSA with a local bank or other financial institution that offers HSAs.
- Decide how much to contribute to the account. Remember that your contributions, plus your employer’s contributions, cannot exceed the annual maximum.
- Receive care. You will generally use a debit card or special check to use the funds in your HSA. You have immediate access to

health care dollars; you generally don’t have to pay any coinsurance to receive treatment. Some HSAs are coupled with HDHPs that provide coverage for preventive care from day one.

- If you use up the funds in the account before you meet your plan deductible, then you have to pay out of pocket until you meet that deductible. And once you meet the deductible, the high deductible plan begins to pay its share of costs.
- If you have money left in your account at the end of the year, it just rolls over into the following year, creating a bigger nest egg for future medical expenses.
- And if you leave your job—the account goes with you. You don’t forfeit any of the funds.

### Invest in Your Health

You open the account at a financial institution that is authorized to open HSAs; they are also referred to as HSA Trustees or Custodians.

- The money in your account earns interest. Plus, you can change your investment selections according to your needs.
- The best part of the HSA is that any money you don’t spend rolls over from year to year (unlike money in a flexible spending account). This way, you can start building up a reserve for future medical expenses that you and your family may incur.
- The next best part of the HSA is that everything is tax-free to you. If you pay via payroll deduction, your contributions are pre-tax. Your interest and investment earnings are tax-free. And your reimbursements are tax-free. But remember: if you use the money for anything other than qualified medical expenses, you will owe a 20% tax on the amount of the reimbursement. (Note that once you reach age 65, there is no 10% tax on funds you withdraw to pay non-qualified expenses.)