Q&A: HEALTH SAVINGS ACCOUNT (HSA)

An HSA is a tax-exempt trust or custodial account created exclusively to pay for qualified medical expenses of the account holder/employee and his or her spouse or tax dependents. An HSA is offered only in conjunction with a High Deductible Health Plan. Following is a Health Savings Accounts Q&A.

What are the High Deductible Health Plan requirements? (2015 rules indexed by the IRS annually):
- Single deductible must be a minimum of $1,300 with an annual out-of-pocket maximum (including deductible) of not more than $6,450.
- Family deductible must be a minimum of $2,600 with an annual out-of-pocket maximum (including deductible) of not more than $12,900.

What benefits are not subject to annual deductibles?
Preventive care.

What constitutes a Qualified Medical Expense?
May include those as listed in IRS Publication 502. Not all IRS qualified medical expenses are qualified medical expenses of the High Deductible Health Plan; therefore, these expenses will not be credited towards the deductible but may be reimbursed through the HSA. Expenses paid for an individual’s adult child who is not a tax dependent are not qualified medical expenses.

Who funds the account? Employee, employer or both.

What is the tax treatment of contributions?
Employer contributions are tax deductible. Employee contributions are excludable from gross income and not subject to payroll taxes.

Who owns the money in these accounts? The employee. 100% vested immediately on all contributions no matter the source.

Does interest accrue on funds deposited in the account? Yes. Interest accrues tax-free.

Do contributions carry forward into next plan year? Yes.

Can these dollars be used for retirement income dollars? Yes, but distributions not used exclusively to pay for qualified medical expenses under IRC 213(d) are subject to a 20% surtax except when an individual qualifies for Medicare, is disabled or has died during the year.

Are there dollar limits on the contributions per year to the investment vehicle or account? The maximum contribution for 2015 is $3,350 for single and $6,650 for family coverage, excluding catch-up contributions for those 55 years and older. (Contributions are no longer limited by health plan deductible.) Catch-up contributions for those over age 55? $1,000 in 2015.

How is money withdrawn? Check or debit card.

When can funds be used to pay for health insurance premiums? Only while receiving unemployment benefits, while receiving COBRA continuation benefits, or, if age 65 or older, for health insurance other than a Medicare supplemental policy.

Can funds be used to pay for Long-Term Care insurance? Yes, with certain restrictions.

What other types of insurance are considered “permitted” insurance?
Workers’ compensation, tort and property liability insurance, insurance for a specified illness or disease (e.g. cancer insurance), long-term care insurance, or coverage that has a fixed dollar amount or daily benefits such as hospitalization indemnity coverage.

Are withdrawals for non-medical expenses allowed? Yes, but distributions not used exclusively to pay for qualified medical expenses under IRC 213(d) are subject to a 20% surtax except when an individual qualifies for Medicare, is disabled or has died during the year.

Are accounts portable? Yes. Employees may take funds with them when they leave or change jobs.

If a qualifying event occurs mid-year, can the participant change their elections? Yes.

Are health plan & health savings accounts covered under COBRA? The underlying HDHP is subject to COBRA. The HSA will be subject to COBRA only in unusual circumstances.

Can an individual with another “low deductible” plan contribute to a HSA? No. If the spouse is covered under the employee’s plan, even the spouse’s plan would need to qualify as a “high deductible” plan in order for the employee to contribute more than the single amount to an HSA. No other first-dollar coverage plans would be allowed.

Can an individual entitled to Medicare contribute to a HSA? No. To be entitled to Medicare, an individual must be eligible and enrolled in Medicare Part A, Part B and/or Part D.