FAQs Health Savings Account

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What is a Health Savings Account ("HSA")?
A Health Savings Account is a savings product that allows individuals to pay for current qualified medical expenses, or save towards future medical expenses on a tax-free basis. To qualify for an HSA you must first be enrolled in a qualified High Deductible Health Plan (HDHP.).

Who is responsible for managing my HSA?
As the account holder of your HSA it is your responsibility to keep track of your deposits and withdrawals. You can always view your account online for your transaction history, view current balances, or obtain a statement for your records (if you opt in for e-Statements). You should also keep your receipts for any funds used to pay for qualified medical expenses.

Who is eligible to contribute funds into my Health Savings Account?
In order to open and fund an HSA, an individual must be enrolled in an HSA-qualified high deductible health insurance plan. They cannot be enrolled in Medicare or Medicaid, cannot be eligible to be claimed as a dependent on another person's tax return, and must be over 18 years of age. If an individual meets these guidelines, they, their employer, and/or any third party are able to contribute funds into their health savings account up to the IRS allowable limits for the year.

If I choose to contribute to my HSA each month do I have to commit to predetermined amount?
No, you may contribute any amount you wish and as frequently as you wish. We have a variety of ways to make contributions to your account, We make it easy for any lifestyle. Your contributions will remain in your HSA from year-to-year until you use them. You do not have to make withdrawals each year.

Can a husband and wife establish a "joint" HSA if they are covered under a family HDHP plan?
No, HSAs are single accounts only, joint accounts are not permitted. Each spouse can open a single HSA and can contribute up to the family contribution limit for the year as a total combined contribution.

How much can I contribute to my HSA?
The maximum annual contribution that an individual, with individual coverage, can make to an HSA is $3,050 for 2011. In the case of a family, with family coverage, the maximum annual contribution is $6,150 for 2011. The contribution is not limited to the annual deductible under the high deductible health plan.

How much may I contribute to the account if I establish my HDHP after January 1, 2011?
An individual or family, who are covered under an HDHP in a month other than January, may make a full HSA contribution for the year as long as certain conditions are met. However, if you cease to remain an eligible individual throughout 2011, the extra amount contributed is included in income and subject to an additional 10 percent tax; according to the 12 month testing period rule.

> Example: An individual enrolls in an HDHP in December of 2011 and is otherwise an eligible individual in that month. The individual is not an eligible individual in any other month in 2011. The individual can make an HSA contribution for 2011 as if he or she had been enrolled in the HDHP for all of 2011. If the individual ceases to be an eligible individual (e.g., if he or she ceases to be covered under an HDHP) in June 2012, an amount equal to

the HSA deduction attributable to treating the individual as an eligible individual for January through November 2011 is included in the individual's income in 2012.

Can I use Funds from My IRA to fund my HSA?
An individual may make a one-time contribution to an HSA of an amount distributed from an IRA.
The contribution must be made in a direct trustee-to trustee transfer. Amounts distributed from the IRA are not includible in the individual's income to the extent that the distribution would otherwise be includible in income. Such distributions are not subject to the 20 percent additional tax on early distributions.

The amount that can be distributed from the IRA and contributed to an HSA is limited to the maximum contribution to the HSA computed on the basis of, individual vs. family coverage under the HDHP at the time of the contribution. The amount that can be contributed to the HSA is reduced by the amount contributed from the IRA. No deduction is allowed from the amount contributed from an IRA to an HSA.

An individual is allowed only one distribution and contribution during his or her lifetime, except if a distribution and contribution are made during a month in which an individual has individual coverage as of the first day of the month, an additional distribution and contribution may be made during a subsequent month within the taxable year in which the individual changes to family coverage. The limit applies to the combination of both contributions.

May I use my HRA or FSA to fund my HSA?
An individual may make a one-time contribution to an HSA of an amount distributed from an HRA or FSA and contributed through a direct transfer to an HSA without violating the otherwise applicable requirements for such arrangements.

The amount that can be distributed from the Health FSA or HRA may not exceed an amount equal to the lesser of (i) the balance in the Health FSA or HRA as of September 21, 2006, or (ii) the balance in the Health FSA or HRA as of the date of the distribution. The balance in the Health FSA or HRA as of any date is determined on a cash basis (i.e., expenses incurred that have not been reimbursed as of the date the determination is made are not taken into account).

Any amounts contributed to the HSA are excluded from the employee's income for income and employment tax purposes and are not taken into account in applying the maximum deduction limitation for HSA contributions. This provision is limited to one distribution with respect to each Health FSA or HRA of the individual.

Now that I am eligible to carry my dependant up to the age of 26 on my HDHP, can I use my HSA funds to cover their medical expenses?
Yes, only if the adult child is considered a tax dependant. Important Note: The tax laws regarding HSAs have not changed to coincide with this mandate. Presently, someone may only claim a child on their *taxes* up to the age of 24. An adult child must still be considered a "tax dependent" in order for the parent to use their HSA to pay for their child's medical expenses.

How do I make withdrawals (or take distributions) from my HSA?
You can make tax-free withdrawals (also known as distributions) from your HSA to pay for qualified medical expenses at any time during the year. When your account is opened, you receive a debit card and checks for easy access to your funds. However, you do not have to make withdrawals from your HSA each year. Your contributions remain in your HSA from year-to-year until you use them. If you make withdrawals for non-qualified medical expenses or for other reasons, the

amount withdrawn will be subject to income tax and may be subject to an excise tax as well. Please keep in mind you should track all of your withdrawals from your HSA so you can supply documentation on your expenditures, if needed. It is up to you to monitor the deposits and withdrawals made to your HSA.

How do I report distributions on my tax return?
How you report your distributions depends on whether or not you used the distribution for qualified medical expenses.

- When you use a distribution from your HSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040.
- When you do not use a distribution from your HSA for qualified medical expenses, you must pay tax on the distribution and report the amount on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040. You must also report and pay an additional tax on your IRS Form 1040, unless you meet one of the exceptions established by the IRS. You will need to contact the IRS or your accountant for more information on the exceptions.

In addition, if an amount is contributed to your HSA this year (by you or your employer), and the HSA is used to pay for medical expenses of someone who is not covered by a high deductible health plan (HDHP), or is also covered by another health plan that is not an HDHP, at the time the expenses are incurred, you must report and pay tax on the distribution. See the IRS instructions on Form 8889 for more information.

Reporting and paying the additional tax: After December 31, 2010, the penalty levied on non-qualified HSA distributions (withdrawals taken before age 65 which are not for qualified medical expenses) will be increased from 10% to **20%**. Once someone has reached retirement age, they may use HSA funds for non-medical purchases, and the amount would only be taxed as income. The account owner is required to report the additional tax in the Other Taxes section of your IRS Form 1040.
Exceptions to the additional tax: There is no additional tax if you are disabled, age 65 or older, or die during the year.

Have the limitations around over-the-counter drugs changed from previous years?
Yes, effective January 01, 2011, account holders are required to obtain a prescription from a physician if purchasing over-the-counter drugs, to be considered an eligible reimbursement expense against an HSA.
This change impacts over-the-counter items falling under the following categories:

- Allergy & Sinus
- Cold & Flu
- Pain Relief
- Respiratory Treatments
- Sleep Aids
- Stomach remedies

Although it may not be needed at the time of purchase, it is recommended that HSA account holders keep prescriptions along with receipts in their records in case they are ever audited.

Listed below are other expenses which the IRS defines as HSA-qualified:

- Health insurance premiums under COBRA continuation coverage.
- Health insurance premiums while receiving unemployment compensation.
- Medicare Part A and Part B premiums.
- A qualified long-term care insurance contract.

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What if I purchase an over-the-counter medication before January 1, 2011?
Expenses incurred for over-the-counter medicines or drugs purchased without a prescription before January 1, 2011 may be reimbursed tax-free at any time. You may continue to make purchases up until December 31, 2010 without a prescription for qualified medical expenses. To find a complete listing of HSA-eligible medical expenses which do not require a physician prescription, please refer to Publication 502 on the IRS web site.

Are health insurance premiums qualified medical expenses?
In most cases, health insurance premiums are not qualified medical expenses. However, the following are exceptions:

- Premiums for qualified long-term care insurance
- Premiums for COBRA health care continuation coverage
- Premiums for health coverage while an individual is receiving unemployment compensation
- For individuals over age 65, premiums for Medicare Part A or B, a Medicare HMO and the employee share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance. Premiums for Medigap policies are not qualified medical expenses.