Health Savings Account (HSA)

Frequently Asked Questions
(as of 10/3/11)

Am I eligible for a HSA?
To qualify for a HSA, you must be covered by a High-Deductible Health Plan (HDHP). You are ineligible for a HSA if you are covered by any health insurance plan other than a HDHP, have applied for Social Security benefits, receive Medicare benefits or are claimed as a dependent on another person's tax return.

Are there HSA income limits?
There are no income limits to qualify for a HSA, and your contributions do not need to come from employment earnings. You can make deposits from personal savings, dividends, and unemployment or welfare benefits.

What is a High-Deductible Health Plan (HDHP)?
A HDHP is a type of health insurance that has lower monthly fees and higher annual deductibles than traditional health plans (a minimum of $1,200 for self and $2,400 for family coverage). Choosing a HDHP can reduce the amount you pay in premiums each year, and increase take-home pay. Annual out-of-pocket costs (including deductibles and co-pays) cannot exceed $5,950 for self coverage and $11,900 for a family plan.

What expenses can I cover with my HSA?
Most medical, dental and vision care, as well as prescription drugs are eligible for tax-free payment from your HSA. These expenses must be incurred by you, your spouse or dependents. Alternative treatments, such as acupuncture and chiropractic care, may also qualify. Examples of ineligible expenses are cosmetic surgery, weight-loss programs and athletic club memberships. For a more complete list of acceptable expenses, see IRS Form 502*(pdf)

What happens if I use my HSA for ineligible expenses?
The withdrawal will be subject to regular income tax (if you're under 65), as well as roughly 10% in penalty tax.

What are the Contribution Rules?
- Contributions can be made by the employer or the individual, or both
- The maximum amount that can be contributed (and deducted) to a HSA from all sources as specified by law is:
  - $3,100 (self-only coverage)
  - $6,250 (family coverage)

Can I make "catch-up" contributions at age 55?
If you're 55 or older, you can deposit additional funds each year to help your account "catch up" before retirement. The maximum annual catch-up contributions are:
  - 2009 and beyond - $1000

Are HSA contributions tax-deductible?
Money you deposit in your HSA qualifies for an "above-the-line" deduction. If a relative or friend makes a gift contribution to your HSA, you still receive the tax deduction. However, you do not get tax breaks on the contributions your employer makes.

Can I make pre-tax contributions through my employer?
If your employer provides a salary reduction plan (also called a "Section 125" or "cafeteria" plan), you can make contributions to your HSA on a pre-tax basis. Once you claim this tax advantage, you can no longer take the "above-the-line" deduction.

Does the money in my HSA earn interest?
Yes. We pay competitive interest rates on the account. It is FDIC-insured and earnings are tax-free when used to pay for medically eligible expenses.

Can my spouse be an owner on my account?
No. The HSA can only be established as an individual account but you can assign your spouse to be a Power of Attorney on the account. However, you can use funds from your HSA to cover eligible medical expenses for your spouse and/or dependents. For maximum savings potential, both you and your spouse should have a HSA. This way, each of you can make catch-up contributions when you turn 55.

Can a spouse or dependent access my account?
Yes. You first need to grant your spouse or dependent Power of Attorney. This is a legal document that gives another person the authority to act on your behalf. Power of Attorney is frequently used in the event of illness or disability, when the grantor is unable to attend to legal or financial affairs.

Does my HSA roll over each year?
Yes. The money in your HSA is always yours to keep, with no "use it or lose it" rules. Funds are allowed to grow year after year, with no maximum cap.

What happens to my HSA when I turn 65?
You can continue to use the account tax-free for eligible out-of-pocket medical expenses. When your Medicare coverage takes effect, your HSA can take care of Medicare premiums, deductibles and co-pays. At this age, you can also use HSA funds for non-medical reasons. The amount withdrawn will be taxable as income, but is not subject to penalties.

What happens to my HSA when I die?
If you are married and your spouse is a named beneficiary, s/he becomes the owner of the account and assumes it as his/her own HSA. If you are unmarried, your account will cease to be a HSA. It will pass to beneficiaries or become a part of your estate, and be subject to applicable taxes.

What if I lose my HDHP coverage?
You can continue to pay for qualified medical expenses without having to pay tax or penalties. However, you won't be able to make any more contributions to the account. There is no time limit on using the funds. They will remain in your HSA until you need them.

Can I roll over funds from health FSAs and HRAs into HSAs?
You can transfer funds from Flexible Spending Arrangements (FSAs) or Health Reimbursement Arrangements (HRAs) to a HSA. The amounts rolled over to HSAs from FSAs or HRAs are over and above the amounts allowed as annual contributions. You are limited to one distribution with respect to each health FSA or HRA.

Is a HSA contribution pro-rated based on when an individual becomes eligible?
Normally, the HSA contribution is pro-rated based on the number of months during the year you were eligible. The new provisions provide an exception to this rule that will allow you to make the maximum HSA contribution no matter when your coverage starts during the year.

Can I transfer funds from my IRA to a HSA?
You are allowed a one-time contribution to a HSA of amounts distributed from an Individual Retirement Account (IRA). The contribution must be made in a direct trustee-to-trustee transfer. The IRA transfer will not be included in income or subject to the early withdrawal additional tax. The transfer is limited to the maximum HSA contribution for the year, and the amount contributed is not allowed as a deduction.

Please consult your tax professionals regarding deductibility.