DAVEVIC

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Health Savings Accounts

Employers' Frequently Asked Questions

QUESTION	***ANSWER***
What are the key features of HSA?	• Money can be contributed pre-tax. • Funds can earn interest or investment returns tax-free. • The money can be used tax-free to pay for qualified medical expenses. • Balances can be used in future years and the HSA is portable.
Can the money in a person's HSA be taken away? Do HSAs, like flexible spending accounts (FSAs), have a "use-it or lose-it" rule?	No. Once money is contributed to an HSA, it belongs to the participant and can't be forfeited.

What is a high deductible health plan (HDHP)?	An HDHP is health insurance that satisfies certain government requirements.
	• For **2012,** an HDHP for an individual must have
	  – Annual deductible of **$1,200** or greater
	  – An annual out-of-pocket limit of **$6,050**.
	• For **2012,** an HDHP for a family must have
	  – An annual deductible of at least **$2,400**
	  – An annual out-of-pocket limit of **$12,100**
	The deductible and out-of-pocket amounts change annually to account for inflation.
	Except for preventative care, the coverage may not provide benefits until the annual deductible for the year is met.

What happens to an HSA balance if a participant loses HDHP coverage, and therefore eligibility?	The participant can still use the funds in the HSA to reimburse qualified medical expenses without penalty. The participant cannot make new contributions to the account.
Who can have an HSA and who owns the account?	To qualify: • A person must be covered by an HDHP on the first day of the month. • A person must not be covered by any medical benefit that is not a qualified HDHP. • A person must not be enrolled in Medicare benefits. • A person may not be claimed as a dependent on someone else's tax return.
If an employer offers both standard health coverage and an HDHP, can the employees still enroll in an HSA?	Yes. The employees who choose the HDHP can enroll in an HSA.
What type of FSA can people use while participating in an HSA?	• Limited-purpose FSAs that only reimburse benefits such as vision, dental, or preventive care • FSAs that only reimburse expenses after the minimum annual deductible has been satisfied
When and how can the HSA be funded?	• The HSA may be funded at any time prior to the participant's tax filing deadline (usually April 15th of the following year). • It must be funded in cash (i.e., it cannot be funded with credit, stocks or property). • It may be funded at any time during the year as long as the participant is eligible.
Do HSA contributions have to be made in equal amounts each month?	No. The amount and frequency can vary. Funds can even be contributed in a single lump sum. The total can't exceed the annual contribution limit.

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What is the maximum annual HSA contribution?	For **2012**, the maximum contribution is: • **$3,100** for self-only coverage • **$6,250** for family coverage
What are HSA catch-up contributions?	People between ages 55 and 65 can contribute an extra **$1,000** in **2012**.
Who can contribute to an HSA and take a tax deduction?	Anyone can contribute to an individual's HSA, including relatives and the sponsor (usually the employer). For contributions other than the sponsor's, the tax deduction would benefit the participant and not the contributor.
How are employer contributions treated?	Contributions made by an employer are tax-deductible for the company, do not require income-tax withholding and are not subject to FICA, FUTA or the Railroad Retirement Act.
Can employees make HSA contributions through their employer's section 125 plan?	Yes. This permits employer-matching, additional contributions for participating in wellness and disease management, and catch-up contributions as long as non-discrimination rules are followed.
What are comparable contributions?	Employers who make contributions must make comparable contributions to all eligible participants within specifically defined groups with comparable coverage during the same period. Contributions must be either the same amount or same percentage of the HDHP deductible. There are four categories of participants: 1) full time 2) part-time 3) former 4) non-highly compensated employees. Those categories are also broken down: 1) self coverage 2) family coverage An employer may make higher contributions to non-highly compensated employees. A sponsor can discriminate between categories, but not within. The comparability rule does not apply to rollovers from another HSA or Archer MSA. If a sponsor does not pass comparability, a 35% tax penalty is assessed on all of the sponsor's contributions to all employees.
What is a 'qualified medical expense?'	Qualified medical expenses are defined in section 213 (d) of the Internal Revenue Code, but only to the extent the expenses are not covered by insurance or otherwise. Expenses must be incurred after the HSA has been established in order to be reimbursed from the HSA.
Is there a list of 'qualified medical expenses?'	Yes. Section 213 (d) of the Internal Revenue Code defines qualified medical expenses. Please check www.irs.gov for more information.
Are there any taxes or penalties associated with distributions for non-qualified medical expenses?	Yes. • **Participants under age 65:** Non-qualified withdrawals subject to income tax plus an additional 20% penalty. • **Participants age 65 and older:** Non-qualified withdrawals subject to income tax.
What medical expense records must be kept?	Records should be kept with tax year information and must show: • That the money was used for qualified medical expenses • That the expenses had not been taken as an itemized deduction in any tax year.
Who is responsible for determining that a medical expense is 'qualified?'	The participant is responsible for determining the status of medical expenses reimbursed from an HSA.