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my health. my choice.
issue two

Health Savings Account

What is it?

HSA is a tax-advantaged account similar to a savings or checking account and is usually established with a bank or insurance company. Only individuals enrolled in a High Deductible Health Plan are eligible to make tax deductible contributions to an HSA. Contributions to HSAs can be made on a pre-tax basis through the convenience of salary deferral or directly to the HSA administrator in which case you receive your tax deduction when you file your Federal tax return for the year. In addition, any funds withdrawn from an HSA (including employer contributions) are never taxed as long as they are used to pay for qualified expenses (see page 2)*.

Funding Limits

For 2013, annual contributions to an HSA are limited to \$3,250 for single coverage and \$6,450 for family coverage. Employers may also make contributions to an HSA on behalf of their employees who elect the HDHP option. However, the combined total contribution cannot exceed the annual limit. If you are age 55 or older, you may make a “catch-up” contribution each year to the HSA. In 2013, the “catch-up” amount is \$1,000. An additional point to remember is you are entitled to 1/12 of the maximum contribution for each month in which you are an HSA-eligible individual—special rules may apply for newly eligible individuals during the year.



It's Your Money

Unused HSA funds stay in your account and continue to accumulate and earn non-taxable interest or investment return over the life of the account. Your account is portable. You can take your account with you if you retire or leave your employment. ***All funds in your HSA are your money!*** **Note:** You will not pay taxes on HSA funds used for the reimbursement of eligible expenses; however, HSA funds used for ineligible expenses become taxable to you and are generally subject to a 20% additional tax.

Tax Reporting

HSAs have some significant tax advantages because contributions to an HSA are tax favored and earn tax free interest or investment return. Account owners must file Form 8889 with their individual tax return. The form and instructions are posted on the IRS website at www.irs.gov. You should consult with your tax advisor to determine eligibility

requirements and tax advantages for participating in the HSA.

HSA Eligibility Requirements

In order to be eligible for an HSA account, you must:

- Be covered by a plan that qualifies as a “High Deductible Health Plan”
- Not be claimed as a dependent on another person's tax return
- Not be covered under another medical plan (including TRICARE) that is not an HDHP
- Not be enrolled in Medicare Part A or B (active employees age 65 or over can contribute to an HSA as long as they are not enrolled in either Medicare Part A or Part B)
- Not be in receipt of VA medical or prescription benefits within the previous three months. IRS guidance states that otherwise eligible individuals are not eligible to make contributions to an HSA in any month if the individual received medical or prescription benefits from the VA at any time during the previous 3 months.

**State laws may vary; however, most states follow Federal tax guidelines.*

HSA Facts

- Money in an HSA is **the account owners** and **earns tax-free interest or investment return**
- Reimbursements for qualified healthcare expenses are made with tax-free dollars
- Enrollment in a HDHP is required to make contributions to an HSA
- Contributions to an HSA are limited by the annual maximum amounts, generally accrued on a monthly basis
- Account balance is portable
- Funds not used for qualified expenses are included in taxable income for the year and subject to an additional 20% tax (additional tax is waived if payment is made after the individual attains age 65, becomes disabled, or dies).
- Account owner needs to ensure annual contributions to HSA do not exceed annual contribution limits by carefully monitoring the account and removing any excess amount on a timely basis. The HSA administrator can help with the withdrawal procedure.

Qualified Expenses under an HSA

Only qualified healthcare expenses, as allowed by the IRS, are eligible for reimbursement from a Health Savings Account on a tax-free basis. The following listing provides a sampling of eligible reimbursement expenses under an HSA.

- Medical, dental, and vision deductibles and coinsurance amounts
- Certain Long Term Care insurance premiums
- COBRA continuation health coverage premiums
- Hearing aids
- Smoking cessation programs
- Wheelchairs
- Organ transplants
- Medicare premiums (excluding supplemental plans)

You can obtain additional information from the IRS concerning allowable expenses by calling **1-800-829-3676** to request a copy of IRS Publication #502 (be aware not all items listed, such as insurance premiums that may only be reimbursed in limited circumstances from an HSA, are eligible for HSA reimbursement) or by visiting the IRS website at **www.irs.gov** and clicking on “More Forms and Publications”.



What's Next?

In Issue 3 of “my health. my choice.” look for information regarding your High Deductible Health Plan. Topics covered will be:

- What it is
- How it works

