

HSA's: Who's eligible? Who's not?

A Health Savings Account (HSA) allows you to set aside pre-tax dollars for future medical, retirement, COBRA or long-term care premium expenses. Invest these funds as you wish within the range of choices offered by your HSA vendor; then use them for qualified expenses. The funds can roll over from year to year, and you can take them with you when you change jobs or retire. An HSA is a separate account, independent of your medical plan. Think of it like a “healthcare IRA”.



All of these benefits come with a price – there are stringent rules as to who can open and contribute to an HSA –

- **Who can open an HSA:** To open an HSA in your name, you must be enrolled in a qualified high-deductible health plan (HDHP) for the months for which contributions are made to the HSA. For 2012, the minimum annual deductible is \$1,200 for a self-only plan or \$2,400 for a family plan. The HDHP can be in your name or your spouse's.
- **Can I have other coverage:** You must not be covered by another medical plan that is not a HDHP (dental, vision, life and disability plans are OK). Certain types of insurance like disease or illness specific plans, e.g. cancer insurance that pays a specific dollar amount, are not considered “health insurance” and will NOT jeopardize your eligibility for an HSA. Wellness programs offered by your employer are also permitted if they do not pay significant medical benefits.
- **What if I'm not an “employee”:** You do not need to be an “employee” to be eligible for an HSA. More-than-2% shareholders in a Subchapter S corporation, partners in a partnership, sole proprietors, and other self-employed individuals, and even unemployed individuals can establish and contribute to HSAs, if you otherwise qualify as an eligible individual.
- **Can I contribute to an HSA and an FSA account at the same time:** A Flexible Spending Arrangement (FSA) and a HSA is probably OK if the FSA is:
 - A “Limited purpose” FSA (limited to dental, vision, or preventive care)
 - A “post-deductible” FSA (for medical expenses after the plan deductible is met)Note: If your spouse enrolls in his or her employer's FSA, and you qualify as his or her tax dependent under cafeteria 125 rules (and you most likely do) that means you are also eligible for benefits in that FSA, which makes you *ineligible* for an HSA.
- **Can I contribute to an HSA and an HRA account at the same time:** A Health Reimbursement Arrangement (HRA) and a HSA is probably OK if the HRA is:
 - A “Limited purpose” HRA (limited to dental, vision, or preventive care)
 - A “post-deductible” HRA (for medical expenses after the plan deductible is met)
 - Can only be used when you retire

- **Can my covered spouse and children own their own HSA account:** According to the rules, HSAs are essentially limited to adults – you cannot establish a standalone HSA for your children if they are eligible to be claimed as dependents for tax purposes. This is true even if the deduction is not actually claimed. A spouse is not considered to be a tax dependent under Code § 151 (or under Code § 152), even though you may claim an exemption for your spouse, so you and your spouse can each set up your own HSA accounts as long as you meet the other HSA rules.
- **What if I enroll in Medicare:** Once either spouse enrolls in Medicare, that spouse can no longer contribute any funds, including catch-up amounts, to his or her Health Savings Account. If you enroll in Social Security you will be automatically enrolled in Medicare Part A, which will disqualify you from contributing to an HSA. You can delay enrollment in Medicare Part A only if you delay taking Social Security. You can delay taking Social Security up until age 70 and one half years old. If you had an HSA before you enrolled in Medicare you can use those funds to pay for qualified expenses incurred both before and after your Medicare eligibility goes into effect.
- **What if I receive benefits from Medicaid:** You cannot be receiving benefits from a Medicaid program.
- **What if I have Tricare benefits:** Tricare does not currently offer an HSA qualified high deductible health plan. Therefore, if you are on Tricare you cannot have an HSA. Once Tricare offers and HSA qualified high deductible health plan, and you select it, you can have an HSA.
- **What if I receive health benefits from the Veterans Administration:** If you have received any Veterans Administration health benefits within the last three months, neither you nor your employer can contribute to an HSA.
- **What if I contribute to an HSA but don't incur eligible expenses that year:** You do not need to incur medical expenses in a particular year to be eligible for an HSA. For example, if you never become ill, go to a doctor, etc., you still can establish and fully fund your HSA.
- **Can I contribute to an HSA even if I'm not employed:** You do not have to have a job or earned income from employment to be eligible for an HSA – in other words, the money can be from your own personal savings, income from dividends, unemployment, etc.
- **What if I don't file a Federal Tax Return:** There are no income limits that affect HSA eligibility. However, if you do not file a federal income tax Return, you may not receive all the tax benefits HSAs offer.

The reasons to start an HSA are many and compelling – the money in your Health Savings Account is your own. Since it is your money, it goes with you when you change jobs. There is no time limit for when you can reimburse yourself for your health care expenses; you just need to keep legible receipts and records in case you do reimburse yourself, or in case you are audited. You decide whether to spend from the account for your medical expenses and how much to spend, or whether to spend out-of-pocket and to save the HSA money for the future.

Plan documents and HSA administrator materials will provide complete plan details.



Contributions & Distributions HSA & Tax Return Implications



The time to file your taxes might be right around the corner or it could be months away, but there are some important items to keep in mind to make sure you are ready when it's your turn to file.

Reporting Contributions on Your Return

You can claim contribution you have made to your HSA account as an adjustment to income. You should receive a form (Form 5498) from the trustee of your HSA account (i.e. Wells Fargo, H.S.A. Bank, etc.) showing the amount **you** contributed to your HSA during the year.

*However, if you've made those contributions on a **pre-tax basis** through cafeteria plan 125 payroll deductions, then those amounts have already been reduced on your reportable income; therefore you will not be able to claim such amounts – this would be considered a double-dip.*

Excess Contributions

You will have excess contributions if the contributions to your HSA for the year are greater than the following contribution limits for 2012:

2012	\$3,100 for self-coverage	\$6,250 for family coverage
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If you are age 55 and older you may also contribute a catch up contribution of \$1,000.

Generally, you will pay a 6% excise tax on excess contributions. However, if either of the following applies you will either not pay any excise tax or reduce the amount you owe.

- You withdraw the excess contribution by the due date, including extensions, of your tax return for the year the contributions were made.
- You withdraw any income earned on the withdrawn contributions and include the earnings in "Other income" on your tax return for the year you withdraw the contributions and earnings.

Reporting Distributions on Your Return

How you report your distributions depends on whether or not you use the distribution for qualified medical expenses.

- If you use a distribution from your HSA account for qualified medical expenses, **you do not pay tax on the distribution**, but you do need to report the distribution on Form 8889. However, the distribution of an excess contribution taken out after the due date, including extensions, of your return is subject to tax even if used for qualified medical expenses.

- If you do not use a distribution from your HSA account for qualified medical expenses, **you must pay tax on the distribution.** You will use Form 8889 to report such distributions.

Additional tax

There is an additional 20% tax on the part of your distributions not used for qualified medical expenses. (**Exceptions:** *There is no additional tax on distributions made after the date you are disabled, reach age 65, or die.*)

As your benefits broker, we cannot offer tax counsel or advice.

For more information please seek your tax advisor or visit www.irs.gov



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How Health Savings Accounts Work Best: 7 Tips to Maximize Your HSA Success



Here are a few tips to maximize your success with an HSA.

Preventive Care

Take advantage of preventive services, such as annual physicals, mammograms, and pap smears that are covered by your High Deductible Health Plan with no copay or deductible.

Health Care Facilities

Seek out the best health care facilities. When you do need health care services, find an appropriate facility and deal with high quality health care providers. If you go into a hospital for certain high-risk surgeries and conditions (e.g. open-heart surgery), choose a hospital with extensive experience one that achieves the best results.

Emergency Room

Visit the emergency room only for true emergencies. Do not visit an emergency room if you can be seen in a health center or physician's office.

Research, Research, Research!

Research information about your illness or injury. Seek out information from reputable sources (e.g. PHC4, the Leapfrog Group, WebMD, MedinePlus) about your illness or injury.

Medical Errors

Be aware of potential medical errors. More than 1 million medical errors occur every year in U.S. hospitals, costing more than \$2 billion. Access hospitals that use "computerized order entry" of medications, which reduces serious prescribing errors in hospitals by more than 50 percent.

Adopt a Healthy Lifestyle

Your first, second, and third priorities should be to stay healthy. If you stay healthy, you will preserve money in your HSA. The money then carries over to the next year, earns investment income, and is available to pay for future "eligible medical expenses." Throw away the cigarettes, exercise, eat well, and avoid the growing obesity epidemic. When you do, you preserve money in your HSA.