

Frequently Asked Questions

Health Savings Accounts (HSA)

GENERAL QUESTIONS

Q: What is a Health Savings Account (HSA) and how does it work?

A: A Health Savings Account (HSA) is an alternative to traditional health insurance; it is a savings product that offers a different way for consumers to pay for their health care. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

You must be covered by a High Deductible Health Plan (HDHP) to be able to take advantage of HSAs. An HDHP is a less expensive health insurance plan that generally doesn't pay for the first several thousand dollars of health care expenses (i.e., your "deductible") but will generally cover expenses after the deductible has been satisfied. Of course, your HSA is available to help you pay for the expenses your plan does not cover.

For 2017, in order to qualify to open an HSA, your HDHP minimum deductible must be at least \$1,300 (self-only coverage) or \$2,600 (family coverage). The annual out-of-pocket (including deductibles and co-pays) for 2017 cannot exceed \$6,550 (self-only coverage) or \$13,100 (family coverage). HDHPs can have first dollar coverage (no deductible) for preventive care and apply higher out-of-pocket limits (and co-pays & coinsurance) for non-network services.

You own and you control the money in your HSA. Decisions on how to spend the money are made by you without relying on a third party or a health insurer. You will also decide what types of investments to make with the money in the account in order to make it grow.

Q: Who is eligible for an HSA?

A: To be eligible for a Health Savings Account, an individual must be covered by an HSA-qualified High Deductible Health Plan (HDHP) and must not be covered by other health insurance that is not a

HDHP. Certain types of insurance are not considered "health insurance" (see below) and will not jeopardize your eligibility for an HSA.

- You are only allowed to have automobile, dental, vision, disability and long-term care insurance at the same time as an HDHP.
- You may also have coverage for a specific disease or illness as long as it pays a specific dollar amount when the policy is triggered.
- Wellness programs offered by your employer are also permitted if they do not pay significant medical benefits.

Q: Who is not eligible for an HSA??

- A:** The individuals listed below are not eligible to have a Health Savings Account:
- An individual without health insurance coverage under a HDHP.
 - You are not eligible for an HSA after you have enrolled in Medicare. If you had an HSA before you enrolled in Medicare, you can keep it. However, you cannot continue to make contributions to an HSA after you enroll in Medicare.
 - If you have received any health benefits from the Veterans Administration or one of their facilities, including prescription drugs, in the last three months, you are not eligible for an HSA.
 - If you are an active-duty military and have Tricare coverage. At this time, Tricare does not offer an HDHP options.
 - You cannot have an HSA if your spouse's FSA or HRA can pay for any of your medical expenses before your HDHP deductible is met.

Q: Does the HDHP policy have to be in my name to open an HSA?

A: No, the policy does not have to be in your name. As long as you have coverage under the HDHP policy, you can be eligible for an HSA (assuming you meet the other eligibility requirements for contributing to an HSA). You can still be eligible for an HSA even if the policy is in your spouse's name.

Q: My employer offers an FSA, can I have both an FSA and an HSA?

A: You can have both types of accounts, but only under certain circumstances. General Flexible Spending Arrangements (FSAs) will probably make you ineligible for an HSA. If your employer offers a “limited purpose” (limited to dental, vision or preventive care) or “post-deductible” (pay for medical expenses after the plan deductible is met) FSA, then you can still be eligible for an HSA.

Q: My employer offers an HRA, can I have both an HRA and an HSA?

A: You can have both types of accounts, but only under certain circumstances. General Health Reimbursement Arrangements (HRAs) will probably make you ineligible for an HSA. If your employer offers a “limited purpose” (limited to dental, vision or preventive care) or “post-deductible” (pay for medical expenses after the plan deductible is met) HRA, then you can still be eligible for an HSA. If your employer contributes to an HRA that can only be used when you retire, you can still be eligible for an HSA.

Q: How much does an HSA cost?

A: An HSA is not something you purchase; it’s a savings account into which you can deposit money on a tax-preferred basis. However, HSA trustees often will charge fees for their services. The fees associated with having an HSA are covered by your employer. If you terminate employment your account is portable and will be transferred to you and the fees for having the account will be charged to your account.

CONTRIBUTING TO AN HSA

Q: How much can I contribute to my HSA each year?

A: Your maximum annual HSA contribution is based on the statutory limit for your type of coverage. For 2017, if you have self-only HDHP coverage, your contribution is limited to \$3,400; \$6,750 if you have family HDHP coverage, no matter what your HDHP deductible is. If you are age 55 or older, you can also make additional “catch-up” contributions (see below).

Q: I have a very high deductible, is there a limit on how much I can contribute?

A: The most you can put into your account for 2017 is \$3,400 if you have single HDHP coverage and

\$6,750 if you have family HDHP coverage. These amounts will be increased for inflation in future years.

Q: Do my HSA contributions have to be made in equal amounts each month?

A: No, you can contribute in a lump sum or in any amounts or frequency you wish. However, your account trustee/custodian (bank, credit union, insurer, etc.) can impose minimum deposit and balance requirements.

Q: Does my contribution depend on when I establish my HSA account or when my HDHP coverage begins?

A: Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. Your annual contribution depends on your HDHP coverage. If you are not covered on December 1, your contribution depends on the number of months of HDHP coverage you have during the year (technically, the months where you have HDHP coverage on the first day of the month). For 2007 and forward, if you are covered on December 1, you are treated as an eligible individual for the entire year. However – if you cease to be an eligible individual during the following year, the excess over the prorated contribution is included in income and subject to a 10 percent additional tax. The amount you can contribute is not determined by the date you establish your account. However, medical expenses incurred before the date your HSA is established cannot be reimbursed from the account.

Q: Can my employer contribute to my HSA?

A: Contributions to HSAs can be made by you, your employer, or both. All contributions are aggregated to determine whether you have contributed the maximum allowed. If your employer contributes less than the limit, you can make up the difference.

Q: Do HSA contributions provide any tax benefits?

A: Your personal contributions offer you an “above-the-line” deduction. An “above-the-line” deduction allows you to reduce your taxable income by the amount you contribute to your HSA. You do not have to itemize your deductions to benefit. Contributions can also be made to your HSA by others (e.g., relatives). However, you receive the benefit of the tax deduction.

If your employer makes a contribution to your HSA, the contribution is not taxable to you (it is excluded from income).

If your employer offers a “salary reduction” plan (also known as a “Section 125 plan” or “cafeteria plan”), you (the employee) can make contributions to your HSA on a pre-tax basis (i.e., before income taxes and FICA taxes). If you can do so, you cannot also take the “above-the-line” deduction on your personal income taxes for the amount contributed through the 125 plan.

Q: Can I claim both the “above-the-line” deduction for an HSA and the itemized deduction for medical expenses?

A: You may be able to claim the medical expense deduction even if you contribute to an HSA. However, you cannot include any contribution to the HSA or any distribution from the HSA, including distributions taken for non-medical expenses, in the calculation for claiming the itemized deduction for medical expenses.

Q: I am over 55 and would like to make catch-up contributions to my HSA, like I’ve done with my IRA. Is that possible?

A: Yes, individuals 55 and older who are covered by an HDHP can make additional catch-up contributions each year until they enroll in Medicare. The additional “catch-up” contribution for 2017 is \$1,000.

If you did not have HDHP coverage for the full year, you must pro-rate your “catch-up” contribution for the number of full months you were “eligible”, i.e., had HDHP coverage. However, if you are covered on December 1, you are treated as an eligible individual for the entire year and get the full contribution.

Q: If both spouses have family HDHP coverage but one spouse has other coverage, are both spouses eligible for an HSA? How much can each spouse contribute?

A: The following examples describe how much can be contributed under varying circumstances. Assume that neither spouse qualifies for “catch-up contributions”.

Example 1: For 2017, husband and wife have family HDHP coverage with a \$5,000 deductible. Husband

has no other coverage. Wife also has self-only coverage with a \$200 deductible. Wife, who has coverage under a non-HDHP plan, is not eligible and cannot contribute to an HSA. Husband may contribute \$6,750 to an HSA.

Example 2: For 2017, husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also has self-only HDHP coverage with a \$2,200 deductible. Both husband and wife are eligible individuals. Husband and wife are treated as having only family coverage. The combined HSA contribution by husband and wife cannot exceed \$6,750, to be divided between them by agreement.

Example 3: For 2017, husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also has family HDHP coverage with a \$3,000 deductible. Both husband and wife are eligible individuals. The maximum combined HSA contribution by husband and wife is \$6,750, to be divided between them by agreement.

Example 4: For 2017, husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also has family coverage with a \$200 deductible. Husband and wife are treated as having family coverage with the lowest annual deductible (\$200). Neither husband nor wife is an eligible individual and neither may contribute to an HSA.

Example 5: For 2017, husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also is enrolled in Medicare. Wife is not an eligible individual and cannot contribute to an HSA. Husband may contribute \$6,750 to an HSA.

USING YOUR HSA

Q: Does an HSA pay for the same things that regular insurance pays for?

A: HSA funds can pay for any “qualified medical expense”, even if the expense is not covered by your HDHP. For example, most health insurance does not cover the cost of over-the-counter medicines, but HSAs can if a doctor’s prescription is provided indicating the medical necessity. If the money from the HSA is used for qualified medical expenses, then the money spent is tax-free.

Q: How do I know what is included as “qualified medical expenses”?

A: Unfortunately, we cannot provide a definitive list of “qualified medical expenses”. A partial list is provided in IRS Pub 502 (available at www.irs.gov). There have been thousands of cases involving the many nuances of what constitutes "medical care" for purposes of section 213(d) of the Internal Revenue Code. A determination of whether an expense is for "medical care" is based on all the relevant facts and circumstances. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. The determination often hangs on the word "primarily."

Q: Who decides whether the money I am spending from my HSA is for a “qualified medical expense”?

A: You are responsible for that decision, and therefore should familiarize yourself with what qualified medical expenses are (as partially defined in IRS Publication 502) and also keep your receipts in case you need to defend your expenditures or decisions during an audit.

Q: What happens if I do not use the money in the HSA for medical expenses?

A: If the money is used for other than qualified medical expenses, the expenditure will be taxed and, for individuals who are not disabled or over age 65, subject to a 20% tax penalty.

Q: Are dental and vision care qualified medical expenses under a Health Savings Account?

A: Yes, as long as these are deductible under the current rules. For example, cosmetic procedures, like cosmetic dentistry, would not be considered qualified medical expenses.

Q: Can I use the money in my HSA to pay for medical care for a family member?

A: Yes, you may withdraw funds to pay for the qualified medical expenses of yourself, your spouse or a dependent without tax penalty. This is one of the great advantages of HSAs.

Q: Can I use my HSA to pay for medical services provided in other countries?

A: Yes. However you may not purchase prescription medications in other countries for consumption in the U.S.

Q: Can I pay my health insurance premiums with an HSA?

A: You can only use your HSA to pay health insurance premiums if you are collecting Federal or State unemployment benefits, or you have COBRA continuation coverage through a former employer.

Q: Can I purchase long-term care insurance with money from my HSA?

A: Yes, if you have tax-qualified long-term care insurance. However, the amount considered a qualified medical expense depends on your age. See IRS Publication 502 for the amounts deductible by age.

Q: I have an HSA but no longer have HDHP coverage. Can I still use the money that is already in the HSA for medical expenses tax-free?

A: Once funds are deposited into the HSA, the account can be used to pay for qualified medical expenses tax-free, even if you no longer have HDHP coverage. The funds in your account roll over automatically each year and remain indefinitely until used. There is no time limit on using the funds. You may submit receipts for eligible medical expenses into our Claims Vault to be withdrawn at any time in the future.

Q: What happens to the money in my HSA if I lose my HDHP coverage?

A: Funds deposited into your HSA remain in your account and automatically roll over from one year to the next. You may continue to use the HSA funds for qualified medical expenses. You are no longer eligible to contribute to an HSA for months that you are not an eligible individual because you are not covered by an HDHP. If you have coverage by an HDHP for less than a year, the annual maximum contribution is reduced; if you made a contribution to your HSA for the year based on a full year’s coverage by the HDHP, you will need to withdraw some of the contribution to avoid the tax on excess HSA contributions. If you regain HDHP coverage at a later date, you can begin making contributions to your HSA again.

Q: Do unused funds in an HSA rollover over year after year?

A: Yes, the unused balance in a Health Savings Account automatically rolls over year after year. You won’t

lose your money if you don't spend it within the year.

Q: What happens to the money in an HSA after you turn age 65?

A: You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, co-pays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. You cannot use your account to purchase a Medicare supplemental insurance or "Medigap" policy.

Once you turn age 65, you can also use your account to pay for things other than medical expenses. If used for other expenses, the amount withdrawn will be taxable as income but will not be subject to any other penalties. Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a 20% penalty on the amount withdrawn.

Q: Can I use my HSA to pay for medical expenses incurred before I set up my account?

A: No. You cannot reimburse qualified medical expenses incurred before your account is established. We recommend you establish your account as soon as possible.

Q: Who will be the "bookkeeper" for my HSA?

A: It is your responsibility to keep track of your deposits and expenditures and keep all of your receipts. If you run out of HSA funds (and therefore need to use your HDHP), you may need to send those receipts to your insurer.

Q: How do I use my HSA to pay my physician when I am at the physician's office?

A: If you are still covered by your HDHP and have not met your policy deductible, you will be responsible for 100% of the amount agreed to be paid by your insurance policy to the physician. Your physician may ask you to pay for the services provided before you leave the office. If your HSA custodian has provided you with a checkbook or debit card, you can pay your physician directly from the account. If the custodian does not offer these features, you can pay the physician with your own money and

reimburse yourself for the expense from the account after your visit.

If your physician does not ask for payment at the time of service, the physician will probably submit a claim to your insurance company, and the insurance company will apply any discounts based on their contract with the physician. You should then receive an "Explanation of Benefits" from your insurance plan stating how much the negotiated payment amount is, and that you are responsible for 100% of this negotiated amount. If you have not already made any payment to the physician for the services provided, the physician may then send you a bill for payment

SETTING UP YOUR HSA

Q: What is the difference between an HSA "custodian" and an HSA "trustee"?

A: The differences between a "custodian" and a "trustee" are minor. A trust is a legal entity under which assets are actually owned and held on behalf of a beneficiary. The trustee HSA some level of discretionary fiduciary authority over the assets of the fund. The trustee must exercise that authority in the best interests of the beneficiary. A custodial arrangement, on the other hand, is like a trust, but the custodian simply holds the assets on behalf of the owner of the assets. Other than holding the assets and doing as the owner orders, the custodian has no fiduciary obligations to the owner. The determination of what constitutes a trust or custodial arrangement is a determination made under state law.

Q: Can couples establish a "joint" account and both make contributions to the account including "catch-up" contributions?

A: Joint" HSA accounts are not permitted. Each spouse should consider establishing an account in their own name. This allows you to both make catch-up contributions when each spouse is 55 or older.

MANAGING YOUR HSA

Q: Who has control over the money invested in an HSA?

A: The account holder controls all decisions over how the money is invested. You can also choose not to invest your funds.

Q: Can the funds in an HSA be invested?

A: Yes, you can invest the funds in your HSA. The same types of investments permitted for IRAs are allowed for HSAs, including stocks, bonds, mutual funds, and certificates of deposit.

Q: Will my bank notify me if I've exceeded my allowable contribution amount?

A: No, it is your sole responsibility to keep track of the amounts deposited and spent from your account, just like a normal savings or checking account.

Q: Can I borrow against the money in my HSA?

A: No. You may not borrow against it or pledge the funds in it. For more information on prohibited activities, see Section 4975 of the Internal Revenue Code.

Q: Can I roll the money in an HSA over into an IRA?

A: You cannot roll the HSA funds over into an IRA. They will stay in the HSA or be rolled into another HSA.

Q: Can I rollover an IRA, 401(k) or other retirement plan into an HSA?

A: You cannot directly roll funds in a 401(k) or other retirement plan into an HSA. You can withdraw funds from one of these accounts, pay applicable taxes (and penalties) on the amount you withdraw, and then use the remaining funds to make a contribution to your HSA. However, the amount you contribute to your HSA is still limited by the annual contribution limits.

For 2007 and forward, you may make a one-time transfer for IRA funds to an HSA. The amount of the IRA transfer reduces your HSA contribution for the year. If you fail to remain an eligible individual for 12 months after the month of the transfer, the amount of the transfer is included in income and subject to a 10 percent additional tax.

Q: Can I roll funds in my Archer MSA into my HSA?

A: Yes, if you do so within 60 days of withdrawing the funds from the Archer MSA.

Q: What happens to the money in my HSA when I die?

A: What happens depends on how the HSA is designed. If your spouse is designated as the beneficiary by you, your spouse becomes the owner of the HSA when you die. If you provide that it goes

to your estate or other entity, the value of the HSA at death is income to the estate or other entity.

Q: Who do I contact if I have any questions regarding my account or the Program?

A: INNOVA Benefit Services has representatives available by telephone Monday through Friday during normal business hours to answer your questions at [866.993.7702](tel:866.993.7702). In addition, you can obtain automated information about your account anytime via our automated telephone inquiry services at [866.276.2411](tel:866.276.2411). The same information is available by logging in via our website at: www.innovaben.com. You may also reach us via email at: questions@innovaben.com.