Commonly Asked Health Savings Account (HSA) Q&A

1. **Does the HSA fund earn interest right away, or does there need to be $1,500 in it first? If so, what is that interest rate?**
   The HSA funds do earn interest as soon as they are deposited. The interest rate is a variable rate, the same as any banking institute, and may change at any time.

2. **If you and your spouse are both over 55 and making catch-up contributions, does a second account need to be set up? How would they go about doing so?**
   If you want to take advantage of the "catch-up" contribution, your spouse would need to open his/her own HSA for the additional $1,000 contribution. The spouse can open this account with your HSA vendor or through a local bank that offers HSAs. As a reminder, the spouse cannot open an HSA if they are covered under Medicare, Medicaid or a traditional health plan.

3. **An employee's spouse is provided single traditional coverage by his/her workplace (they pay 100% of the premiums) and he/she isn't able to opt out of it. Our employee currently elects family coverage so he/she can cover their children and have secondary coverage for the spouse. Are they able to elect the high deductible health plan (HDHP)/HSA plan?**
   Yes, your employee and family (including spouse) can enroll in the HDHP. Your employee can also open an HSA as long as he/she does not have coverage under a traditional plan

4. **Can you advise on how an employee would withdraw HSA funds for tuition expenses?**
   I would caution anyone from using HSA funds to pay for education as they will have to pay the 20% penalty plus any appropriate taxes. However, if they decide to do this, they simply request the funds to be transferred from their HSA to their own savings or checking account. They would then need to report this on their income tax return at the end of the year. At that time, they would be assessed the 20% penalty and appropriate taxes.

5. **Can a large payroll deduction be done on bonus payroll for the HSA?**
   Yes, this is actually a great idea as bonuses are usually taxed at a higher rate, so you save even more by putting it into an HSA.

6. **Will more than one HSA debit card be issued? Can employees request more cards for covered members?**
   Yes, you can typically request additional cards for dependents 18 and older.

7. **An employee is on family plan medical/dental with us, and the spouse has a flexible spending account (FSA) with his/her employer but no benefits. Can our employee do the HDHP/HSA?**
   A family unit cannot contribute to an HSA and have a health FSA or a health reimbursement account (HRA). However, they can have a dependent care FSA and a limited purpose FSA. Employees can elect the HDHP; however, they cannot open the HSA until their spouse's FSA plan year is over. If the spouse's medical FSA plan year ends on December 31, they will want to make sure the balance is zero on December 31. If they don't have a zero balance on December 31, then they are not eligible to open a HSA until April 1. If their FSA has a carryover provision and they have funds to carryover, then they are not eligible to open an HSA for the entire calendar year unless they decline or waive the carryover provision.

8. **I have a full-time employee who is married and has a stepdaughter. Her husband pays half of the medical bills for the stepdaughter, who is covered under the mother's insurance plan. The stepdaughter lives with them 50% of the time. The husband claims his stepdaughter every other year on his taxes.**

   Question is: Can my employee's HSA money be used to pay for her stepdaughter's medical bills even though her stepdaughter is covered under the mother's plan. I am assuming our employee would have family coverage under the HDHP plan.
   Yes, your employee can use her HSA funds to pay for her stepdaughter's expenses in this scenario whether they elect family coverage or not.

9. **Can checks be issued for payment from an HSA (like a checking account), or is it just a swipe card?**
   Reimbursements can be withdrawn with the debit card or through an online or paper request. Payment options for the online or paper request include direct deposit into your checking or savings account, a paper check to the account holder or you can request to have the payment sent directly to the provider. You will not have individual checks to withdraw money from this account.

10. **An employee is on family plan with us and has a son that is also on Medicaid. Does this employee qualify for the HDHP/HSA?**
    Yes, the employee would qualify for the HSA even if a dependent (child or spouse) is on Medicare, Medicaid or a traditional plan. The IRS regulations just prevent your employee, the owner of the HSA, to be covered under one of these plans.

11. **Is the employer HSA contribution taxable or non-taxable?**
    The employer contribution is non-taxable.

12. **I believe an employee can have both our traditional plan and Medicare – Correct?**
    Your employee can be on either the traditional or HDHP and Medicare. Being on Medicare prevents you from opening an HSA but does not prevent you from being on the HDHP.

13. **If the employee leaves and there is money left in their HSA, can they continue to use that "debit" card for medical expenses, or do they HAVE to roll it over into something else or take the penalty and take the cash?**
    Yes, they can continue to use the debit card as long as there are funds in the HSA. They will typically be charged a small monthly fee by the HSA vendor to maintain the HSA (this will automatically be deducted from the HSA). Once the account has

a zero balance, the HSA owner will want to contact the HSA vendor to close the HSA. If the individual chooses, they can move the funds to a qualified HSA with no penalty. If the funds are taken out for non-eligible expenses, they would be subject to the 20% penalty and appropriate taxes.

14. **If an employee wants to put in $500 extra into their account in January, does it have to be a payroll deduction to be tax free?**
    They can deposit funds directly into the HSA on an after-tax basis and then report that contribution on their taxes at the end of the year to receive a tax break at that time. However, if they make their contributions through payroll, they save on Medicare, Social Security and income taxes. Using the directly deposit method only gives them a break on their income taxes.

15. **If you have a medical event in the beginning of the year and your HSA is not built up to cover it, can you submit receipts or copies of the bills to later be reimbursed when you do have funds in your HSA?**
    You can request reimbursement from the HSA at a later date. Copies of the receipt or bills are not needed to request funds from your HSA. You do, however, want to keep copies of the receipt or billing, verifying that you had medical, dental or vision expenses to justify the withdrawal in case you are audited by the IRS.

16. **When we have enough in our HSA to roll into a mutual fund, do we get those funds to give to our personal investors, or do we have to pick from an employer-provided group?**
    The amount you must have in your HSA before you can invest in mutual funds varies by the HSA vendor. The mutual fund investment options are available online and will be made directly with the HSA vendor.

17. **Can you have two plans that coordinate, even with an HDHP?**
    As the owner of the HSA, your employee can only have two plans if the other plan is also an HDHP. However, their dependents could have other coverage (a traditional plan, Medicare or Medicaid) that would coordinate with the HDHP.

18. **I had an employee ask how hard it is to pay yourself back from your HSA. Example: She would probably hit her $2,000 deductible in the first couple of months but wouldn't have all of it in her HSA. So what she pays out of pocket in February and then in October has that balance. What all has to be done to get the money out of her HSA?**
    This is very simple. To request the money out of the HSA, she can simply go online and request a money transfer from her HSA to her checking or savings account, or they can fill out a paper request and send it to the HSA administrator.

19. **If someone has an HSA with a previous employer and rolls over the funds to our sponsored HSA, does the amount that is rolled over count toward their annual contribution maximum?**
    No, funds that roll over from an existing HSA do not count toward the annual HSA contribution maximum.

20. **If someone is eligible for Medicare but isn't enrolled, are they still able to elect the HDHP with the HSA?**
    Yes, if they are not covered by Medicare Part A, B, C or D, then they can open and contribute to an HSA.

21. **How are my HSA contributions affected if I’m not covered on a HDHP for 12 months?**
If the individual is covered under the HDHP for less than 12 months, then their annual contribution maximum must be prorated based on the number of months they are on the plan, i.e., if they are only on the HDHP for seven months, then the HSA maximum contribution for 2017 would be $1,983 (7/12 of $3,400) for single coverage or $3,938 (7/12 of $6,750) for family coverage.

22. **What forms are needed to file our income taxes?**
You will need form 1099-SA to file your taxes to complete IRS form 8889. This form is available through the online portal or by contacting the HSA administrator on or after January 31. In May, the HSA administrator will provide form 5498-SA, which will show the contributions that have been made to the HSA. This form isn’t needed for tax purposes.

23. **Can HSA funds be used to pay for Medicare premiums?**
Yes, HSA funds can pay Medicare premiums, but they cannot be used to pay for a Medicare Supplement.

24. **Can HSA funds be used for over-the-counter items, such as Advil and Band-Aids?**
The HSA funds cannot be used for over-the-counter medications, such as Advil, unless you have a prescription from your physician. If you receive a prescription from your physician, be sure to keep a copy of the prescription with the receipt for the over-the-counter medication. HSA funds can be used for over-the-counter supplies, such as Band-Aids and contact lens solution.

25. **Can HSA funds be used for lasik surgery?**
Yes, lasik surgery is eligible for reimbursement through the HSA. The lasik surgery charges typically isn’t eligible under the health plan but can be paid for with tax-free dollars through the HSA.

26. **Can something considered "cosmetic" still use HSA funds to pay, just not apply toward deductible?**
Most cosmetic procedures do not qualify for reimbursement from an HSA. This includes cosmetic surgery or other procedures that are directed at improving the patient's appearance and do not meaningfully promote the proper function of the body or prevent or treat illness or disease. Examples include face lifts, hair transplants, hair removal (electrolysis), teeth whitening and liposuction. However, procedures necessary to correct a deformity arising from congenital abnormality, personal injury from accident or trauma or disfiguring disease may qualify.

27. **Can the HSA be used for Cosmetic Dentistry, i.e., veneers, teeth whitening?**
No, cosmetic treatment isn’t eligible (medical or dental).

28. **Can HSA funds be used for:**
    - Eye exam – Yes
    - Cosmetic surgery – No, unless medically necessary
    - Dental procedures – Yes
    - Glasses – Yes

29. **Are the check-up visits for newborns, infants and toddlers covered? (i.e., three-month, six-month, nine-month, etc. check ups)**
Well baby/well child care is paid at 100% with no deductible under most plans as long as the services are provided by an in-network provider. However, if your plan does not cover these services at 100% then you could use your HSA dollars for these expenses.

30. **An employee previously had cancer. As such, her doctor recommends she have a colonoscopy each year as a preventative measure. Would this be covered at 100% by the HDHP, or does she have to meet her deductible first?**
Due to the personal history of cancer, this would not be a preventive colonoscopy. Therefore, it would apply toward the deductible under both the traditional and HDHP.

31. **How would a CPAP be paid for under the HDHP?**
A CPAP would be subject to the deductible (same as any other durable medical equipment).

32. **Are flu shots covered under HDHP?**
Yes, these are paid at 100% with the deductible waived under most health care plans when performed by an in network provider.

33. **Is it correct to say that well child checks and vaccinations fall into the preventive care services?**
Yes.

34. **Employee is divorced and is considering taking the HDHP in conjunction with the employer-sponsored HSA funding family coverage. However, he only claims some of his three kids annually on his tax return. Is he able to use HSA money for unreimbursed medical expenses for his children/dependents that he does not get to claim on his tax return?**
At the risk of giving tax advice, which we cannot do, beginning March 30, 2010, an employee's child who is under age 27 as of the end of the taxable year can obtain health coverage on a tax-free basis, even if the child does not qualify as the employee's code section 152 dependent or as a code section 105(h) dependent. This seems to clear the way to use HSA funds for non-dependent (for tax purposes) children (tell them to check with their tax counsel). However, if your child claims themselves as a dependent on their own tax return then you cannot use your HSA dollars to pay for their expenses.

35. **Can funds from an HSA be used to pay for ancillary coverage such as Aflac?**
Generally, no. The following premiums can be paid for with your HSA dollars:
    - Premiums for long-term care – limited to amount listed in 213 (d)
    - Premiums for COBRA
    - Premiums for coverage (while receiving unemployment compensation)
    - Premiums for individuals over age 65 for retirement health benefits/Medicare premiums

36. **If the owner of an HSA dies, can the HSA beneficiary use the funds in the HSA for anything, i.e., big screen TV, without incurring an extra 20% penalty or only for qualifying medical expenses?**
If the beneficiary is the spouse, then the transfer is not taxable and the spouse would be subject to tax only to the extent that distributions were not made for qualified medical expenses. If the beneficiary is not the spouse, then the HSA ceases to be an HSA and the value at death is includable in the beneficiary's

gross income. The non-spouse beneficiary can reduce his/her taxable income to the extent that he/she pays for qualified medical expenses of the deceased HSA holder.

37. **Can the owner of an HSA use the funds for any type of expense without incurring a 20% penalty if they are over 65?**
    Yes, once the HSA owner turns 65, the 20% penalty no longer applies. You can still use the HSA dollars tax free for unreimbursed medical, dental and vision expenses. You can also use the HSA dollars for other expenses and only pay the appropriate taxes similar to an IRA.

38. **Is there a timely filing limitation to request reimbursement from my HSA?**
    There is no time limit in regards to submitting the claim. The date of service has to be on or after the date that the HSA was opened. Meaning, if the HSA is opened on January 1, 2017, the receipts would want to be from January 1, 2017 and after.

39. **Can I roll an IRA into my HSA?**
    Yes, you can elect to make a once-in-a-lifetime, tax-free, direct trustee-to-trustee transfer of funds from your traditional or Roth IRA into your HSA (known as a qualified HSA funding distribution). With the exception of an inherited IRA, the qualified HSA funding distribution must be made from an IRA that is owned by the same individual who owns the HSA (i.e., it cannot be made to an HSA owned by an employee from an IRA owned by the spouse).

    Transfers may not be made from 401(k)s, SEPs or simple IRAs.

    Transferred amounts are not included in your gross income.

    The transfer must be a direct trustee-to-trustee transfer from the IRA trustee or custodian directly to the HSA trustee or custodian.

    Qualified HSA funding distributions do count against the general HSA contribution limit ($3,400 for single and $6,750 for family) and against the catch-up contribution limit ($1,000) for the taxable year in which they are contributed to the HSA.

    A qualified HSA funding distribution is counted toward the taxable year in which the distribution is actually made (i.e., there is no rule allowing contributions of qualified HSA funding distributions that are contributed to an HSA between January 1 and April 15 to relate back to the prior taxable year).

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