Health Savings Account Frequently Asked Questions

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General Health Savings Account Questions

Question: What is a Health Savings Account (HSA)?

Answer: Per IRS rules, Health Savings Accounts (HSAs) are special bank accounts for adult individuals covered by high-deductible health plans (HDHPs) allowing them to save money tax-free for out-of-pocket medical expenses. Generally, an adult who is covered by a high-deductible health plan (and has no other first-dollar coverage under another medical plan) may establish an HSA. It can also be used for dental and vision out-of-pocket expenses.

Important features of the HSA include:

■ Funds are held in a bank account in YOUR name.

■ If you do not spend all of the funds deposited into your HSA, **you do not lose them -** they roll forward to future years.

■ It is **triple-tax protected**: funds are deposited pre-tax; interest earned is tax-free; and you are not taxed when you withdraw the funds to pay for medical expenses.

■ Fully portable: if you leave the school district, switch to a non-HSA qualified health plan, or retire, **the funds go with you** and you can use them for future medical expenses.

■ Contributions to the HSA do **not** decrease your PERA highest average salary for the calculation of your retirement benefits.

■ No special accounting or sending in receipts required. You can only use the money that is available in your HSA bank account, so just swipe your HSA Bank card (or make an online transfer) to pay your medical expenses! You should keep your receipts in case you are audited by the IRS.

■ When you turn 65, you can withdraw the HSA funds as cash and they will be considered taxable income; OR you can keep them in the HSA and continue using the funds for healthcare expenses only – tax-free!

Question: Why is 27J Schools using Health Savings Accounts and High Deductible Health Plans?

Answer: 27J Schools is committed to providing employees with great benefits both now and in the future. We know that your health and the health of your family are important to you.

Here are some key advantages of High Deductible Health Plans and HSAs:

■ The premiums for high deductible health plans with HSAs increase at about half the rate of traditional medical plans like PPOs and HMOs.

■ High deductible health plans are not only successful at controlling health care costs; they also make you a better consumer of healthcare.

■ Studies show that HDHP members have higher quality visits with their physicians and tend to comply more with recommended care. This is because instead of making multiple visits to the doctor because they "only cost a co-pay," members on HDHPs understand that the full cost of the office visit costs $100 or more and therefore want to make the most of their visit by asking more questions, requesting generic drugs or alternative treatments, and following the advice of their physicians more carefully.

▪ Finally, high deductible health plans with HSAs are also the only kinds of plans that can actually improve with time because your **unspent HSA dollars roll forward** into future years and you **never lose the HSA funds**. So if you stay healthy, you can build up the money in your HSA so that you have no out-of-pocket costs on your health plan in future years.

▪ Since the HSAs are so well funded by 27J Schools, the High Deductible Health Plan is the less expensive plan because it has much lower annual out-of-pocket maximums than the DHMO plan. In other words, you get better overall protection at a lower cost on the HDHP.

Question: How can 27J Schools afford to contribute money to employees' Health Savings Accounts?

Answer: When deductibles are increased, premiums decrease. The savings from decreased premiums are directed into your Health Savings Account by 27J Schools.

Question: What are the HSA contribution limits per the IRS?

Answer: HSA contribution limits for calendar year 2023 are $3,850 single / $7,750 families. These limits include both employer and employee contributions to your HSA. Note that if you are 55 or older, you may contribute an ADDITIONAL $1,000 to your HSA whether you have single or family status on your health plan.

Question: Do contributions to an HSA decrease my PERA Highest Average Salary (HAS) used in the calculation of retirement benefits?

Answer: **NO**. Unlike contributions to a Flexible Spending Account (FSA), contributions to a Health Savings Account do NOT decrease your PERA Highest Average Salary (HAS). Because these funds have a triple-tax advantage, it's in your best interest to fund your Health Savings Account to the IRS annual limit each year.

Question: What happens to my HSA if I get divorced?

Answer: Any money in an HSA account, like any other asset, will be evaluated as part of the divorce settlement. The transfer of an individual's interest in an HSA to that individual's spouse or former spouse under a divorce or separation will not be considered a taxable transfer. The recipient spouse or former spouse may continue to avoid taxation on the account as long as it is maintained as an HSA.

Question: Is the money in an HSA available up front like it is in a Flexible Spending Healthcare Reimbursement Account?

Answer: Any money in a Health Savings Account is not available until the money is deposited – just like a standard checking or savings account. 27J Schools's contribution to an employee's HSA account will be made in twelve (12) equal monthly installments on the last business day of each month. If you authorize any personal funds to be deducted from your paycheck pre-tax each month, those funds are only available once they are deposited into your HSA. Once deposited, you can use your HSA funds to pay for medical expenses.

Because the funds can only be spent once deposited in your HSA account, this eliminates the need to submit receipts in order to get your money back.

Question: Do I have to spend a certain amount of money on health care in order to be able to write off contributions to my HSA?

Answer: **No**. Unlike the IRS rule for taking tax reductions on your annual tax return when your medical expenses exceed 10% of your adjusted gross income, **there is no minimum amount of money that you must spend on healthcare in order to make pre-tax contributions to your HSA.** The only requirement is that you are enrolled in a qualifying high deductible health plan when you contribute to your HSA. A qualifying high deductible health plan must have an aggregate annual deductible of at least $1,500 single / $3,000 family for ALL non-preventive services.

Question: Can I designate a beneficiary for my HSA account?

Answer: **Yes**, you may designate a beneficiary to receive your HSA assets in the event of your death. If you name your spouse as beneficiary, your spouse can elect to treat the HSA as his or her own after your death. In such a case, your spouse will not owe taxes or penalties provided he or she uses the HSA for IRS-qualified medical expenses. If you designate a non-spouse beneficiary, he or she must take a distribution of the funds after your death. A non-spouse beneficiary will have to pay income tax on the amount received but will not have to pay a penalty tax. However, if you are married, domiciled in a community property state, and designate a non-spouse primary beneficiary, you must submit a Beneficiary Form with the notarized consent of your spouse.

Beneficiary designations can generally be made via the HSA Bank Member Website. Create and/or log in to your HSA account, click on the Profile tab, then click on "Add Beneficiary", then enter your chosen beneficiary (including Social Security Number and birth date) and submit.

If you do not establish a beneficiary, your HSA will go to your estate upon your death.

Question: What happens to my HSA if I die?

Answer: If you die and have funds in your HSA, the funds will be transferred to your named beneficiary. If the beneficiary is your spouse, then the account is transferred **as an HSA** and can be used for qualified medical expenses. Any withdrawals or expenses that are non-qualified medical expenses are subject to income tax rules and a penalty, if your spouse is under the age of 65. If your beneficiary is not your spouse, then the HSA ceases to be an HSA and is considered taxable income to the beneficiary or estate.

Question: What happens to my HSA if I leave 27J Schools?

Answer: If you leave employment at 27J Schools or if you enroll on an insurance plan elsewhere, you keep the money in your HSA. 27J Schools cannot take back any unused funds. The Health Savings Account belongs entirely to you, and once funds are deposited they are yours to keep. For this reason, the contributions by 27J Schools into your HSA are being deposited monthly and not in an up-front lump sum. This ensures that 27J Schools funds are spent mostly on employees who remain with the District throughout the year. This will allow the fund to remain stable over the years and continue to provide you with rich benefits.

Eligibility

Question: What must I do to qualify for a Health Savings Account?

Answer: If you have enrolled on the Kaiser High Deductible Health Plan (HDHP), then you **may** be eligible for a Health Savings Account.

You are eligible for a Health Savings Account **unless** you answer "YES" to any of the following five (5) questions (per IRS rules):

1. Are you enrolled in Medicare (including the free Part A Medicare) or any other health plan that is not a qualified high deductible plan? (A qualified HDHP has an aggregate annual deductible of at least $1,500 single or $3,000 family for ALL non-preventive services – it may be called an HSA-qualified plan by your insurer).

2. Will you be covered as a dependent on someone else's tax return?

3. Will you have received Veteran's Administration medical services in the past three (3) months?

4. Are you or your family enrolled in TRICARE (military insurance)?

5. Will you or your spouse have a Flexible Spending Medical Reimbursement Account (FSA) that will reimburse you for your medical expenses, including those subject to the deductible?

If you answered "YES" to any of the above five (5) questions, you are NOT eligible to open or contribute to a Health Savings Account at this time, per IRS rules. In this case, you may wish to terminate any duplicate coverage so that you become eligible to open an HSA, or you may want to consider enrolling in the Kaiser DHMO plan during the next annual open enrollment period.

If you answered "NO" to all of the above five (5) questions, then you qualify to open a Health Savings Account at HSA Bank, receive 27J Schools HSA contributions (deposits), and make your own voluntary, personal, pre-tax contributions to your HSA account.

Question: Can I have an HSA if I am on TriCare (military) insurance?

Answer: **No**. Currently TriCare does not offer eligible high deductible HSA health plans (an aggregate annual deductible of at least $1,500 single / $3,000 family), which means that if you are on TriCare now, you must choose between having a 27J Schools health plan or stay on TriCare only.

Veteran's Administration (VA) benefits are treated differently, however. The rule is that you can become eligible to open and contribute to a Health Savings Account once three (3) months have passed since you last received benefits under the VA plan. If you again receive Veteran's Administration benefits in the course of the year, you become ineligible to contribute to an HSA until another 3 months pass without receiving VA benefits.

If you are on TriCare, you do have a few additional options:

1. You could consider enrolling in the Kaiser DHMO Plan during the annual open enrollment period or due to a "qualifying event." DHMO plan members are not eligible for a health savings account. Therefore, you will be allowed to have double coverage on both the Kaiser DHMO and TriCare.

2. You could also enroll in the Kaiser High Deductible Plan but you will not be eligible for the 27J Schools Health Savings Account (HSA) funding (deposits), nor would you be able to contribute personal funds to an HSA. You would still have comprehensive protection, and free preventive screenings.

Per the Colorado State Coordination of Benefits law, your health coverage through 27J Schools is always primary, and TriCare likely would not pick up coverage until after you have met your annual deductible or if you use an out-of-network provider.

Question: I am enrolled on Medicare; can my employer and/or I contribute money to my HSA?

Answer: **No**; if you are enrolled in Medicare the IRS does not allow you to contribute to a Health Savings Account (HSA). Enrolled in Medicare means any part of Medicare including the free Part A hospitalization.

You can still participate in the school district group insurance and receive medical plan benefits, but you would not be eligible to receive the HSA funding from 27J Schools, nor would you be able to contribute additional personal funds to an HSA. This is because you are already receiving government subsidized healthcare, so it would be unfair for you to also receive the additional benefits of a triple-tax advantaged HSA.

If you are **eligible** for Medicare but **not enrolled**, then you can contribute to the HSA.
(Note: If you are eligible for Medicare Part A Hospitalization, you may be automatically enrolled so you will need to waive Part A coverage in order to be eligible for a Health Savings Account.)

Question: Can I also have a Flexible Spending Health Care Reimbursement Account (FSA) if I have a Health Savings Account?

Answer: **No**. Per IRS rules, if you have a Health Savings Account, then you cannot have a Flexible Spending Account (FSA) **other than to pay for childcare services (an FSA Dependent Care Account**.) Keep in mind that you can use your HSA funds to pay for medical services, prescription drugs, dental, vision and hearing expenses. In addition, funds that you don't use in an HSA roll forward to the next year so you never lose them – this is not true with a Flexible Spending Account. And finally, HSA contributions do not decrease your PERA Highest Average Salary (HAS), so it makes sense to direct the funds you would have put into a Flexible Spending Account into an Health Savings Account instead.

If your spouse is enrolled in a Health Care / Medical Flex Spending Account offered by his / her employer, you SHOULD NOT reimburse any of your medical expenses through that FSA if you are contributing to an HSA. This is considered "double dipping" in the eyes of the IRS.

Question: What is the "Last Month Rule" and "Testing Period?"

Answer: These two (2) IRS rules define how much you are allowed to contribute to your HSA during your first year enrolled on a high deductible health plan. This is important for 27J Schools employees to understand, since most employees do not begin benefits on January 1st, but at some other point during the calendar year (the beginning of the plan year is July 1st). The IRS annual HSA limits, however, runs on a calendar year (January 1 – December 31) and thus contributions to an HSA are based on the **calendar** year. Per the IRS web site (www.irs.gov):

Last-month rule. Under the last-month rule, if you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers), you are considered an eligible individual for the entire year. You are treated as having the same High Deductible Health Plan coverage for the entire year as you had on the first day of that last month.

Testing period. If contributions were made to your HSA based on you being an eligible individual for the entire year under the last-month rule, you must remain an eligible individual during the testing period. For the last-month rule, the testing period begins with the last month of your tax year and ends on the last day of the 12th month following that month. In other words, if you become eligible under an HDHP by December 1, 2021, you have to remain covered by an HDHP until December 31, 2022 (the last day of the 12th month). If you fail to remain an eligible individual during the testing period, other than because of death or becoming disabled, you will have to include in income the total contributions made to your HSA account that would not have been made except for the last-month rule. You include this amount in your income in the year in which you fail to be an eligible individual. This amount is also subject to a 20% additional tax. The income and additional tax are reported on IRS Form 8889, Part III.

Using your Health Savings Account

Question: What if I have a large medical expense early in the plan year, before I've had a chance to build up funds in my Health Savings Account?

Answer: 27J Schools can give you an advance funding into your health savings account to help you meet out of pocket expenses for **significant** health care costs. An individual would have to incur over $6,000 in medical expenses and a family would have to incur over $12,000 in medical expenses. You must provide proof that your HSA has been depleted, along with an Explanation of Benefits that shows your responsibility on the claim(s). Please contact the Benefits Specialist in the Human Resources Office to receive an HSA Acceleration Application.

Question: What can I pay for with my HSA funds?

Answer: Please refer to IRS Publication 502 found on the IRS web site and the 27J Schools Human Resources Employee Benefit Information and Forms page for a listing of qualified medical expenses.

Question: What is the difference between my Kaiser ID Card and my HSA Bank card?

Answer: Your Kaiser Permanente insurance ID card provides you with access to care at Kaiser approved facilities. The way you PAY for your medical services and prescriptions is by using the HSA

Bank card. Here's how a typical office visit (non-preventive) should work **when you have <u>not</u> met your annual deductible:**

1. You visit your Kaiser doctor because you feel sick, have some symptoms or are injured.

2. You may be asked to pay for the service before leaving the Kaiser facility. You can use your HSA Bank card (if you have the funds in your HSA Account) to pay for the service. Kaiser may not ask you for payment at the time of service, and in this case, they will bill you later. (Note: You can view the list of medical services rates on the Kaiser website (www.kp.org) so that you know approximately how much your visit or procedure will cost before you go to the Kaiser facility).

3. You may also receive an Explanation of Benefits (EOB) from Kaiser, summarizing your visit, including the date, service provided, amount of the claim and the amount of money you paid and/or the amount of money you still owe. You may owe an additional amount if additional medical services were provided during your visit that was not included in your original payment.

4. The claim will accumulate toward your annual deductible on your Kaiser High Deductible Health Plan.

Question: Can I use my HSA funds to pay for medical care incurred under my spouse's medical plan?

Answer: You may use funds in your HSA for any Qualified Medical Expense as determined by IRS code 213(d), including co-pays on other insurance plans for yourself, your spouse, or your dependents.

Please note that if you and/or your employer are contributing to an HSA, you can only be enrolled in your spouse's insurance plan if his/her plan is an HSA Qualified High Deductible Health Plan. That is, your spouse's health plan must have an annual deductible of at least $3,000 (for family coverage) with no co-payments or co-insurance benefits below the deductible in order for you and/or your employer to make contributions to your Health Savings Account AND have additional coverage through your spouse. If your spouse's plan has an annual deductible lower than $3,000, then you and/or your employer cannot send funds to an HSA Account (per IRS rules.)

Another option is for you to be enrolled under both your spouse's plan (even if it does not have a deductible of at least $3,000) and the School District's Kaiser high deductible health plan, but you will <u>not</u> be eligible to open an HSA or have any money contributed into an HSA by 27J Schools or by you. This is not advantageous to you. You would be facing more out of pocket costs on the 27J Schools Kaiser High Deductible Plan because you would not be eligible for the HSA funding from 27J Schools, and you would not be able to contribute any pre-tax funds to help you meet your deductible. In addition, the cost of adding yourself to your spouse's plan (in terms of the premium your spouse may have to pay for your coverage) is seldom worthwhile, given that your spouse's insurance will only be secondary and is unlikely to pick up substantial additional costs. In most cases, you will be better off taking the premium savings from not joining his/her plan and directing those funds, pre-tax, into your Health Savings Account. **Note**: Per the Colorado State Coordination of Benefits law, your health coverage through the school district is always the primary plan (and therefore pays first) and any other coverage is the secondary plan.

Question: If I have a Health Savings Account (HSA) with 27J Schools but my children are covered under a different health plan, can I use my HSA dollars to pay for their medical expenses incurred under the other health plan, such as co-pays and co-insurance amounts?

Answer: **Yes**, you can use your HSA dollars for your non-covered dependents as long as the expenses are Qualified Medical Expenses as defined by IRS Code 213(d). These expenses include things like dental and vision expenses; orthodontia; prescription medications, COBRA premiums, and much more. However, these expenses will NOT accumulate towards the deductible on your 27J Schools Kaiser high deductible health plan.

Question: Can we use a Health Savings Account (HSA) to pay for medical expenses that aren't allowed under our health plan, such as Lasik surgery?

Answer: **Yes**. Items such as braces, Lasik surgery and contact lenses can be paid for using your HSA Bank Card. However, not all of the HSA Qualified expenses listed on IRS Publication 502 are covered by the health plan's policy. This means that you can still pay for the item with your HSA card, but the amount may not accumulate toward your deductible.

For example, Lasik surgery is not typically covered under a health plan. However, you may use your HSA Bank debit card to pay for the surgery because it is on the IRS's list of Qualified Medical Expenses. The cost of the Lasik surgery will not accumulate to the annual Kaiser deductible because it is not covered under your health plan.

Question: Will I receive a bank statement for my HSA Bank Account?

Answer: **Yes**. You have the option to receive paper statements or online statements (through internet banking) on a quarterly basis illustrating deposits to your account, expenses paid with your HSA funds, the interest it has earned, and your current HSA balance. Paper statements mailed through the US Postal Service, will incur a charge that will be subtracted from your HSA Bank Account. Signing up for **free** internet banking will give you the ability to check your balance on-line, receive your statement online, 24 hours a day, 7 days a week.

Question: Should I use the debit or credit function on the HSA Bank card?

Answer: The general rule of thumb is to use the CREDIT function so you will not have to pay a transaction fee. If you use the DEBIT function, you will be required to enter a PIN number, thus resulting in being charged a PIN transaction fee.

Health Savings Account (HSA) Funding and Tax Advantages

Question: Can I deposit a lump sum amount of money into my HSA if I know that a large medical expense is coming up?

Answer: **Yes**. Lump sum deposits into your HSA can be made at any time of the year as long as you do not exceed the IRS annual contribution limits. Lump sums are typically not arranged via payroll deduction, but rather take the form of a check or funds transfer directly into your HSA Bank Account. In the case of lump sum contributions, the tax saving is claimed as an "above the line" deduction on your tax return at the end of the year. You may make a lump sum contribution into your HSA up to April 15th in the year following the year in which the expenses were incurred.

Question: Can I transfer my HSA balance into another bank account?

Answer: **Yes**. If you withdraw your HSA funds for anything other than qualified medical expenses you will pay tax and a 20% penalty on the withdrawal amount. After the age of 65 you may withdraw the funds but they will be taxed as income; however, you will not incur a penalty.

Question: What is the interest rate earned on the HSA?

Answer: It depends on how/where you have your money invested in the HSA. During the first few years of an HSA, most individuals keep their funds in a money market account that bears nominal interest. Over time, as the HSA grows, you may want to consider investing in other funds such as stock and bond mutual funds that are made available through your Health Savings Account bank.

Question: What happens to my HSA funds once I turn 65?

Answer: If you have built up funds in your HSA before age 65 and then retire, you take that fund of money with you. You can leave it in your HSA Account and continue using it for qualified medical expenses tax-free OR you can withdraw the funds as cash, which would be considered taxable retirement income. Note that you are not required to withdraw those funds as cash. You may no longer make contributions to an HSA; however, after the age of 65 you can pay Medicare premiums with your Health Savings Account once you enroll in Medicare.

Question: What happens if I don't use all of the funds in my HSA this year?

Answer: If you don't use all of your HSA funds this year, they will roll forward into the next year (you keep them!) **You will <u>not</u> lose the HSA funds** – even if they are funds contributed by 27J Schools. Although you can remove the funds or use them for non-medical expenses, we strongly advise against this, as doing so will incur tax and penalty if you are under the age of 65 (per IRS rules.) If you are 65 or older, you can take the funds out as cash and you won't incur a penalty, but the funds will be treated as taxable income.

Question: May I use my HSA to pay for the monthly premiums to cover my dependents?

Answer: **No**, the IRS prohibits the use of HSA funds for paying insurance premiums except for:

1.) Qualified long-term care insurance; or
2.) Health insurance while you are receiving federal or state unemployment compensation; or
3.) Continuation of coverage plans, like COBRA, required under any federal law; or
4.) Medicare premiums.

Question: If I or one of my dependents obtains health insurance through one of the Connect for Health Colorado Marketplace Health Plans, can I use my HSA to help them pay for any medical costs they incur, such as co-pays or co-insurance?

Answer: **Yes**, you can use your health savings account to pay expenses your dependents incur on other health plans, even if they are covered under a Marketplace health plan or under other insurance (such as your spouse's insurance). The expenses must be qualified medical expenses such as those included in IRS Code Section 213(d).