WHAT ARE HEALTH SAVINGS ACCOUNTS AND WHO CAN HAVE ONE?

What is a Health Savings Account (HSA)?
A Health Savings Account (HSA) is a tax-exempt savings account designed to pay your medical expenses. It is used in conjunction with a High Deductible Health Plan (HDHP). It allows you to save money, tax-free, for current or future medical expenses.

What is a High Deductible Health Plan (HDHP)?
A High Deductible Health Plan (HDHP) is a health insurance plan with a deductible that meets the IRS definition, which the District's Plan C does qualify as a HDHP.

How can I benefit from my HSA?
- Your contributions are pre-tax when done through payroll deduction or tax-deductible when done outside payroll deduction
- Interest earned is tax-free
- Tax-free withdrawals may be made for qualified medical expenses
- Unused funds and interest are carried over, without limit, from year to year
- You own the HSA and it is yours to keep - even when you change jobs, health plans, or retire

Who is eligible for an HSA?
An eligible individual is anyone who:

- enrolled in the District's Plan C
- is not covered by any other health plan that is not an HDHP
- is not currently enrolled in Medicare or TRICARE
- has not received medical benefits through the Department of Veterans Affairs (VA) during the preceding three months
- may not be claimed as a dependent on another person's tax return

What if another taxpayer is entitled to an exemption for me?
If another taxpayer is entitled to claim an exemption for you, you are not allowed to claim an HSA deduction. Even if the entitled person does not actually claim you as an exemption, you are still ineligible.

Who qualifies as a dependent?
A person generally qualifies as your dependent for HSA purposes if you claim them as an exemption on your Federal tax return. Please see IRS Publication 502 for exceptions.

What kind of other health coverage makes an individual ineligible for an HSA?
Generally, an individual is ineligible for an HSA if the individual, while covered under an HDHP, is also covered under a health plan (whether as an individual, spouse, or dependent) that is not an HDHP.

What can I use the HSA for?
The HSA can be used:

- to pay for qualified medical, dental, vision and prescription drug expenses, including over-the counter drugs that have been prescribed by a doctor, as defined in IRS Publication 502
- as supplemental income, but money withdrawn is taxable and if you are under age 65, it will be subject to a 20% penalty

Can I use my HSA to pay for medical expenses for a spouse or dependent?
Yes, you may use your HSA funds without penalty to pay for qualified medical expenses for yourself, your spouse, or dependent even if they are covered under another health plan.

What if I use my HSA to pay for something other than a qualified medical expense?
If HSA funds are used for other than qualified medical expenses, the expenditures are subject to applicable income tax and, for individuals who are not disabled or over age 65, subject to a 20% tax penalty.

Are health insurance premiums counted as qualified medical expenses?
No, in most cases, health insurance premiums, including premiums for Medigap policies, are NOT counted as qualified medical expenses for your HSA. However, the following types of health insurance premiums are exceptions and **ARE** considered qualified medical expenses:

- Premiums for qualified long-term care insurance;
- Premiums for COBRA health care continuation coverage
- Premiums for health coverage while an individual is receiving unemployment compensation
- For individuals over age 65, premiums for Medicare Part A or B, a Medicare HMO and employee share of premiums for employer-sponsored retiree health insurance.

What happens to the money in my HSA if I no longer have a HDHP coverage?
Once you discontinue coverage under an HDHP and/or get coverage under another health plan that disqualifies you from an HSA, you can no longer make contributions to your HSA, but since you own the HSA, you can continue to use the remaining funds for future medical expenses.

How does FSA/HRA participation affect HSA eligibility?
General-purpose Flexible Spending Arrangements (FSAs) and Health Reimbursement Arrangements (HRAs) will make you ineligible for an HSA. However, 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 or HRA, then you may still be eligible for an HSA. Additionally, you can't have an HSA if your spouse's general purpose FSA or HRA can pay for any of your medical expenses before your HSA-qualified health plan deductible is met. If you have questions about how FSA/HRA participation affects your HSA eligibility, consult your tax advisor.

I'm currently enrolled in health FSA, must have a zero balance in your FSA, at the end of the FSA plan year?
YES, because a health FSA that pays or reimburses all qualified medical expenses constitutes impermissible "other coverage" for HSA eligibility purposes, an individual who participated in the health FSA (or a spouse whose medical expenses are eligible for reimbursement under the health FSA) for the immediately preceding plan year and who is covered by the grace period, is not eligible to contribute to an HSA until the first day of the first month following the end of the grace period.

You can contribute to an HSA only if you have a zero balance at the end of the plan year otherwise not until the first of the month following the end of the grace period.

CONTRIBUTIONS TO HSA

Who can contribute to an HSA?
Both an employer and employee may contribute to an HSA. The money in the health savings account is owned by the employee. Your employer can not control how you use the funds in your HSA account.

May I use my Health FSA or HRA to fund my HSA?
No, the IRS does not allow rollovers from a Flexible Spending Account (FSA) and/or Health Reimbursement Account (HRA) to an HSA.

How much can I contribute to my HSA?
The maximum annual contribution you can make to your HSA is:

Annual Contribution Limits		
Tax Year	Individual Coverage	Family Coverage
2021	$3,600	$7,200

Account holders over the age of 55 who have not yet enrolled in Medicare are eligible to make an additional $1,000 "catch-up" contribution to their HSA. Please note that only one catch-up contribution is permitted per account per year.

Can I enroll in both my HSA and health FSA?
If you enroll in both an HSA and an FSA or Health Reimbursement Arrangement (HRA), you cannot make deductible contributions to the HSA for that coverage period if the FSA or HRA are "general purpose" arrangements that pay or reimburse for qualified medical expenses. However, you still may be able to make deductible contributions to an HSA even if you are also covered under an FSA or HRA if those arrangements are "limited purpose" FSAs or HRAs that restrict reimbursements to certain "permitted benefits" such as vision, dental or preventive care benefits. Other permissible combinations include "suspended HRAs" and "post-deductible" FSAs or HRAs.

Can I change my HSA contribution during the year?
Yes, you will do so by going on-line.

How do I make contributions?

- through payroll deduction
- online by making a contribution from your personal checking account*
- mailing a personal check*

* Contributions made by either of these methods are considered after-tax contributions for purposes of W-2 reporting. In order to receive the tax benefit of after-tax contributions, you must claim them on your tax return.

My HSA deduction is shown in Box 12 of my W-2 as Code W, why?
Consistent with applicable IRS guidelines, HSA deductions reported on your W-2 in Box 12 includes contributions made by the employer and employee contributions made through a section 125 cafeteria plan as a pre-tax salary deferral. When you prepare your taxes at year-end, you are required to complete an additional tax form -- the IRS Form 8889.

When can contributions be made?
For an established HSA, contributions for the taxable year can be made in one or more payments at any time after the year has begun and prior to the individual's deadline (without extensions) for filing the eligible individual's federal income tax return for that year. For most taxpayers, this is April 15 of the year following the year for which contributions are made.

If my spouse is age 55 or older, am I eligible to make the catch-up contribution?
No, only the primary HSA accountholder must be age 55 or older in order to make the catch-up contribution.

What is the tax treatment of my HSA contributions?
Whether or not you itemize deductions, your HSA contributions can be deducted from your adjusted gross income. Of course, you must be an eligible individual and you cannot also deduct the contributions as a medical expense deduction under section 213 of the Internal Revenue Code.

How is the HSA contribution limit computed if one or both spouses have family coverage?
If married individuals participate in two High Deductible Health Plans (HDHPs) and either spouse has family HDHP coverage, the 2014 HSA family coverage contribution limit of $6,550 is a joint limit, to be divided between the married couple. They can divide in whatever increments they may wish as long as the total amount between both accounts does not exceed the family contribution limit. Please note that each person may also contribute the catch up contribution to their individual HSA if eligible. There is only one catch-up limit permissible per account.

If married individuals participate in two self-only HSA-qualified HDHPs and are HSA eligible, they may contribute to their own HSA with a maximum contribution limit of $3,300 each for the 2014 tax year. Each person may also contribute the catch-up contribution to their individual account if eligible.

How much may I contribute to the account if I establish my HDHP after January 1, 2014?
An individual or family enrolled in a high-deductible health plan (HDHP) effective January 1, 2014, will be eligible to make a full HSA contribution for the year, without any restrictions.

An individual or family enrolled in an HDHP in 2014 in a month(s) other than January may make a full HSA contribution for the year, as long as certain conditions are met. According to the 12-month testing period rule, if you do not remain an eligible individual through 2015, any amount you contributed in 2014 that is more than the prorated share of the maximum amount allowed for the year will be considered "income" for tax purposes and subject to a 20 percent tax penalty. The prorated share is determined by the number of months in which you were enrolled in an HDHP during the year.

Example of the 12-month testing period rule: An individual enrolls in an HDHP effective December 1, 2014, and is otherwise an eligible individual in that month. The individual is not an eligible individual in any other month in 2014. The individual can make an HSA contribution for 2014 as if he or she had been enrolled in the HDHP for all of 2015 (that is, he/she may contribute the full amount allowed for the year), as long as he/she remains in an HSA-qualified HDHP through December 31, 2015.

If the individual ceases to be an eligible individual (that is, if he/she ceases to be covered under an HDHP) before December 31, 2015, he/she would only be eligible to contribute a prorated portion of the maximum amount allowed for 2014, representing the month(s) the individual was enrolled in the HDHP in 2014. In this example, the individual would be eligible to contribute 1/12, or one month's worth, of the maximum amount allowed.

If the individual contributed more than 1/12 of the maximum amount allowed, he/she would have to pay income taxes plus a 20 percent penalty on the excess amount contributed in 2015.

What will happen if excess contributions are made to my HSA during the year?
If excess contributions are made to your HSA, you must generally pay an excise tax on the excess contributions you or your employer made to your HSA. For a complete explanation, visit www.irs.gov and see IRS Form 5329: Additional Taxes on Qualified Plans (including IRAs) and Other Tax Favored Accounts, to calculate the excise tax.

If you made excess contributions, you may withdraw some or all of the excess contribution and not pay the excise tax on the amount withdrawn. However, you must do the following:

- Withdraw these excess contributions by the due date, including extensions, of your tax return;
- 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; and
- Do not claim a deduction on your IRS Form 1040 for the amount of the withdrawn contributions.

If your employer makes an excess contribution and the excess was not included in box 1, Form W-2, you must report the excess as "other income" on your tax return. However, you may withdraw some or all of the excess employer contributions and not pay the excise tax on the amount withdrawn if you do the following:

- Withdraw these excess contributions by the due date, including extensions, of your tax return;
- 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; and
- Do not claim an exclusion from income for the amount of the withdrawn contributions.

If I am eligible for an HSA and eligible for Medicare, but not enrolled in Medicare Part A or Part B, may I still contribute to an HSA?
Yes, according to Section 223(b)7 of the Internal Revenue Code, an eligible individual who is not actually enrolled in Medicare Part A or Part B may contribute to an HSA until the month he or she is enrolled in Medicare.

May I add rollover contributions to my HSA?
Yes, you are allowed to add rollover contributions from other HSAs to your HSA. Rollover contributions do not have to be cash and are subject to the annual contribution limits.

What happens to my remaining HSA account balance at the end of the year?
Any remaining account balance automatically rolls over year after year.

DISTRIBUTIONS & RESPONSIBILITIES

How do I take withdrawals from my HSA?
You can take tax-free withdrawals/distributions from your HSA to pay for qualified medical expenses at any time during the year. However, you do not have to make withdrawals from your HSA each year. Your contributions remain in your HSA from year-to-year until you use them.

Remember that if you make withdrawals for non-qualified medical expenses, or for other reasons, the amount withdrawn will be subject to income tax and may be subject to an additional excise tax.

Do I need to keep track of my deposits and withdrawals?
Yes, you should keep a record of all of your transactions in and out of your HSA so you can supply documentation on your deposits and expenditures, if needed. It is up to you to monitor the deposits and withdrawals made to and from your HSA.

May eligible individuals use debit, credit or stored-value cards to receive distributions from an HSA for qualified medical expenses?
Yes, once the HAS is funded, you will receive a free debit card. This card provides you with quick and easy access to the money in your HSA.

When can I initiate distributions from my HSA?
Once your account is funded and activated, you can initiate distributions from the HSA at any time.

What are "qualifies medical expenses" that are eligible for tax-free distributions?
Qualified medical expenses are expenses paid by the accountholder for diagnosis, cure, mitigation, treatment, or prevention of disease.

Examples of these expenses are prescription drugs, including over-the-counter drugs that have been prescribed by a doctor, transportation to care providers, qualified long-term care expenses, and certain health insurance premiums. Such expenses are "qualified medical expenses" only if they are ineligible for insurance or any other type of coverage. For more information, view IRS Publication 502.

How are distributions from my HSA taxed?
If you use distributions from your HSA exclusively to pay for qualified medical expenses, they may be excluded from your gross income. This is generally true even if your HSA distributions are used during a time that you are not eligible to make contributions to your HSA. It is important to remember that any portion of a distribution not used exclusively to pay for qualified medical expenses must be included in the gross income of the account beneficiary and is subject to an additional 20% tax. Exceptions are made in cases of distributions made after an account beneficiary's death, disability, or attainment of age 65.

Is the interest earned on my contributions also tax free?
Yes, as long as you use the money in your HSA for qualified medical expenses or roll it over from year to year.

What is the tax treatment of contributions made by a family member on behalf of an eligible individual?
Contributions made by a family member on behalf of an eligible individual to an HSA are deductible from the adjusted gross income of the eligible individual. However, an individual who may be claimed as a dependent on another person's tax return is not an eligible individual and may not deduct contributions to an HSA.

What is the tax treatment if the employer contributes to my HSA?
You cannot deduct contributions that your employer makes to your HSA on your Federal Income Tax Return. Employer contributions to an employee's HSA are treated as employer-provided coverage for medical expenses under an accident or health plan and may be excluded from an employee's gross income. Employer contributions are not subject to withholding from wages for income tax or subject to the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), or the Railroad Retirement Tax Act (RRTA). In addition, contributions to an employee's HSA through a cafeteria plan are treated as employer contributions and the employee's income will be reduced.

What is the tax treatment of my HSA?
Your HSA is generally exempt from tax. Earnings on your account accumulate tax free. However, this is no longer the case if your HSA ceases to be an HSA or if earnings are taken from your HSA.

How do I report HSA distributions on my tax return?

- If you used a distribution from your HSA for qualified medical expenses, you do not pay tax on the distribution, but you do have to report the distribution on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040.
- If you used a distribution from your HSA for something other than qualified medical expenses, you must pay tax on the distribution and report the amount on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040. You must also report and pay an additional tax on your IRS Form 1040, unless you meet one of the exceptions established by the IRS. You will need to contact the IRS or your accountant for more information on the exceptions.
- In addition, there is a 20% additional tax on the part of your distribution that was not used for a qualified medical expense. You are required to report the additional tax in the Other Taxes section of your IRS Form 1040. Please note that there is no 20% additional tax due if you are disabled, age 65 or older, or die during the year.

What if I become ineligible for an HSA? How will my HSA distributions then be taxed?
As long as you use your HSA distributions only to pay for qualified medical expenses, they will continue to be excludable from your gross income even if you are no longer eligible for an HSA. This includes individuals over age 65 who are entitled to Medicare benefits or no longer have an HDHP.

What happens to my HSA when I die?
If you are married and your spouse is a named beneficiary, s/he becomes the owner of the account and assumes it as his/her own HSA. If you are unmarried, your account will cease to be an HSA. It will pass to beneficiaries or become a part of your estate, and be subject to applicable taxes.

What are the income tax consequences for the beneficiary after the accountholder's death? Upon death, any balance remaining in the accountholder's HSA becomes the property of the individual named in the HSA as the beneficiary of the account. If the accountholder's surviving spouse is the named beneficiary of the HSA, the HSA is treated as though the surviving spouse were the accountholder, and distributions used for qualified medical expenses are not subject to income tax.

If, by reason of the death of the accountholder, the HSA passes to a person other than the accountholder's surviving spouse, the HSA ceases to be an HSA as of the date of the accountholder's death, and the person is required to include in gross income the fair market value of the HSA assets as of the date of death.

Can I reimburse myself with HSA funds for qualified medical expenses incurred prior to my enrollment into an HSA?
No. Qualified medical expenses may only be reimbursed, tax-free, if the expenses are incurred after the date your HSA was established.

Where can I find Internal Revenue Service (IRS) forms and publications?
Just visit http://www.irs.gov/.

Here are some other helpful links:

- Publication 502
- IRS Notice 2004-2

Please contact your account or tax consultant for regarding your specific tax needs and circumstances.