Health Savings Account (HSA) FAQ — Participants

What is a Health Savings Account (HSA)?

HSAs are individually owned accounts that work similar to Individual Retirement Accounts and allow you to set aside pre-tax dollars for medical expenses. With an HSA, you can deposit money tax-free and it will grow tax-free until you use it. Interest or dividends accumulate tax-free and payment of qualified medical expenses have no additional tax consequences. You decide how to invest and grow your HSA.

To open an HSA, you must be enrolled in a High-Deductible Health Plan (HDHP). Then, you can use the money in your HSA to pay for the plan's deductible, co-insurance and other non-covered expenses. Once your deductible is met, the HDHP kicks in to pay for major health costs. Even if an HDHP no longer covers you, your account will remain active and you can use the remaining balance for medical expenses — you just won't be able to make contributions once your HDHP coverage ends. The assets in your HSA account always belong to you and funds will remain in your account from year to year unless they are used.

When you set up an HSA, you are required to set it up with a qualified custodian or trustee. Discovery Benefits' custodian is HealthcareBank.

Who can participate in an HSA?

Any individual covered by a High-Deductible Health Plan (HDHP) can participate in an HSA.

Individuals may be excluded from an HSA if they are:

- Covered under a spouse's or a dependent's employer's health plan that is not an HDHP.
- Claimed on someone's taxes.
- Covered by any Medicare Benefit.
- Covered under an MSA or HRA, unless the coverage under the MSA or HRA is limited to permitted benefits or specific benefits not provided by the HDHP.

If an HSA is offered through an employer's cafeteria plan, the eligibility requirements of the cafeteria plan apply. Sub S-corporation owners, their spouses and dependents employed by the company may not participate in an HSA. Neither can sole-proprietors, 2% or more owners in a partnership, limited-liability partnerships or limited-liability corporations.

Who can make contributions to an HSA?

HSAs allow contributions to be made by employers, eligible individuals or both. Employer contributions are subject to non-discrimination rules (also known as comparability rules).

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How much can I contribute to my HSA?

You can contribute up to the annual statutory maximum as long as your HSA is established by December 1st of the calendar year. The maximums are as follows:

2016:
Single HDHP Coverage = $3,350
Family HDHP Coverage = $6,750
Catch-up Contribution (age 55 by the end of the year) = $1,000

2017:
Single HDHP Coverage = $3,400
Family HDHP Coverage = $6,750
Catch-up Contribution (age 55 by the end of the year) = $1,000

What is the contribution deadline?

The contribution deadline is April 15th following the year for which the contributions were made.

What are the tax advantages of owning an HSA?

Triple Tax Savings:

- Contributions are tax-free*
    - Employee contributions that are deductible over-the-line (i.e. deductible even by non-itemizers)
    - Employer contributions that are excluded from income and employment taxes
    - Salary reduction contributions made through a Section 125 cafeteria plan
- Earnings are tax-free
- Withdrawals are tax-free when made for eligible medical care expenses

*All three forms of contributions are exempt from federal income taxes. Employer and salary reduction contributions (Section 125 cafeteria plan) are exempt from FICA and FUTA as well. For specific tax advantages, please consult your tax advisor.

When is my HSA effective?

The account will be established when we receive your HSA enrollment and you log in to the Discovery Benefits Participant Portal and agree to the online HSA agreements. The account then becomes effective on the first of the month following the setup. For example, if your HSA application is sent to Discovery Benefits on January 15th and your account was established on January 17th, your HSA would be effective February 1st — the first of the month following the date the account was established. Eligible expenses would be those incurred on or after February 1st. The effective date of your HSA cannot be backdated to the date your HDHP was established.

What is the USA PATRIOT Act?

Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an HSA. This means that when you open an HSA with Discovery Benefits, we will ask for your name, street address, date of birth and other information that will allow us to identify you.

This process takes approximately two days, during which time your account will be blocked. Once this process is completed and your identity has been verified, access to your HSA will be unblocked and made available to you. If your identity is not verified (e.g. if you moved recently and your new address is not on file with the appropriate government agency), you may be asked to provide proof of your identity by providing a copy of your utility bill to verify your address or a copy of your Social Security card if the number does not match the verifying source's records.

Can an individual have more than one HSA?

An individual may contribute to more than one HSA; however, the total contribution of all HSA contributions cannot exceed the annual limit. You and your spouse may both have an HSA if you both have high-deductible health insurance coverage.

Can an individual participate in both an HSA and a Medical Spending Account (MSA) or Health Reimbursement Arrangement (HRA)?

If the MSA or HRA through your employer or your spouse's employer is unlimited, you are not eligible for an HSA. If the MSA or HRA is limited to dental, vision and/or preventive care expenses, you can have it with the HSA. Ultimately, it is the responsibility of participants to maintain IRS compliance within their plans.

Can an individual participate in both an HSA and a Dependent Care FSA?

Yes.

What do I need to consider if I'm moving from an FSA to an HSA?

Before you are eligible to use your HSA, your FSA needs to be spent down to a $0 balance prior to the start of the new plan year. If an FSA balance is carried over into the new plan year, you will need to wait until the end of the run-out period to be eligible to participate in the HSA.

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What expenses are eligible for reimbursement from an HSA?

The Medical FSA and HSA Eligibility List is a summary of common expenses claimed against Medical Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs). Due to frequent updates to the regulations governing FSAs and HSAs, this list does not guarantee reimbursement but is intended to be utilized as a guide for the submission of claims.

How and when can money be taken out of an HSA?

Account holders can make a withdrawal (also known as a distribution) at any time. Distributions received for qualified medical expenses not covered by the High-Deductible Health Plan (HDHP) are distributed tax-free. Distributions can be requested via your online account. Unless individuals are disabled, age 65 or older or die during the year, they must pay income taxes plus an additional 20% on any amount not used for qualified medical expenses. An individual who is disabled or who reaches age 65 can receive non-medical distributions without penalty but must report the distribution as taxable income.

Why do I need to designate beneficiaries?

After the death of an account holder, the tax treatment of an HSA depends on whether a spouse or non-spouse is designated as a beneficiary of the account. If there is no designated death beneficiary, the fair market value of the account will be included in the account holder's final income tax return and estate tax return.

Spouse Beneficiary: If the deceased account holder's designated beneficiary is a spouse, the HSA will be treated as the surviving spouse's own HSA. Distributions to the surviving spouse for qualified medical expenses would be tax-free.

Non-spouse Beneficiary: If a non-spouse beneficiary is named as a beneficiary, the HSA will cease to be an HSA as of the date of death. The non-spouse beneficiary would include the balance of the HSA in his or her income for the year of death.

Can I roll over funds from another account?

Rollover contributions to an HSA are permitted as long as the source of the rollover funds is another HSA or Archer MSA. You cannot rollover funds from a Medical FSA. A rollover of HSA or Archer MSA funds must be completed within 60 days from the date of constructive receipt to avoid taxation. Only one rollover every 12 months is permitted. When account holders make a rollover contribution, they must certify to the custodian or trustee in writing that they are making a rollover contribution. Once made, the certification is irrevocable.

Are there any fees associated with my HSA account?

Typically, employers will cover fees that are associated with your HSA while you are an active employee. If you leave your current employer but keep your HSA open with Discovery Benefits, there may be maintenance fees assessed to your account.

How do I report HSA activity on my tax return?

The IRS has stated that HSA contributions and distributions are reportable transactions.

Contributions: Employer HSA contributions are reported on the W-2 as non-taxable wages for each employee that receives a contribution. Regardless of whether or not HSA contributions are made by the account holder or the employer, contributions must be reported on the individual tax return of the account holder. Contributions to and distributions from HSAs are reported by the account holder on Form 8889 and attached to Form 1040.

Distributions: Distributions from HSAs, if for qualified medical expenses, will avoid income tax consequences to the recipient. For this reason, the IRS requires the reporting of these distributions.

The account holder will receive Form 1099-SA for reporting distributions made during the tax year and Form 5498-SA for reporting contributions made to the HSA during the tax year. 1099-SAs are sent by January 31st. 5498-SAs are sent in May, after the April 15th tax filing deadline. It is the account holder's responsibility to keep records to support distributions and to complete Form 8889 and attach it to Form 1040.

The account holder will be responsible for reporting the contributions and distributions to the IRS and will ultimately be responsible for ensuring that account transactions are within the allowed regulations. If an error is made by Discovery Benefits or its custodian, Discovery Benefits will be responsible for that activity.

Should I keep my receipts for HSA-eligible items?

Yes. Discovery Benefits does not require you to submit substantiation for HSA reimbursements, but if the IRS chooses to audit you, the paperwork for your HSA claims may be requested.