Health savings account Q&As

What are HSAs and who can have them?

1. What is a Health Savings Account (HSA) and how does it work?
An HSA is a tax-advantaged account established to pay for qualified medical expenses for those who are covered under an HSA qualifying high-deductible health plan (HDHP) and meet other IRS eligibility requirements. With money from this account, you pay for health care expenses until your deductible is met. Then, in accordance with the terms of your health care plan, your insurance company pays for covered expenses in excess of your deductible. Any unused funds are yours to retain in your HSA and accumulate toward your future health care expenses or your retirement.

2. What are the general features and tax benefits of an HSA?

- Your contributions are pre-tax or tax-deductible*
- Earnings are income 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

*Contributions are tax-deductible on your federal tax return. Some states do not recognize HSA contributions as a deduction. Your own HSA contributions are either tax-deductible or pre-tax (if made by payroll deduction). See IRS Publication 969. Consult a qualified tax adviser for advice.

3. Who qualifies for an HSA?
An eligible individual is anyone who meets all of the following criteria:

- Covered under an IRS qualifying HDHP
- Not covered by any other health plan that is not an HDHP
- 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

4. 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. www.irs.gov/pub/irs-pdf/p502.pdf.

5. What is a qualifying "High Deductible Health Plan" (HDHP)?
A qualifying HDHP is a health plan that satisfies certain IRS requirements with respect to deductibles and out-of-pocket expenses. In 2016, for self-only coverage, an HDHP has an annual deductible of at least $1,300 and annual out-of-pocket expenses (deductibles, co-payments and other amounts, but not premiums) not exceeding $6,550. For family coverage in 2016, a qualifying HDHP has an annual deductible of at least $2,600 and annual out-of-pocket expenses not exceeding $13,100. HDHP qualifying deductibles and annual out-of-pocket expenses are are reviewed by the IRS on an annual basis.

6. What other kinds of health coverage makes an individual not eligible for an HSA?
Generally, an individual is not eligible 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.

7. What can I use the HSA for?
The funds in 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 an additional 20 percent penalty

8. Can I invest my HSA dollars?
Yes, you can choose to invest* your HSA dollars into a variety of mutual fund options to help build your HSA dollars to use for future medical expenses or save for retirement.

9. What other kinds of health coverage may an individual maintain without losing eligibility for an HSA?
An individual does not fail to be eligible for an HSA merely because, in addition to an HDHP, the individual has coverage for any benefit provided by "permitted insurance." Permitted insurance is insurance under which substantially all of the coverage provided relates to liabilities incurred under workers' compensation laws, tort liabilities, liabilities relating to ownership or use of property (e.g., automobile insurance), insurance for a specified disease or illness, and insurance that pays a fixed amount per day (or other period) of hospitalization.

In addition to permitted insurance, an individual does not fail to be eligible for an HSA merely because, in addition to an HDHP, the individual has coverage (whether provided through insurance or otherwise) for accidents, disability, dental care, vision care or long-term care.

10. 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 eligible dependents even if they are covered under another health plan. Consult a qualified tax adviser for advice.

11. 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 an additional 20 percent tax penalty.

12. Are health insurance premiums qualified medical expenses?
Generally, health insurance premiums are not qualified medical expenses. Exceptions include qualified long-term care insurance, COBRA health care continuation coverage, any health plan maintained while receiving unemployment compensation under federal or state law and for those age 65 or over (whether or not they are entitled to Medicare), any employer-sponsored retiree medical coverage premiums for Medicare Part A or B, or Medicare HMO. Conversely, premiums for Medigap policies are not qualified medical expenses.

13. What happens to the money in my HSA if I no longer have 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.

Contributions to HSAs

14. Who may contribute to an HSA?
Anyone may contribute to the HSA of an eligible individual. If an employee establishes an HSA, for example, the employee, their employer, or both may contribute to the employee's HSA in a given year. If a self-employed or unemployed individual establishes an HSA, that individual may contribute to the HSA. Family members may also make contributions to an HSA on behalf of another family member as long as that other family member is an eligible individual. Keep in mind, all contributions from all sources count toward your IRS maximum contribution limits.

15. Can I enroll in both an HSA and a health Flexible Spending Account (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. Contact your legal or tax adviser to review these situations.

16. How much can I contribute to my HSA?
In 2016, your annual HSA contribution may not exceed IRS limits of $3,350 for individual coverage or $6,750 for family coverage. IRS limits are indexed for inflation on an annual basis.

17. If I enrolled in an HDHP and HSA mid-year, what is my permitted contribution amount for that year?
As outlined in IRS Publication 969, under the "last month rule," if you have HDHP coverage 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. The maximum annual HSA contribution can be made for that tax year, regardless of when, during that year, the HSA was opened. For example, if an individual opens an HSA on June 1, the full contribution allowable by law can be made for that year. Penalties may apply if HDHP coverage does not continue for 12 months during the testing period. For the last-month rule, the testing period begins with the last month of your tax year (usually December 31) and ends on the last day on the 12th month following that month. If you fail to remain an eligible individual during the testing period, you may be subject to penalties. Please see IRS Publication 969 for details. www.irs.gov/pub/irs-pdf/p969.pdf.

18. How do I make contributions?
Contributions can be made:
- Through payroll deduction with your employer
- Online by making a contribution from your personal checking account
- Mailing a personal check with the online HSA Contribution Form

19. My HSA deduction is shown in Box 12 of my W-2 as Code W. Why is it designated as an employer contribution when I have contributed the money to the account?
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. Form 8889 and instructions are available at www.irs.gov.

20. Will HSA contributions that I made via lockbox deposit or online show up on my W-2?
No. 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.

21. When can HSA contributions be made? Is there a deadline for contributions to an HSA for a taxable year?
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.

22. What are catch-up contributions for individuals age 55 or older?
For individuals age 55 and older, the HSA contribution limit remains $1,000.

23. What happens when HSA contributions exceed the maximum amount that can be deducted or excluded from gross income in a taxable year?
Contributions by individuals to an HSA, or if made on behalf of an individual to an HSA, are not deductible when they exceed the limits. Contributions by an employer to an HSA for an employee are included in the gross income of the employee if they exceed the limits or if they are made on behalf of an employee who is not an eligible individual. In addition, if not withdrawn in a timely manner, an annually assessed excise tax of 6 percent is imposed on the accountholder for excess individual and employer contributions.

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

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

26. Can I contribute funds from my Individual Retirement Arrangement (IRA) to my HSA?
During your lifetime, you are allowed a one-time contribution from one of your IRA(s) to one of your HSA(s). The contribution must be made in a direct trustee-to-trustee transfer. The IRA transfer will not be included in income or subject to additional tax due to early withdrawal. The transfer is limited to the maximum HSA contribution for the year and the amount contributed is not allowed as a deduction. Penalties may apply if HDHP coverage does not continue for 12 months.

27. Are rollover contributions from Archer MSAs and other HSAs permitted?
Yes. Rollover contributions from Archer MSAs and other HSAs are permitted. Qualifying rollover contributions must be made in cash and are not subject to annual contribution limits.

Distributions and accountholder responsibilities

28. How are distributions from an HSA taxed?
Distributions from an HSA used exclusively to pay for qualified medical expenses of the accountholder, his or her spouse, or dependents are tax exempt and not included in gross income.

In general, amounts retained in an HSA can be used for qualified medical expenses and will be excludable from gross income even if the individual is not currently eligible to make contributions to the HSA.

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

30. What are the "qualified 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, qualified long-term care expenses, and certain health insurance premiums (see question 12). Such expenses are "qualified medical expenses" only if they are ineligible for insurance or any other type of coverage. For more information, visit www.irs.gov/ pub/irs-pdf/p502.pdf.

31. Can I use my HSA to pay for non-health related expenses?
Yes, however, any amount of a distribution not used exclusively to pay for qualified medical expenses of the accountholder, spouse or dependents is includable in gross income of the accountholder. Such distributions could be subject to taxes and an additional 20 percent IRS tax penalty on the amount includable, except in the case of distributions made after the accountholder's death, disability or attaining age 65.

32. How do I pay for medical services?
Medical services can be paid for with your Optum Payment Card, online Bill Pay, or distributing funds from the HSA to your personal bank account.

33. Is there a PIN associated with the Optum Payment Card?
No PIN is required. At check-out, select "Credit" and sign for your purchase. If you would like to use the card for making purchases where entering a PIN is allowed, you can obtain a PIN by calling the number on the back of your card. The PIN cannot be used to obtain cash at ATMs or get cash back at merchants.

34. Is there a daily transaction limit on my card?
For your protection, there is a $3,000 daily transaction limit on your card, regardless of your account balance. It can temporarily be increased, upon request, by calling Customer Service.

35. What happens if the HSA has insufficient funds for payment?
Payment card transactions will not be authorized if funds are not available.

36. Is tax reporting required for an HSA?
Yes. IRS form 8889 must be completed with your tax return each year to report total deposits and withdrawals from your account. You do not have to itemize to complete this form.

37. What are the tax rules of an HSA?
An HSA provides you triple tax savings by allowing:
- Tax deductions from gross income when you contribute to your HSA;
- Tax-free earnings through interest and investments*; and
- Tax-free withdrawals for qualified medical expenses.

38. How are distributions taxed after the accountholder is no longer an eligible individual?
Distributions used exclusively to pay for qualified medical expenses are not taxed, whether or not the accountholder is eligible to contribute to an HSA at the time of distribution.

39. What happens to the HSA if I die?
If you are married and your spouse is a named beneficiary, she/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.

40. What are the income tax consequences for the beneficiary after the HSA 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.

*Investments are not FDIC insured, are not guaranteed by Optum Bank®, and may lose value.

41. Who is responsible for determining whether HSA distributions are used exclusively for qualified medical expenses?
As the HSA accountholder, you must ensure that distributions are used for qualified medical expenses. Records of medical expenses should be maintained as evidence that distributions have been made for these purposes. You are responsible for ensuring contributions to the HSA do not exceed IRS limits.

42. If I change employers, what happens to my HSA?
Since you are the owner of the HSA, you may continue to maintain the account if you change employers.

43. How will HSA summaries be delivered and how frequently?
Monthly HSA account summaries that itemize deposits, withdrawals and other transactions are available online at no cost. You may elect to receive mailed, paper account summaries for an additional fee.

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

To learn more, call Optum Consumer Services at the number on the back of your payment card.

Representatives are available Monday–Friday, 8:00 a.m.–8:00 p.m. EST.

Health savings accounts (HSAs) are individual accounts offered by Optum Bank®, Member FDIC, and are subject to eligibility and restrictions, including, but not limited to, restrictions on distributions for qualified medical expenses set forth in section 213(d) of the Internal Revenue Code. State taxes may apply. Fees may reduce earnings on account. This communication is not intended as legal or tax advice. Please contact a competent legal or tax professional for personal advice on eligibility, tax treatment and restrictions. Federal and state laws and regulations are subject to change.

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