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About Sundvold Financial
Sundvold Financial is an Investment and Insurance agency located in Columbia, Mo. We specialize in Employee Benefits and partner locally and state-wide with many employers to help them establish and maintain the best benefit package possible.

Disclaimer
The information contained in these guidelines are intended to assist you in considering an HSA option. The contents may not apply to your specific circumstances or take into account your individual tax or benefit situation. IRS Guidelines will take precedence over any statement in this document. The information in this document is subject to change without notice. Please consult your tax or legal advisor for assistance. You may also visit www.irs.gov for more information.
Section 1: Introduction to HSA’s

A Health Savings Account is a tax advantaged personal savings or investment account that individuals use for qualified healthcare expenses. Think of a 401K......but with these tax advantages:

- pre-tax or tax deductible contributions
- tax free interest or investment earnings
- tax free distributions, when used for qualified expenses

As you consider an HSA please understand there are two separate components to this option:
* High Deductible Health Plan - HDHP
* Health Savings Account - HSA

These components work independently and have different rules and regulations that will apply to them.

Contributions can be made by the employer, employee or both. Tax free withdrawals for eligible expenses can be utilized to pay for qualified expenses of the account holder, spouse, and children. HSA’s are also portable, which means individuals always keep their HSA’s, even if they change jobs or become unemployed. There is no “use it or lose it:” provision like some Flex plans have. Unused balances in the account roll over each year offering employees the potential for long term tax free savings on health care expenses.

Any adult who is not enrolled in Medicare and is covered by a High Deductible Health Plan (and has no other first dollar coverage) may establish an HSA

Employee Benefits of HSA Plans

Control—You can use the HSA to pay for any qualified medical expense, as defined by the IRS.

Savings and Investments—Any unused HSA dollars rollover from year to year as your account grows, you can move the excess funds to investment option such as mutual funds/stocks.

Flexibility—“Health Care” dollars can pay for items identified by the health insurance plan, but also a much broader definition as defined by the IRS which includes dental, vision, orthodontia, over the counter medicine and others (not all of these are applied to deductible) These may be things individuals are currently routinely paying for using post-tax dollars.

Portability—You own the HSA bank account, therefore if offered through your employer and you leave employment you can take your HSA (the account) with you.

Tax savings—Your contributions to the HSA can be made with pre-tax dollars, through payroll deductions, lowering income taxes. You can also contribute directly to your account and receive an above the line tax deduction at the end of the year on your taxes.
Section 2: HSA Basic Principals

1. You must be enrolled in a HSA qualified High Deductible Health plan (HDHP) to open or contribute to a Health Savings Account (HSA)

2. Switching to a HDHP from a traditional low deductible health plan may substantially lower your health plan premium. If there is a premium savings you can deposit that amount in your HSA account. Employee pre-tax deductions are also encouraged.

3. The money in your HSA is entirely your own. Even if your employer makes contributions they have no authority or responsibility on how you spend the money. Since it is your money it will stay with you even if you change jobs.

4. You are responsible for your HSA funds, making you and your doctor the decision maker regarding your healthcare. Spending your own money also means that you will likely become more aware of the cost of your healthcare which will make you a better consumer. The choices you make will determine how your money is spent.

5. There is no time limit on reimbursements. You will decide whether and how much to spend out of your HSA. You will want to keep legible receipts and records. You are responsible for all expenditures and would be required to provide records if audited by the IRS.

6. Anyone can contribute to another person’s HSA. The tax benefit is gained by the person receiving the contribution, not the person giving the contribution.

7. You decide which company will hold your HSA funds (your custodian or trustee) and what type of investments you will make with your account. Your employer may determine that they will make contributions using a single financial institution however you can sweep funds to a different qualified account if desired. Any investment allowed for an IRA is also allowed for HSA’s.

8. IRS publication 502 provides a list of most allowable HSA expenditures and some non-allowable ones. IRS publication 969 is also a helpful document regarding HSA accounts.
Section 3: HSA ELIGIBILITY

• Your HSA –qualified HDHP offers first dollar coverage for many preventive care services, meaning these services are not subject to your deductible. Please refer to your carrier’s benefit outline for specifics.

• You cannot be covered by any other health insurance that reimburses you for health expenses unless it is another HSA-qualified HDHP. If a family has all members covered under two qualified HDHP’s or some family members are on one qualified plan and others are under a separate qualified plan, the maximum annual contribution remains in force. Just because you have the coverage with two HDHP’s does not mean you can double your HSA contribution.

• For those covered by two HDHP’s it is a violation of the coordination of benefit rules to be paid by each plan for the same expense.

• Flexible Spending Accounts (FSA’s) and Health Reimbursement Arrangements (HRA’s) held by any family member may make you ineligible for the HSA account unless they are 1) “limited purpose” or 2) “post deductible”. HRA’s that set aside money only for retiree health expenses are also acceptable as are ones that are suspended. You can still enroll in the health plan you just can not open the account.

• If you are enrolled in Medicare or Medicaid you cannot open an HSA.

• Tricare (military healthcare) does not currently offer an HSA qualified HDHP. Therefore if you are on Tricare, you cannot have an HSA.

• If you have received Veterans Administration health benefits in the last three months you cannot have an HSA.

• If you are Medicare eligible and are not enrolled in Medicare you can open and contribute to an HSA if you have a qualified HDHP. (see table B)

• You cannot establish an HSA account for your minor dependent children.

• You do not have to have an earned income from employment to have an HSA. Unlike an IRA, there are no income limits to having an HSA.

• You do not have to itemize your deductions on your federal income taxes to deduct your contributions to an HSA. HSA deductions are “above-the-line” before Adjusted Gross Income (AGI) is calculated.

• You can open an HSA and also have specific disease or illness, accident, disability, dental, vision or long term care insurance, employee assistance, disease management, and/or wellness management programs. (for example: AFLAC)
Section 4 - HSA CONTRIBUTION RULES

- You must have an HSA-qualified HDHP to open or contribute to an HSA.

- If you no longer have a qualified HDHP you cannot contribute to your HSA, but you can maintain and spend the already deposited funds as allowed by law.

- The maximum HSA contribution is not limited to the annual deductible under the HDHP. Prior to 2007 your annual HSA deposit could not exceed your deductible unless you were 55 or older and making catch up contributions. Catch up contributions for 2017 and 2018 are $1000 for each spouse age 55 and older. (See rules in IRS Pub 969)

The Maximum contribution for 2017 are as follows:

- **Self Only Coverage** $3,400
- **Family Coverage** $6,750

The Maximum contribution for 2018 are as follows:

- **Self Only Coverage** $3,450
- **Family Coverage** $6,900

- As long as you are enrolled in a qualified HDHP for at least the last full month of the year, you are eligible to make a full HSA contribution for that year, provided you remain enrolled in an eligible HDHP for the full following calendar year. If you do not have coverage at the end of the following calendar year the amount is pro-rated based on the number of months you had the HDHP. **For example: you become eligible on July 1, 2017. Even though you did not have the HDHP coverage for the first 6 months you are still eligible for the full year contribution provided you maintain coverage thru the last month of that year. If you cancelled your HSA coverage on July 1, 2017 you could only contribute for the months you were enrolled; $1700 for single coverage or $3375 for family.**

- **Deposits to an HSA must be made in cash, payroll, or lump sum or through a rollover from an FSA, HRA, IRA, or another HSA. Rollovers from an Archer MSA into an HSA are allowed if completed within 60 days of withdrawing the funds form your Archer MSA.**

- **For FSA/HRA rollovers contributions to the HSA must not exceed an amount equal to the lesser of 1) the balance in the health FSA or HRA as of September 21, 2006, OR 2) the balance in the health FSA or HRA as of the date of the distribution. The distribution is not included in income (or carry any penalties) and does not count against the maximum tax deductible contribution that can be made to the HSA.**
The term “rollover” has several meanings. Rollover of HSA funds form year to year (unspent balances) is allowed. There is no “use it or lose it” provision with HSA’s. However IRA and HSA rollovers have a different meaning to the IRS. Please see IRS guidelines for allowable rollovers.

For IRA rollovers, a direct trustee-to-trustee transfer can be made only once per lifetime (with one exception). Please see IRS guidelines regarding details for this type of transfer.

Individuals 55 and older can make “catch-up” contributions until they enroll in Medicare. These amounts are indexed by the IRS and are subject to change. For 2016 the amount is - up to $1000. Each spouse age 55 or older can contribute the maximum amount. If you did not have the HDHP coverage for the full year, you must pro-rate your “catch-up” contributions. If both spouses want to make “catch-up” contributions each spouse must have a separate HSA.

In the year you enroll in Medicare you must pro-rate your “catch-up” contribution for the number of months you had HDHP coverage, prior to the month your Medicare enrollment is effective. Once either spouse enrolls in Medicare that spouse can no longer contribute any funds, including “catch-up” amounts, to their HSA. If you are not enrolled in Medicare, you can contribute to your HSA and make “catch-up” contributions.

If you have a family plan with multi-person deductibles, you cannot deposit more into your HSA than the maximum amount allowed for family coverage. For example: A family of two with a $4000 deductible cannot deposit $8000 in their HSA for 2017 since the maximum family contribution for 2017 is $6750.

You can front load or fully fund your HSA on the day your HSA becomes effective provided you don’t exceed the maximum amount. Unlike an FSA, you can only spend the dollars deposited in your account.
HSA CONTRIBUTION RULES
Section 4 cont......

• If possible, you should open your account the day your qualified HDHP becomes effective. Expenses from this account are only eligible from the date the account is open. For example: If your HDHP begins on January 1 and you don’t open the HSA account until January 15th, any expenses incurred from January 1 – January 14th would not be eligible.

• If you become covered by a HDHP in a month later than January, you can “back load” or make full contributions for the preceding months up to January 1, however if you lose qualifying coverage (for reasons other than death or disability) all the “back loaded” months of HSA contributions for which you are not eligible are includable in your gross income and you face additional penalties.

• You can deposit funds into your HSA in a lump sum (above the line deduction) in any amounts or frequency you wish. Or deposits can be made using pre-tax deductions from your employer. In some cases an employer also may contribute to your HSA. All contributions must be within the maximum limits allowed by the IRS.

• Unlimited HSA Trustee to HSA Trustee transfers are allowed, meaning you can move your HSA account any number of times within a given year.

• If you have contributed any amount in your HSA exceeding the maximum allowed deposit you may withdraw it and any earnings prior to April 15th of the following year without paying a tax penalty. However you must pay income tax on your excess contributions and income tax on any earnings. If you do not withdraw excess contributions prior to April 15th of the following year you must pay a 6% excise tax on the excess and any earnings. If in the next year you decreased your maximum contribution by the amount of your excess contribution made the year before you do not have to pay the 6% excise tax again. If however you leave the excess contribution in and do not decrease your maximum contribution by the excess amount, you will have to pay the 6% excise tax each year the excess contributions and earnings are in the HSA.

• If your employer is paying COBRA for you, your employer does not have to continue making deposits into your HSA.
Section 5: HSA Spending Rules

• There is a wide range of allowable tax-free expenditures, including vision and dental expenses. For example: eyeglasses or braces for your children. A description of eligible HSA expenditures can be found in IRS Publication 502 and Publication 969. [http://www.irs.gov/app/picklist/list/formsPublications.html](http://www.irs.gov/app/picklist/list/formsPublications.html)

• If a distribution from your HSA is used for purposes other than an eligible expense as defined by the IRS then the amount withdrawn is subject to both income tax and a 20% penalty, unless the person making the withdrawal is over age 65. If age 65+ the amount withdrawn for non-medical purposes is treated as retirement income and is subject to normal income tax but no penalty.

• Withdrawals that were made for what the HSA owner thought were qualified medical expenses but turned out not to be can be returned to the HSA if there is clear and convincing evidence that the expenditure was a mistake of fact. Such repayment to the HSA must be made on or before April 15th of the year following when the individual knew, or should have known, the expenditure was a mistake.

• If you overpay a provider and receive a refund of money that was paid out of your HSA account. Contact your bank as you may need to deposit that money back into your HSA account. The bank will have to code the money so it does not look like a deposit so you don’t go above your allowed maximum.

• Other qualified expenses from an HSA include out of pocket healthcare expenses while enrolled in Medicare, (including Medicare premiums, deductibles, coinsurance, and co-pays – but not Medicare Supplement premiums), employee share of health insurance premiums for employer-based coverage (for employees over 65 only), premiums for COBRA, premiums for qualified Long Term Care subject to IRS limits, and medical services provided in another country.

• Insurance Premiums ARE NOT an eligible expense except where mentioned as an exception in IRS Publication 969.

• Self Employed members can only take an above the line deduction for their premium and HSA contribution.

• While the Affordable Care Act allows parents to add their adult children (up to age 26) to their health plans, the IRS has not changed its definition of a dependent for health savings accounts. This means that an employee whose 24-year-old child is covered on his HSA-qualified high-deductible health plan is not eligible to use HSA funds to pay that child’s medical bills. If account holders can’t claim a child as a dependent on their tax returns, then they can’t spend HSA dollars on services provided to that child.

• You may use funds from your HSA to reimburse expenditures form a previous year, but only if you had an HSA at the time of the expense. There is no time limit on reimbursements.

• Your spouse will inherit your HSA upon your death, unless you provide otherwise. The bank will provide beneficiary forms.

• HSA funds cannot be used to pay for health insurance premiums unless the individuals is receiving federal or state unemployment benefits.
Section 6: Resources

- IRS Publication 502 and Publication 969.

- US Dept of The Treasury