HENDERSON

HEALTH SAVINGS ACCOUNT (HSA) Q&A

1. **What is an HSA and how does it work?**
A health savings account (HSA) is a tax-advantaged account established to pay for qualified medical expenses for those who are covered under a high deductible health plan (HDHP). 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. **Who qualifies for an HSA?**
An eligible individual is anyone who:

   - is covered under a high deductible health plan (HDHP)
   - 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 (excluding spouses per Internal Revenue Code)

3. **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 check with a tax advisor if you have questions regarding determining dependent status or refer to IRS Publication 502.

   You can spend your money on your family members even if they're not covered by the HDHP that makes you eligible for an HSA. The same expenditure rules apply to them.

4. **What is a "high deductible health plan" (HDHP)?**
A HDHP is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses. In 2024, for self-only coverage, a HDHP has an annual deductible of not less than $1,600 and annual out-of-pocket expenses (deductibles, co-payments and other amounts, but not premiums) not exceeding $8,050. For family coverage in 2024, an HDHP has an annual deductible of at least $3,200 and annual out-of-pocket expenses not exceeding $16,100. HDHP qualifying deductibles and annual out-of-pocket-expenses are indexed for inflation on an annual basis. Please refer to the HSA Summary of Benefits and Coverage or the Summary Plan Description for details on plan coverage for the COH HDHP.

5. **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 a HDHP, is also covered under a health plan (whether as an individual, spouse, or dependent) that is not a HDHP. The IRS only looks for the account holder to satisfy the eligibility requirements. Your spouse and dependents can have other health insurance without invalidating your HSA eligibility. It doesn't matter if your spouse or dependents have other non-HDHP insurance; however, you are ineligible for an HSA if your spouse is enrolled in a traditional Flexible Spending Account through their employer.

6. **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.

7. **What can I use the HSA for?**
The HSA can be used to pay for qualified medical expenses such as:

- Medical care and services including office visits, hospitalization, and lab tests: Whether you're paying a deductible, a copay, coinsurance, or the whole medical bill – it can come from your HSA funds.
- Health care costs incurred in another country: If you become ill in another country, you can pay for your medical expenses from your HSA funds.
- Prescription drugs: When you need a prescription, consider generic drugs to save yourself and your HSA money. Whether you use generic or name-brand medications, you can use HSA funds to pay for them.
- For a complete list of qualified medical expenses, visit the IRS's Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans, at http://www.irs.gov/pub/irs-pdf/p969.pdf.

8. **What if I use my HSA to pay for something other than a qualified medical expense?**
If you are under age 65, it will be subject to applicable income taxes.

9. **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.

10. **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. 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.

11. **Is my employer contributing to my HSA account?**
Yes, City's annual contribution to the HSA for eligible enrolled employees for plan year 2024 is as follows:
Individual: $500
Family: $1,000
Employer contribution amount will be prorated for new employees hired during the plan year.

12. **Can I enroll in both an HSA and a health Flexible Spending Account (FSA)?**
No. If you are enrolled in an HDHP and also have an FSA (Flexible Spending Account) or are covered under your spouse's FSA, you can lose your eligibility for an HSA. If you are enrolled in an HSA, you cannot make deductible contributions to the FSA for that coverage period.

13. **How much can I contribute to my HSA?**
In 2024, annual HSA contributions which include both employer and employee contributions may not exceed IRS limits of $4,150 for individual coverage or $8,300 for family coverage. IRS limits are indexed for inflation on an annual basis.

14. **If I open my HSA on June 1, what is my permitted contribution amount for that year?**
An individual can contribute the maximum annual HSA contributions anytime during the 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 of $4,150 can be made for that year, and then another full contribution can be made after January 1 of the following year. Penalties may apply if HDHP coverage does not continue for 12 months. Tax-deductible limits and HDHP qualifying deductibles are indexed for inflation on an annual basis.

15. **Can I change my contributions to my HSA during the year?**
You can change the amount you contribute to your HSA at any time during the year.

16. **How do I make contributions?**
Contributions can be made through payroll deduction. Please contact COH Benefits for more information.

17. **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 as Code W (employer contribution) include employer and employee contributions made through the section 125 cafeteria plan as a pre-tax salary deferral. This includes all contributions made via salary deferral whether the funds came out of your paycheck or from your employer.
Because of the portability of this deduction, you are required to complete an additional tax form. Form 8889 and instructions are available at www.irs.gov.

18. **Will HSA contributions that I made directly to the bank (not as a payroll deduction) show up on my W-2?**
No. Contributions made to your HSA by means other than payroll deduction 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.

19. **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 15th of the year following the year for which contributions are made.

20. **What happens when HSA contributions exceed the maximum amount that can be deducted or excluded from gross income in a taxable year?**
It's up to you to keep track of how much you, your employer or everyone else puts into your HSA. Overages include contributions over the limit as well as contributions made when you're not eligible. In addition, if not withdrawn in a timely manner, an annually assessed excise tax of 6% is imposed on the accountholder for excess individual and employer contributions.

21. **What are catch-up contributions for individuals aged 55 or older?**
For individuals between the ages of 55 and 65, the HSA contribution limit is increased by $1,000. Unlike other limits, the HSA catch-up contribution amount is not indexed; any increase would require statutory change.

22. **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.

23. **What happens to my remaining account balance at the end of the year?**
    Any remaining balance will carry over to the next year (no use-it-or-lose-it requirement).

24. **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.

25. **Are rollover contributions from other HSAs permitted?**
    Yes. Rollover contributions from other HSAs are permitted. Qualifying rollover contributions are not subject to annual contribution limits.

26. **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.

27. **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.

    However, any amount of the 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 are subject to an additional 20% tax on the amount includable, except in the case of distributions made after the accountholder's death, disability, or attaining age 65.

28. **How do I pay for medical services?**
    Medical services can be paid for with your HSA debit card.

29. **What happens if the HSA has insufficient funds for payment?**
    Overdraft fees may be assessed for returned checks or debit card transactions which are rejected.

30. **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.

31. **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.

32. **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 account holder is eligible to contribute to an HSA at the time of distribution.

33. **What happens to the HSA if I die?**
If you're legally married at the time of your death, your spouse becomes the owner of your HSA unless you name a different beneficiary. If 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 beneficiary is required to include in gross income the fair market value of the HSA assets as of the date of death. If you're not married at the time of your death and you do not have a beneficiary on file, the HSA becomes part of your taxable estate.

34. **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.

35. **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.

36. **How will HSA statements be delivered and how frequently?**
Monthly HSA statements itemizing deposits and withdrawals will be available online or you may opt to receive paper statements at an additional fee.

37. **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 and funded.

38. **Is there a deadline for when I can submit requests for reimbursement from my HSA account for qualified expenses?**
You may reimburse yourself for expenses you had as far back as when the HSA was first established. If you set up your HSA this year and incur a qualified expense, you can wait to reimburse yourself until you need the funds, whether that's next year or ten years from now. Make sure to save your receipts!

Contact COH Benefits

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