# HSA FREQUENTLY ASKED QUESTIONS

### ADDITIONAL QUESTIONS – UPDATED THURSDAY, MAY 20, 2010

- Q If I am in the HDHP/HSA Qualified Plan and open up a General Purpose Flexible Spending Account and spend all the money in it by mid-year, am I then eligible to contribute to an HSA (since my FSA balance is zero)?
- A No, even though your balance is zero in your FSA, you are still considered to be a participant in a General Purpose FSA Plan until the end of the Plan Year (June 30<sup>th</sup> for BSU) and would not be eligible to contribute to an HSA during that time (remember, contributions will still be coming out of your paycheck even though you've already spend the FSA funds).
- Q If a husband and wife are each eligible to make catch-up contributions (age 55 or older), must each spouse contribute their catch-up contributions to their own HSA?
- A Yes. An individual who is eligible to make catch-up contributions may only make such contributions to his or her own HSA. If both spouses are eligible for the catch-up contribution, each spouse must make catch-up contributions to his or her own HSA.
- Q I am eligible to contribute a catch-up contribution of \$1,000 to my account because I am age 55, but I have only been covered by a HDHP/HSA Qualified Plan for 6 months of the year can I make the full \$1,000 catch-up contribution or will it need to be pro-rated?
- A It will be pro-rated (\$1,000/12 X 6 months). Although you can make the maximum single or family contribution based upon your level of HDHP coverage as long as you are eligible for at least the last month of the year, the catch-up contribution must be pro-rated for the number of months you are eligible to contribute to an HSA.
- Q May an HSA holder authorize someone else to withdraw funds from his or her HSA?
- A Yes. Although an HSA is an individual account, an HSA holder can designate other individuals to withdraw funds pursuant to the procedures of the trustee or custodian of the HSA.

- Q Are premiums for health coverage for a spouse or dependent during a period when the spouse or dependent is receiving unemployment compensation considered qualified medical expenses?
- A Yes. Although qualified medical expenses generally exclude payments for insurance, an exception is made for the expense of coverage under a health plan during a period in which an individual is receiving unemployment compensation.
- Q May an individual who is covered by an HDHP and also has a discount card that enables the user to obtain discounts for health care services or products, contribute to an HSA?
- A Yes. Discount cards that entitle holders to obtain discounts for health care services or products at managed care market rates will not disqualify an individual from being an eligible individual for HSA purposes if the individual is required to pay the costs of the health care (taking into account the discount) until the deductible of the HDHP is satisfied.
- Q What qualifies as family HDHP coverage?
- A Family HDHP coverage is a health plan covering one eligible individual and at least one other individual (whether or not the other individual is an eligible individual).
- Q Are flat dollar penalties for going out of network included in determining the maximum outof-pocket expenses paid?
- A No. The penalty is not an out-of-pocket expense and, therefore, does not count toward the expense limits.
- Q Will I still receive the negotiated network discounts for my health care services, regardless of whether I have satisfied my deductible?
- A Yes. Although you must meet the deductible to receive benefits, you still receive the discounted prices for your health care expenses.
- Q Does the treatment of a related condition during a preventive care service or screening count as part of the preventive care?
- A Yes. Any treatment that is ancillary to a preventive care service or screening also falls within preventive care. For example, removal of polyps during a preventive colonoscopy is preventive care that can be provided before the deductible in an HDHP has been satisfied.

- Q How may spouses agree to divide the annual HSA contribution limit between them?
- A HSA contributions (without regard to the catch-up contribution) shall be divided equally between them unless they agree on a different division. Thus, spouses can divide the annual HSA contribution in any way they want, including allocating nothing to one spouse.
- Q If administration and account maintenance fees are withdrawn from the HSA, are they treated as taxable distributions to the account holder?
- A No. Amounts withdrawn from an HSA for administration and account maintenance fees will not be treated as taxable distributions and will not be included in the account holder's gross income.
- Q Is the HSA trustee or custodian responsible for determining whether contributions to an HSA exceed the maximum annual contribution for a particular account holder?
- A No. This is the responsibility of the account holder, who is also responsible for notifying the trustee or custodian of any excess contribution and requesting a withdrawal of the excess contribution together with any net income attributable to the excess contribution.
- Q May an HSA trust or custodial agreement restrict the account holder's ability to rollover amounts from that HSA?
- A No. The rollover of amounts in an HSA to another HSA, and transfers from one trustee to another trustee is permitted.
- Q May an HSA trustee or custodian restrict the frequency or minimum amount of HSA distributions?
- A Yes. Trustees or custodians may place reasonable restrictions on both the frequency and minimum amount of distributions from an HSA. For example, the trustee may prohibit distributions for amounts less than \$50 or only allow a certain number of distributions per month.

#### ADDITIONAL QUESTIONS – UPDATED FRIDAY, MAY 14, 2010

- Q Are migraine medications considered preventive for the purpose of having the deductible waived under the HDHP/HSA Qualified Plan?
- A Medco does not categorize migraine medications as preventive because they are typically used to actually treat a medical condition. Medco's Preventive Medicine Guide is available on the PEB website on the Health Savings Accounts page.
- Q Are thyroid medications considered preventive for the purpose of having the deductible waived under the HDHP/HSA Qualified Plan?
- A Medco does not categorize thyroid medications as preventive because they are typically used to actually treat a medical condition. Medco's Preventive Medicine Guide is available on the PEB website on the Health Savings Accounts page.

### ADDITIONAL QUESTIONS - UPDATED TUESDAY, MAY 11, 2010

- Q I am actively employed at Ball State, but age 70 and enrolled in Medicare. I want to enroll in the HDHP/HSA Qualified Plan and know that because of my Medicare enrollment, I cannot open up/and or contribute to a Health Savings Account. Can I open up a regular Flexible Spending Account in this case?
- A Yes, anyone who does not choose to open an HSA can participate in a General Purpose (regular, used for medical and prescription expenses) Flexible Spending Account if they are enrolled in the HDHP/HSA Qualified Plan. The key piece is not contributing to the HSA.
- Q I want to open up an HSA, but will probably have a balance left in my FSA come June 30, 2010 I've heard that I can do a one-time rollover from my FSA into my HSA. Does our Flexible Spending Plan allow for direct FSA to HSA trustee transfers?
- A Please refer to the Limited Purpose Employee Information Packet for instructions on how and when a participant can become eligible for FSA rollovers to an HSA. Pages 14 and 15 provide specific provisions and instructions. The packet is located here: <u>Limited Purpose EIP</u>. Please note that in order to be eligible for the rollover, you must have had a Flexible Spending Account *with Ball State* on <u>September 21, 2006</u>. Additionally, your balance on June 30, 2010, will have to be less than your balance on September 21, 2006 in order for you to qualify for the rollover.

- Q I know that I can make a "once in a lifetime" rollover from an IRA into an HSA. If the HSA is in my name, and my wife and children are on the HDHP, can we rollover money from my wife's IRA in my HSA?
- A No, unfortunately the IRA would have to be in your name, i.e., a qualified HSA funding distribution may not be made to an HSA owned by any other individual, including the individual's spouse.
- Q Can I still have a Dependent Care FSA and contribute to an HSA?
- A Yes, because the Dependent Care FSA does not pay for 1<sup>st</sup> dollar medical expenses, you can have both accounts at the same time. The ruling only applies to the General Purpose Health Care FSA.
- Q A co-worker told me that if we go with the HDHP/HSA Qualified Plan, we would have to file our own claims and will NOT get those nice negotiated discounts with providers for having insurance. Is that true?
- A Fortunately, your co-worker is mistaken. Although you should keep copies of your receipts and bills in the event you are audited by the IRS (if you are using an HSA for your out-of-pocket expenses), you do not have to file your own claims with the insurance company. You absolutely still receive the negotiated network discounts, but until you meet the deductible you will have to pay 100% of the bill (after the discounts are applied). Of course, there may be an occasional provider that requires you to file your own claim, which could happen no matter which Plan is covering you.
- Q If I am on the HDHP/HSA Qualified Plan, will my retail prescriptions apply to my deductible and Out-of-Pocket maximum? I heard that only mail-order will apply.
- A No, for the HDHP/HSA Plan ONLY, both retail and mail-order prescription costs will apply toward your deductible and OOP maximum. But remember, the 15% penalty for not going to mail-order after the 3<sup>rd</sup> fill on maintenance medications will still apply.

## **HSA FAQS - POSTED WEDNESDAY, MAY 5, 2010**

- Q What is a Health Savings Account (HSA)?
- A A Health Savings Account (HSA) is a special tax-advantaged savings account similar to a traditional Individual Retirement Account (IRA) but designated for medical expenses. An HSA allows you to pay for current covered health care expenses and save for future qualified medical and retiree health care expenses on a tax-favored basis.

HSAs provide triple-tax advantages: contributions, investment earnings, and qualified distributions all are exempt from federal income tax, FICA (Social Security and Medicare) tax and state income taxes (for most states).

Unused HSA dollars roll over from year to year, making HSAs a convenient and easy way to save and invest for future medical expenses. You own your HSA at all times and can take it with you when you change medical plans, change jobs or retire. This means the funds in the account are non-forfeitable and portable.

Funds in the account not needed for near term expenses may be invested, providing the opportunity for funds to grow. Investment options include money market accounts, mutual funds, etc.

To be eligible to set up an HSA and to make contributions, you must be covered by a qualified "high deductible health plan", or HDHP.

# Q Who is eligible to open an HSA?

- A If you meet all the criteria listed below you are eligible to open and contribute to an HSA. The Medicare Act of 2003, which established HSAs, defines "eligible individuals" as those who:
  - are covered by a qualified high deductible health plan (HDHP);
  - are not covered by another health care plan, such as a health plan sponsored by your spouse's employer, Medicare or TriCare;
  - cannot be claimed as a dependent on another individual's tax return.

You may still open and contribute to an HSA if you have certain limited coverages approved by the IRS, such as dental, vision and long-term care insurance. And you are still eligible to establish an HSA if you are entitled to benefits under an Employee Assistance Plan (EAP), disease management or wellness program or have a discount card for prescriptions.

#### Q Who is eligible to contribute to an HSA?

A After you open your HSA, making contributions helps you build a balance to assist with current and future health care expenses. Anyone, including your family members may contribute to your HSA. You can make contributions by payroll deductions (available through Mellon Bank only) or by after-tax contributions.

Payroll deductions: If you choose to open your HSA with Mellon, you may specify a regular contribution to be deducted from your paycheck. This contribution will be made before Social Security, federal, and most state income taxes are deducted.

After-tax contributions: You may choose to make all or part of your annual account contributions to your HSA by making "after-tax" contributions to your account. These

contributions, which you can make by writing a personal check, may be deducted on your income tax return, using IRS Form 1040 and Form 8889.

Note: You will use IRS Form 1040 for your HSA contributions, not the short form 1040A or 1040EZ. This deduction is taken "above the line": you do not need to itemize contributions on Schedule A in order to claim the deduction for HSA contributions.

You are eligible to make contributions to your HSA as long as you meet the definition of an "eligible individual" as listed in the question, "Who is eligible to open an HSA?" If you no longer participate in a high deductible health plan or enroll in Medicare, however, you can no longer contribute new funds.

- Q How do HSAs differ from health care flexible spending accounts (FSAs)?
- A Both HSAs and FSAs allow you to pay for qualified medical expenses with pre-tax dollars. One key difference, however, is that HSA balances can roll over from year to year, while FSA money left unspent at the end of the year or after a designated grace period is forfeited.

You may choose to use a Limited Purpose FSA to pay for eligible heath care expenses (such as vision or dental) and save your HSA dollars for future health care needs. You may use Limited Purpose FSA dollars to reimburse yourself for expenses not covered by your high deductible health plan, such as:

- Vision expenses, including: Glasses, frames, contacts, prescription sunglasses, goggles, vision co-payments, optometrists or ophthalmologist fees, and corrective eye surgery
- Dental expenses, including: Dental care, deductibles and co-payments, braces, x-rays, fillings, and dentures
- Q Can my spouse and I have a joint HSA, like our regular checking account?
- A No, only one person can be named the account owner. If both you and your spouse have qualified HDHP coverage, you must each have your own account. Keep in mind that you can use funds from your HSA to pay for your spouse's qualified medical expenses, and those of your other dependents.

If both you and your spouse have family coverage under qualified high deductible health plans, the maximum total tax-deductible HSA contribution both of you can make is the IRS limit for family coverage. In 2010, that amount is \$6,150. This contribution can be divided between you and your spouse however you wish. If you and/or your spouse are eligible to make catch-up contributions, you may each contribute your eligible catch-up contribution to your individual HSA.

- Q May I have more than one HSA?
- A Yes, you may have more than one HSA and you may contribute to them all. However, this does not give you any additional tax advantages, as the total contributions to your accounts cannot exceed the annual maximum contribution limit. Contributions from your family members or any other person must be included in the total.
- Q Can I have an HSA in addition to an IRA or other qualified retirement plan?
- A Yes, you can have both an HSA and an IRA. Although HSAs operate under many of the same rules that apply to traditional IRAs, an HSA is not an IRA; it is a tax-advantaged savings account for current and future medical expenses. (However, it may be used to pay for non-medical expenses without penalty after the accountholder turns 65, so it can be used to save for retirement.)
- Q My spouse's employer provides low-deductible family coverage at no cost. I am covered under my spouse's plan. If I enroll in Ball State's qualified HDHP, am I eligible for an HSA?
- A No. You are not eligible for an HSA if you are covered by any other health plan that is not a qualified HDHP.
- Q I am 65 years old, which makes me eligible for Medicare, but I'm still working and have kept Ball State's health plan instead of enrolling in Medicare. If I enroll in the qualified HDHP offered by Ball State, am I eligible to open an HSA?
- A Yes. You are eligible to open and contribute to an HSA as long as you are not enrolled in benefits under Medicare and are covered by a qualified HDHP.
- Q What happens to my HSA if I become disabled?
- A If you become disabled and enroll in Medicare, contributions to your HSA must stop as of the first of the month in which you become enrolled.
  - You may use your HSA funds to pay Medicare Part A and/or B premiums. Payment of Medicare premiums is a qualified expense and a tax-free distribution. HSA distributions used for non-qualified expenses will be subject to ordinary income tax but exempt from penalty.
- Q What happens to my HSA if I quit my job or otherwise leave my employment at Ball State?
- A Your HSA is portable. This means that you can take your HSA with you when you leave and continue to use the funds you have accumulated. Funds left in your account continue to grow

tax-free. If you are covered by a qualified HDHP, you can even continue to make tax-free contributions to your HSA.

- Q My spouse is contributing to a health FSA that reimburses expenses before the deductible is met. Can I make contributions to my HSA if I participate in a qualified HDHP?
- A No. A general-purpose health FSA or HRA that pays first-dollar benefits is the same as family coverage, because it is available to reimburse the qualified expenses of the employee and the employee's spouse and dependents. Consequently, if either you or your spouse participates in a general-purpose health FSA or HRA, neither of you will be eligible to contribute to an HSA.
- Q How much can I contribute to my HSA?
- A For 2010, the combined maximum contributions to your HSA are \$3,050 if you have individual coverage and \$6,150 if you have family coverage. If you are age 55 or older, you may add up to \$1000 more as a "catch up" contribution.

These amounts are valid as long as you enroll in qualified HDHP coverage before the first day of December, meaning you have held at least one full month of HDHP coverage, and so long as you continue to maintain qualified HDHP coverage for the next 12 months (Thirteen months in total).

- Q Can I make one lump-sum contribution to my HSA early in the year or spread contributions out during the year?
- A Contributions for the taxable year can be made in one or more payments at your convenience. The IRS determines maximum annual contributions by your coverage type (single or family) annually. The annual total of all contributions to your account, from all sources, cannot exceed the IRS maximum annual contribution.
- Q What happens if I contribute more than my maximum annual contribution to my HSA?
- A If you contribute more than your maximum annual contribution to your HSA, you may withdraw the excess without penalty up until April 15 of the following year. After that time, the funds are subject to both ordinary income and an excise tax.

- Q If I make contributions to my HSA through pre-tax payroll deductions, can I change the per payroll deduction at any time?
- A You may increase, decrease, start or stop your HSA contributions at any time, provided that the change is prospective only. Remember you are still restricted to your maximum annual contribution.
- Q What is my HSA establishment date?
- A Generally, the Establishment Date of your HSA custodial account is the later of the effective date of your qualifying HDHP coverage or the date you provide evidence of intent to open the account (e.g., completion of some type of form or application requiring your signature that acknowledges your desire to open an HSA), notwithstanding the fact that deposits or a signature card have not been received, required regulatory and compliance activities have not been completed and the account is not yet operational. The "Establishment Date" of an HSA is important because you can only receive tax-free distributions from your HSA to pay or be reimbursed for qualified medical expenses incurred after the date the HSA is considered "established". Because you are ultimately responsible for determining which expenses are reimbursable from your HSA, you should consult with your personal tax advisor to determine how IRS guidance on this issue should be applied to your specific situation.
- Q I opened my HSA with a minimum deposit when I enrolled in my HDHP. I have not yet reached my maximum annual contribution. What is the last date that I may deposit the remainder of my maximum annual contribution and still take an "above the line" deduction for the year?
- A You have until April 15, 2011 for contributions with respect to 2010 HDHP coverage.
- Q Can I pay out-of-pocket covered expenses with after-tax dollars instead of using my HSA funds?
- A Yes. You always have the option to choose when and when not to use your HSA dollars. You may pay for qualified medical expenses with after-tax dollars, allowing your HSA balance to grow tax-free.
  - Many HSA participants elect to pay smaller expenses with after-tax dollars, allowing their balances to grow for the future.

- Q What health care expenses does my HSA cover?
- A Your HSA funds can be used tax-free to pay for out-of-pocket qualified medical expenses, even if the expenses are not covered by your HDHP. This includes expenses incurred by your family.

There are hundreds of qualified medical expenses, including many you might not expect: over-the-counter medications; dental visits; orthodontics; glasses; long-term care insurance premiums; cost of COBRA coverage; medical insurance premiums while receiving federal or state unemployment compensation and post age-65 premiums for coverage other than Medigap or Medicare supplemental plans. In addition, HSA funds may be used to pay your Medicare parts A and B premiums and for employer-sponsored retiree plans.

All of these expenses may be paid for with your HSA funds, free from federal taxes or state tax (for most states).

Refer to IRS Publication 502 for a more complete list of qualified medical expenses.

- Q What happens if I take a non-medical distribution or a distribution for a non-qualified expense?
- A If you take a non-qualified distribution, you are subject to ordinary income tax and a 10 percent penalty tax. If you are age 65 or older, disabled, or your estate pays bills subsequent to your death, the 10 percent penalty may not apply.

The IRS requires that you confirm that your distributions are for qualified medical expenses. It is your responsibility to keep all documents (such as receipts) that show how you used your HSA, including any for non-qualified transactions, and self-report accordingly on your annual tax return.

- Q How soon can I withdraw funds from my HSA for qualified expenses?
- A Just like a checking account, you can only access funds that are already in your account. However, as additional funds are added to your account via your deposits, you can reimburse yourself for qualified medical expenses paid for out of pocket, so long as those expenses occur after the date of the establishment of your HSA.
- Q Can I use my HSA to pay for medical serviced provided in other countries?
- A Yes, provided the services are qualified medical expenses, the distribution would be free from federal taxes and state tax, for most states.

- Q If I have a qualified HDHP and an HSA and I see a doctor for treatment (not a preventive visit), am I charged the typical co-payment for the visit, or am I responsible for paying the full charge?
- A You are responsible for the full amount charged until you have met your deductible; then coinsurance will apply. You may use your HSA funds to be reimbursed for these qualified medical expenses without federal taxes or state tax, for most states.
- Q Both my spouse and I have HSAs. Can we use both accounts to reimburse ourselves for a qualified expense?
- A No, a single expense can only be reimbursed by a single account. You may however, use both accounts to reimburse yourselves for different expenses.
- Q Do HSA funds remaining at year-end roll over?
- A HSAs are a convenient and easy way to save and invest for future medical expenses, as unused HSA dollars roll over from year to year. You may invest unused HSA dollars in investment options, providing the opportunity for funds to grow.
- Q What happens to my HSA in the case of divorce?
- A In cases of divorce, an HSA can be transferred between spouses without taxation. This is not considered a taxable distribution. All HSA rules regarding continued tax-free status, contributions and distributions apply.
- Q When is my HSA no longer an HSA?
- A Your HSA will no longer be considered an HSA if, upon your death, your estate or someone other than your spouse becomes the beneficiary of your account. Only if the account is transferred to your spouse will it remain an HSA.
- Q Do I pay taxes on the fees charged by the financial institution to maintain my account?
- A No. IRS rules consider these to be allowable distributions. These charges are paid tax-free.

- Q If I no longer participate in a qualified HDHP, can I still receive tax-free distributions to reimburse my qualified expenses?
- A Yes. Participation in a qualified HDHP is not required to receive distributions. In order to maintain the tax-free status of the distribution, funds must be used for qualified medical expenses. However, you must be participating in a qualified HDHP in order to make contributions to your HSA.
- Q What happens to the money in my HSA after I reach age 65?
- A At age 65 and older, your funds continue to be available without federal taxes or state tax (for most states) for qualified medical expenses; for instance, you may use your HSA to pay certain insurance premiums, such as Medicare Parts A and B, Medicare HMO, or your share of retiree medical coverage offered by a former employer. Funds cannot be used tax-free to purchase Medigap or Medicare supplemental policies.

If you use your funds for qualified medical expenses, the distributions from your account remain tax-free. If you use the monies for non-qualified expenses, the distribution becomes taxable, but exempt from the 10 percent penalty.

With enrollment in Medicare, you are no longer eligible to contribute to your HSA. If you reach age 65 or become disabled, you may still contribute to your HSA if you have not enrolled in Medicare.

- Q When will the 10 percent penalty be assessed for a distribution for non-qualified expenses?
- A The 10% penalty will be assessed for the year in which you take the distribution for non-qualified expenses. The penalty will be due and payable when you file your annual tax return.
- Q What tax forms will I receive to include with my annual tax filings?
- A Form1099-SA notifies the IRS of distributions made from your HSA during the tax year. Form 5498-SA notifies the IRS of contributions made to your HSA during the tax year. Your HSA trustee/custodian will send the appropriate form(s) to you with instructions regarding the forms' use and requirements for filing your annual tax return.
- Q If I take a distribution for qualified medical expenses, what records do I need to show the IRS so that the distribution remains tax-free?
- A You must keep records (such as receipts) sufficient to show that:

- The distributions were exclusively to pay or reimburse qualified expenses;
- The qualified expenses had not been previously paid or reimbursed from another source;
  and
- The medical expenses had not been taken as an itemized deduction in any year.

Do not send these records with your tax return. Keep them with your tax records.

- Q How are domestic partners treated in regard to HSAs?
- A The IRS does not consider a domestic partner a spouse, regardless of state provisions. Thus, unless your domestic partner qualifies as your dependent under the federal tax laws, which is usually not the case, you cannot withdraw funds tax-free to pay for your domestic partner's qualified health care expenses.
- Q Can I roll over or transfer funds from my IRA to my HSA?
- A Yes. The government does allow a one-time transfer of funds from an IRA to an HSA by 2012. The transferred amount, when combined with other HSA contributions for the year, may not exceed your annual maximum contribution.

Also, after making such a transfer, you must continue to participate in a qualifying high deductible health plan for 13 consecutive months, beginning in the month of the IRA-to-HSA transfer. If you do not, you will be subject to income taxes and a 10 percent penalty tax on the transferred amount, except in the case of death or disability.

Such a transfer may be an option if you incur significant medical expenses and find yourself unable to afford to make the maximum HSA contribution.

- Q My doctor just prescribed a medication. Do I have to meet my HDHP deductible before I can be reimbursed for any of my medications?
- A Prescription medications are covered expenses under a qualified HDHP, but you will have to meet the deductible in order to be reimbursed by the insurance plan for these expenses. You may use tax-free HSA funds for reimbursement before the deductible is met.

Some medications, however, are considered "preventive" and as such may be covered under the preventive care provisions of your HDHP. You should check with Medco's customer service to determine if your medication is considered preventive.

- Q If I am not yet 65, can I use my HSA to pay for my spouse's Medicare premiums if he is over the age of 65?
- A If you, the account beneficiary, are not 65 or older, Medicare premiums for coverage of your spouse or a dependent (who is 65 or older) generally are not qualified medical expenses.