

## **Health Savings Account Frequently Asked Questions**

**What is a Health Savings Account (“HSA”)?** A Health Savings Account is an alternative to traditional health insurance; it is a savings product that offers a different way for consumers to pay for their health care. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

You must be covered by a High Deductible Health Plan (HDHP) to be able to take advantage of HSAs. A HDHP generally costs less than what traditional health care coverage costs, so the money that you save on insurance can therefore be put into the Health Savings Account.

You own and you control the money in your HSA. Decisions on how to spend the money are made by you without relying on a third party or a health insurer. You will also decide what types of investments to make with the money in the account in order to make it grow.

**What Is a “High Deductible Health Plan” (HDHP)?** You must have a HDHP if you want to open an HSA. Sometimes referred to as a “catastrophic” health insurance plan, a HDHP is an inexpensive health insurance plan that generally doesn’t pay for the first several thousand dollars of health care expenses (i.e., your “deductible”) but will generally cover you after that. Of course, your HSA is available to help you pay for the expenses your plan does not cover.

For 2009, in order to qualify to open an HSA, your HDHP minimum deductible must be at least \$1,150 (self-only coverage) or \$2300 (family coverage). For 2010, the amounts increase to \$1,200 and \$2,400 respectively. The annual out-of-pocket (including deductibles and co-pays) for 2009 cannot exceed \$5,800 (self-only coverage) or \$11,600 (family coverage). For 2010, these amounts increase to \$5,950 and \$11,900, respectively. HDHPs can have first solar coverage (no deductible) for preventive care and apply higher out-of-pocket limits (and co pays & coinsurances) for non-network services.

**Who is eligible for a Health Savings Account?** To be eligible for a Health Savings Account, an individual must be covered by a HSA-qualified High Deductible Health Plan (HDHP) and must not be covered by other health insurance that is not an HDHP. Certain types of insurance are not considered “health insurance” (see below) and will not jeopardize your eligibility for an HSA.

**How much can I contribute to my HSA each year?** For 2007 and forward, your maximum annual HSA contribution is based on the statutory limit for your type of coverage. For 2007, if you have self-only HDHP coverage, your contribution is \$2,850; \$5,650 if family HDHP, no matter what your HDHP deductible is. Before 2006, the contribution could not exceed the deductible of your HDHP. If you are age 55 or older, you can also make additional “catch-up” contributions (see below). You can make a contribution to your HSA each year that you are eligible. For 2010, the maximum annual HSA contribution for an eligible individual with self-only coverage is \$3,050. For family coverage, the maximum annual HSA contribution is \$6,150. Individuals who are eligible individuals on the first day of the last month of the taxable year (December for most taxpayers) are allowed the full annual contribution (plus catch up contribution, if 55 or older by year end), regardless of the number of months the individual was an eligible individual in the year. For individuals who are no longer eligible individuals on that date, both the HSA contribution and catch up contribution apply pro rata based on the number of months of the year a taxpayer is an eligible individual.

**Can my employer contribute to my HSA?** Contributions to HSAs can be made by you, your employer, or both. All contributions are aggregated to determine whether you have contributed the maximum allowed. If your employer contributes some of the money, you can make up the difference.

**I'm over 55 and would like to make catch-up contributions to my HSA, like I've done with my IRA. Is that possible?** Yes, individuals 55 and older who are covered by an HDHP can make additional catch-up contributions each year until they enroll in Medicare. The additional "catch-up" contributions to HSA allowed are as follows:

2006 - \$700 2007 - \$800 2008 - \$900 2009 - \$1,000 2010 and after - \$1,000

**I turned 55 this year. Can I make the full "catch-up" contribution?** If you had HDHP coverage for the full year, you can make the full catch-up contribution regardless of when your 55th birthday falls during the year. If you did not have HDHP coverage for the full year, you must pro-rate your "catch-up" contribution for the number of full months you were "eligible", i.e., had HDHP coverage. However, if you are covered on December 1, you are treated as an eligible individual for the entire year and get the full contribution.

**If both spouses are 55 and older, can both spouses make "catch-up" contributions?** Yes, if both spouses are eligible individuals and both spouses have established an HSA in their name. If only one spouse has an HSA in their name, only that spouse can make a "catch-up" contribution.

**Does an HSA pay for the same things that regular insurance pays for?** HSA funds can pay for any "qualified medical expense", even if the expense is not covered by your HDHP. For example, most health insurance does not cover the cost of over-the-counter medicines, but HSAs can. If the money from the HSA is used for qualified medical expenses, then the money spent is tax-free.

**How do I know what is included as "qualified medical expenses"?** Unfortunately, we cannot provide a definitive list of "qualified medical expenses". A partial list is provided in IRS Pub 502 (available at [www.irs.gov](http://www.irs.gov)). There have been thousands of cases involving the many nuances of what constitutes "medical care" for purposes of section 213(d) of the Internal Revenue Code. A determination of whether an expense is for "medical care" is based on all the relevant facts and circumstances. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. The determination often hangs on the word "primarily."

**Who decides whether the money I'm spending from my HSA is for a "qualified medical expense"?** You are responsible for that decision, and therefore should familiarize yourself with what qualified medical expenses are (as partially defined in IRS Publication 502) and also keep your receipts in case you need to defend your expenditures or decisions during an audit.

**What happens if I don't use the money in the HSA for medical expenses?** If the money is used for other than qualified medical expenses, the expenditure will be taxed and, for individuals who are not disabled or over age 65, subject to a 10% tax penalty.

**I have an HSA but no longer have HDHP coverage. Can I still use the money that is already in the HSA for medical expenses tax-free?** Once funds are deposited into the HSA, the account can be used to pay for qualified medical expenses tax-free, even if you no longer have HDHP coverage. The funds in your account roll over automatically each year and remain indefinitely until used. There is no time limit on using the funds.

**Do unused funds in a Health Savings Account roll over year after year?** Yes, the unused balance in a Health Savings Account automatically rolls over year after year. You won't lose your money if you don't spend it within the year.

**Who will be the “bookkeeper” for my HSA?** It is your responsibility to keep track of your deposits and expenditures and keep all of your receipts. If you run out of HSA funds (and therefore need to use your HDHP), you may need to send those receipts to your insurer.

**How do I use my HSA to pay my physician when I’m at the physician’s office?** If you are still covered by your HDHP and have not met your policy deductible, you will be responsible for 100% of the amount agreed to be paid by your insurance policy to the physician. Your physician may ask you to pay for the services provided before you leave the office. You may use your Hampshire First Bank MasterCard® Debit Card which will be ordered for you once we’ve receive all your signed paperwork, to pay your physician directly from your HSA. You may also request an order of checks.

If your physician does not ask for payment at the time of service, the physician will probably submit a claim to your insurance company, and the insurance company will apply any discounts based on their contract with the physician. You should then receive an "Explanation of Benefits" from your insurance plan stating how much the negotiated payment amount is, and that you are responsible for 100% of this negotiated amount. If you have not already made any payment to the physician for the services provided, the physician may then send you a bill for payment.

**I want to make sure my HSA is “established” as soon as possible. Can I establish my account before my HDHP coverage begins? ??**

You can complete all of the paperwork prior to the effective date of your HDHP coverage. However, your account is not officially “established” until your HDHP coverage begins therefore you should not make a deposit to your account prior to the effective date. Completing the necessary paperwork before your coverage begins ensures that your HSA will be “established” as early as possible. This is especially important when your HDHP coverage is effective on a non-business day.

**Will my bank notify me if I’ve exceeded my allowable contribution amount?** No, it is your sole responsibility to keep track of the amounts deposited and spent from your account, just like a normal savings or checking account.

**Can I roll the money in a Health Savings Account over into an IRA?** You cannot roll the HSA funds over into an IRA. They will stay in the HSA or be rolled into another HSA.

**Can I roll over an IRA, 401(k) or other retirement plan into an HSA?**

Section 307 of the Health Opportunity Patient Empowerment Act of 2006 (theAct) added § 408(d)(9) to the Internal Revenue Code. The Act is part of the Tax Relief and Health Care Act of 2006, enacted December 20, 2006, Pub. L. No. 109-432. This notice provides guidance on a qualified HSA funding distribution from an individual’s Individual Retirement Account (IRA) or Roth IRA to a Health Savings Account (HSA). The qualified HSA funding distribution is a one-time transfer from an individual’s IRA to his or her HSA and generally excluded from gross income and is not subject to the 10 percent additional tax under § 72(t). We recommend you consult your tax advisor for eligibility information.

**What happens to the money in my HSA when I die?** What happens depends on how the HSA is designed. If your spouse is designated as the beneficiary by you, your spouse becomes the owner of the HSA when you die. If you provide that it goes to your estate or other entity, the value of the HSA at death is income to the estate or other entity.

**For additional information on our Health Savings NOW Account or any of our products, please call us at (603) 623-2007 or visit us at [www.hampshirefirst.com](http://www.hampshirefirst.com).**