

HSA Basics

What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is an alternative to traditional health insurance; it is a savings product that offers a different way for you to pay for your 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 an HSA. An HDHP generally costs less than a traditional health plan, so the money you save on insurance premiums can be put into the HSA.

You own and control the money in your HSA. You decide how to spend the money on qualified medical expenses and how to invest the money in your account to make it grow.

What is a high-deductible health plan (HDHP)?

You must have an HDHP if you want to open an HSA. An HDHP is a health plan that meets the statutory requirements for annual deductibles and out-of-pocket expenses. The premiums for an HDHP are significantly less than traditional plans. An HDHP does not normally pay for health care expenses before your entire deductible has been met. Of course, your HSA is available to help you pay for expenses your plan does not cover.

To be HSA-qualified, your HDHP deductible must be at least the minimum amount set by the U.S. Department of the

Treasury and IRS for a given year. WPS automatically adjusts the lowest minimum deductible option of its HDHP to meet federal guidelines so policyholders choosing this deductible can remain HSA-qualified from year to year. Annual out-of-pocket maximums, which include deductibles and copays, also are adjusted annually. For more information, visit the U.S. Department of the Treasury website at www.treas.gov or speak with your agent or WPS sales representative.

Who is eligible for a Health Savings Account?

To be eligible for an HSA, you must be covered by an HSA-qualified HDHP and must not be covered by other health insurance that is not an HDHP. Auto, dental, vision, disability, and long-term care insurance are not considered “health insurance” and will not jeopardize your eligibility for an HSA.

Can the funds in an HSA be invested?

Yes, you can invest the funds in your HSA. The same types of investments permitted for IRAs are allowed for HSAs, including stocks, bonds, mutual funds, and certificates of deposit (CDs).

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.

HSA Contributions

How much can I contribute to my HSA each year?

The U.S. Department of the Treasury and IRS set HSA maximum contribution amounts each year for individuals and families. If you are age 55 or older, you also can make an additional “catch-up” contribution, up to a level determined annually by the IRS. For more information, visit the Department of the Treasury website at www.treas.gov or speak with your agent or WPS sales representative.

Do my contributions provide any tax benefits?

Your personal contributions offer you an “above-the-line” deduction, which allows you to reduce your taxable income by the amount you contribute to your HSA. You do not have to itemize your deductions to benefit. Contributions can also be made to your HSA by others (e.g., relatives). However, you receive the benefit of the tax deduction.

Can I make contributions through my employer on a “pre-tax” basis?

If your employer offers a “salary reduction” plan (also known as a “Section 125 plan” or “cafeteria plan”), you (the employee) can make contributions to your HSA on a pre-tax basis (i.e., before income taxes and FICA taxes). If you fund your HSA with pre-tax dollars, you cannot take an “above-the-line” deduction on your personal income taxes.

Can I claim both the “above-the-line” deduction for an HSA and the itemized deduction for medical expenses?

You may be able to claim the medical expense deduction even if you contribute to an HSA. However, you cannot include any contribution to the HSA or any distribution from the HSA, including distributions taken for non-medical expenses, in the calculation for claiming the itemized deduction for medical expenses.

Using Your HSA

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 chiropractic care, 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”?

A partial list of qualified medical expenses is provided in IRS Publication 502 (available at www.irs.gov.) You should familiarize yourself with this list and keep your receipts in case you need to defend your expenditures or decisions during an audit.

What happens if I use the money in the HSA for other than medical expenses?

If HSA funds are used for other than qualified medical expenses, the expenditures will be taxed and, for individuals who are not disabled or over age 65, subject to a 20% tax penalty.

Are dental and vision care qualified medical expenses under a Health Savings Account?

Yes, as long as these are deductible under the current rules. For example, cosmetic procedures, like cosmetic dentistry, would not be considered qualified medical expenses.

Can I use the money in my HSA to pay for medical care for a family member?

Yes, you may withdraw funds without tax penalty to pay for the qualified medical expenses of yourself, your spouse, or a dependent. This is one of the great advantages of HSAs.

What happens to the money in a Health Savings Account after you turn age 65?

You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can no longer contribute to your HSA account. However, you can continue to use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. You cannot, however, use your HSA tax-free to purchase Medicare supplement insurance.

Once you turn age 65, if you use funds in your account to pay for things other than qualified medical expenses, the amount withdrawn will be taxable as income but will not be subject to any other penalties. Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a 20% penalty on the amount withdrawn.

Source: Adapted from “HSA Frequently Asked Questions” on U.S. Department of the Treasury website (www.treas.gov)