

## HSA Overview for Account Holders

Health Savings Accounts (HSAs) are the newest, most innovative approach to the ever-increasing cost of health care! Health Savings Accounts are tax-favored trust accounts established to pay for qualified medical expenses for eligible individuals, their spouses, and his/her tax dependents. HSAs are open to any individual with qualifying High Deductible Health Plan (HDHP) coverage, so long as he or she does not have any disqualifying health coverage. Health Savings Accounts were created by the Medicare Prescription Drug Improvement and Modernization Act of 2003, and became effective January 1, 2004.

### Benefits to Individuals

#### 1. Invest in Yourself!

- Eligible individuals, see [Who is Eligible](#), can make contributions and get an "above-the-line" tax deduction\*
- Balances roll over from year to year, no more "Use it or Lose it"!
- Contribution dollars are invested in interest bearing accounts!

#### 2. Flexibility!

- HSA dollars can pay for qualified medical expenses, see [HSA Eligible Expenses](#), defined by the IRS. Eligible expenses would include deductibles, co-payments, dental and vision expenses or doctor appointments, if not covered by other insurance.

#### 3. It's Portable!

- No matter where you go, your account will follow you!
- Even if you change jobs, change medical coverage, become unemployed, move to another state, or change your marital status, your HSA goes with you!
- You own it!

#### 4. Tax Savings!

- The three-tiered tax savings are hard to beat.
  1. Tax-free contributions
  2. Tax-free growth
  3. Tax-free withdrawals for qualified medical expenses

*\* If under a section 125 plan, then contributions are pre-taxed.*

## How do HSAs Work?

Health Savings Accounts (HSAs) are the newest, most innovative approach to health insurance! It is savings account that allows you to pay for qualified medical expenses now, while receiving an excellent tax benefit, OR it allows you to save for future medical expenses, while earning interest – TAX FREE!

Section 223 of the Internal Revenue Code (IRC) identifies Health Savings Accounts as tax-favored trust accounts that eligible individuals who are covered by a qualified High Deductible Health Plan (HDHP) can establish to pay for qualified medical expenses of the eligible individuals, their spouses, and his/her tax dependents.

## Who is Eligible?

There are several qualifications that must be met in order for an individual to be eligible to contribute to an HSA.

1. Individuals must have a qualifying High Deductible Health Plan (HDHP). Generally, any individual with a qualifying HDHP is eligible as long as the individual is not covered by any other disqualifying health coverage.

*\* Disqualifying coverage is any coverage under a non-HDHP that provides coverage for any benefit covered by the HDHP. Any other non-HDHP health coverage would disqualify an otherwise eligible individual unless it constitutes preventive care, certain permitted coverage, or certain permitted insurance.*

2. Individuals cannot be claimed as a tax dependent

- a. An individual who can be claimed as a tax dependent of another individual under IRC Section 151 or IRC Section 152 is not an eligible individual for Health Savings Account purposes.

3. Individuals cannot be enrolled in Medicare

4. If an individual's spouse has non qualified HDHP, it cannot cover the individual.

## What is an HDHP?

A qualified HDHP is a health plan that meets the requirements below for annual deductibles and out-of-pocket expenses. In addition, prescription drugs must be included in the minimum deductible.

Coverage	Annual Deductible	Annual Out-of-Pocket Expenses
Individual	\$1,200 minimum	Not more than \$5,950
Family	\$2,400 minimum	Not more than \$11,900

*These amounts are effective for the 2010 and 2011 tax years. Amounts are indexed annually.*

*Some qualified plans may have a first-dollar benefit or low-deductible benefit for preventive care only.*

*In the case of family coverage, a plan is only an HDHP if under the terms of the plan no amounts are payable until the aggregate family deductible is met.*

Not all HDHP are HSA qualified. If you have questions regarding a specific plan's qualification as an HDHP, ask your medical insurance carrier or medical insurance agent to verify the plan is a qualified HDHP. Penalties exist for individuals that open Health Savings Accounts without the appropriate insurance.

If your employer currently offers a High Deductible Health Plan, then you may verify the plan qualifications with your employer.

## Qualified Expenses

### What is a qualified medical expense?

A “qualified medical expense” (as defined in IRC Section 213(d)) includes out-of-pocket expenditures for medical care for the HSA account holder, his or her legal spouse, or tax dependents, so long as such amounts are not reimbursed by insurance or otherwise.

Over-the-counter medications (OTCs) could be an eligible medical expense. Premiums, however, are not “qualified medical expenses” except for the following types of insurance coverage:

- COBRA coverage
- A qualified long-term care insurance contract
- Any health plan maintained while the individual is receiving unemployment compensation under federal or state law; or
- Any deductible health insurance other than a Medicare supplemental policy for those age 65 or older

Generally, all “qualified medical expenses” must be incurred after the Health Savings Account is established in order to be reimbursable on a tax-free basis.

You can view a list of [HSA Eligible Medical Expenses](#) here. Additional examples of eligible expenses and ineligible expenses can be found in IRS Publication 502. *(Note: While examples listed in Publication 502 are specific to itemized deductions for tax returns, not all are HSA qualified. Consult your tax accountant to ensure accuracy.)*

## Funds Contribution

### Who can contribute?

Contributions can be made by the HSA account holder, by others on behalf of the account holder, or by employers on behalf of the HSA account holder. The following guidelines apply when making contributions:

The maximum annual contribution allowed in a tax year is the maximum established by law of \$3,050 for self-only coverage or \$6,150 for family coverage in 2010 and 2011.

An individual, who meets the eligibility requirements in a month other than January, can make the maximum HSA contribution for the given tax year. The individual must remain an eligible individual 12 months following the end of the year in which they became an eligible individual, or, the amount that could not have been contributed except for this provision will be subject to income taxes and a 10% additional tax penalty.

**An Example:**

Individual obtains a HDHP Self-Only Coverage Effective: 09/01/10

Maximum Contribution Amount: \$3,050 for self-only in 2010/2011

Period of Coverage Requirement: 09/01/10 to 12/31/11

If the individual were not to be covered under a qualified HDHP or remain an eligible individual effective 03/01/11, then all contributions attributed to 01/01/10 through 08/31/10 (8/12 of \$3,050 or \$2,033.33) would be subject to income taxes and a 10% additional tax penalty.

The income taxes and the 10% additional tax will not apply if the individual becomes disabled or dies after the distribution during the 12-month period.

To avoid contributions being subject to the period of coverage requirement and possible income taxes and penalties, the contributions can be pro-rated based on the number of months the individual is covered by a qualified HDHP. To take the example above, an individual would calculate the maximum contribution as follows: \$3,050 divided by 12 months = \$254.16 x 4 months of HDHP coverage (09/01/10-12/31/10) = \$1,016.66, the maximum contribution for 2010.

*\* These amounts are effective for the 2010 and 2011 tax years. Amounts are indexed annually.*

Catch up contributions can be made by eligible individuals who are age 55 and older to build up account balances to be used during retirement years (until Medicare eligible). Catch up contributions are pro-rated for the number of months eligible. It does not matter when an individual turns 55. A married couple can make two catch-up contributions if both are at least age 55, and each has their own HSA.

Year	Maximum Catch up Contribution
2010 & beyond	\$1,000

## Funds Distribution

### How are funds distributed from a Health Savings Account?

Distributions can be made from an HSA at any time once the HSA is established. Distributions are limited to the amount of funds that are available in the account and are used to pay for qualified medical expenses incurred after the HSA is established. Funds may be distributed for non-qualified medical expenses, but will be subject to income tax and a 10% penalty.

Distributed Tax-Free	Distributed with Taxes and 10% Penalty
Qualified medical expenses	Non-qualified distributions requested by the participant

American Fidelity offers 3 options to make distributions easy:

1. HSA debit card
2. Request distribution on-line on the web, and
3. Through submission of the [HSA Distribution Form](#) that can be mailed or faxed

## Flexible Spending

### Do I still need my Health Flexible Spending Account?

This answer depends on how your employer designs their benefit package. A general purpose Health FSA is considered to be “other health plan” coverage and would disqualify an individual from participating in an HSA.

On the other hand your employer may choose to use a Health FSA for a specific “Limited-Purpose” benefit which limits FSAs reimbursements to dental and vision expenses only and would allow you to participate in both an HSA and a Limited-Purpose FSA.

Since vision and dental expenses are also HSA eligible expenses, you could not reimburse yourself from both accounts. Consult your employer to find out what options you have with regards to Health Flexible Spending Accounts.

Dependant Daycare Accounts are eligible in conjunction with an HSA.

## **HSAs at Work**

### **How can I get my employer to offer an HSA plan?**

You can refer your employer to our website, [www.afhsa.com](http://www.afhsa.com), have them contact us toll free at 1-866-326-3600, or have them contact us via email at [HSA-Support@af-group.com](mailto:HSA-Support@af-group.com) and an HSA Specialist will contact you personally.