THE HARRISON GROUP, INC.
FAQs: Health Savings Accounts

What is a Health Savings Account?
A Health Savings Account (HSA) is a savings product that allows individuals to pay for current qualified medical expenses and save toward future medical expenses on a tax-free basis. To qualify for an HSA, you must first be enrolled in a qualified High-Deductible Health Plan (HDHP).

Who is responsible for managing my HSA?
As the account holder of your HSA, it is your responsibility to keep track of your deposits and withdrawals. You can always access your account online to view your transaction history, check your current balance and obtain statements for your records (if you enroll in "online statements"). You should keep receipts of your qualified medical expenses.

Who is eligible to open an HSA?
In order to open and fund an HSA, an individual must be enrolled in an HSA-qualified HDHP. To be eligible, you cannot be enrolled in Medicare or Medicaid, you cannot be claimed as a dependent on another person's tax return, you must be over the age of 18, and you cannot be covered by another insurance plan, unless it is another HSA-qualified HDHP.

Who may contribute funds to my HSA?
You, your employer and/or any third party may contribute funds to your HSA, up to the maximum amount allowed by the IRS each year.
Note: You can only contribute funds to your HSA while you are covered under an HDHP. However, if you are no longer covered by a qualified HDHP or you enroll in Medicare, you may continue to draw down existing funds to pay for qualified expenses.

If I choose to contribute to my HSA each month, do I have to commit to a predetermined amount?
No. You may contribute any amount you wish as frequently as you wish, up to the maximum amount allowed by the IRS each year. We offer a variety of ways to make contributions to your account, and we make it easy for any lifestyle.

Do I have to use the funds in my HSA each year?
No. Your contributions will remain in your account until you are ready to use them – there is no annual requirement to "use or lose" your funds. You do not have to make withdrawals each year. Also, there is no time limit for reimbursement from an HSA. If you pay for a medical expense out-of-pocket, you can later reimburse yourself. This is true for any medical expense you incur after you establish your HSA.

Can a husband and wife establish a "joint" HSA if they are covered under a family HDHP plan?
No. HSAs are individually owned; joint accounts are not permitted. You may, however, authorize your spouse to be a signer on your HSA, with privileges to contribute to and withdraw from the account. Each spouse is permitted to open an HSA, but the combined contributions to their HSAs may not be more than the family contribution limit for the year.

How much can I contribute to my HSA?
The maximum annual contribution you can make to your HSA for **2019** is:
- **$3,500** for an individual, with individual coverage
- **$7,000** for family coverage

Account holders over the age of 55 who have not yet enrolled in Medicare are eligible to make an additional $1,000 "catch-up" contribution to their HSA for 2019. Please note that only one catch-up contribution is permitted per account per year.

How much may I contribute to the account if I establish my HDHP after January 1st?
An individual or family enrolled in an HDHP effective January 1st, of any tax year, will be eligible to make a full HSA contribution for the year, without any restrictions.

An individual or family with a high deductible health plan as of December 1st may make a full HSA contribution for the year, *as long as certain conditions are met*. According to the 12-month testing period rule, if you do not remain an eligible individual through December 31, 2020, any amount you contributed for 2019 that is more than the prorated share of the maximum amount allowed for the year will be considered "income" for tax purposes and subject to a 10 percent tax penalty. The prorated share is determined by the number of months in which you were enrolled in an HDHP during the year.

Example of the 12-month testing period rule: An individual enrolls in an HDHP effective December 1, 2019 and is otherwise an eligible individual in that month. The individual is not an eligible individual in any other month in 2019. The individual can make an HSA contribution for 2019 as if he or she had been enrolled in the HDHP for all of 2019 (that is, he/she may contribute the full amount allowed for the year, *as long as he/she remains in an HSA-qualified HDHP through December 31, 2020).*

If the individual ceases to be an eligible individual (that is, if he/she ceases to be covered under an HDHP) before December 31, 2020, he/she would only be eligible to contribute a prorated portion of the maximum amount allowed for 2019, representing the month(s) the individual was enrolled in the HDHP in 2019. In this example, the individual would be eligible to contribute 1/12, or one month's worth, of the maximum amount allowed.

If the individual contributed more than 1/12 of the maximum amount allowed, he/she would have to pay income taxes plus a 10 percent penalty on the excess amount contributed for 2019.

Can I use funds from my IRA to fund my HSA?

An individual may make a one-time contribution to an HSA of an amount distributed from an IRA. The contribution must be made in a direct trustee-to-trustee transfer. Amounts distributed from the IRA are not includible in the individual's income to the extent that the distribution would otherwise be includible in income. Such distributions from an IRA are not subject to the additional 20 percent tax on early distributions.

The amount that can be distributed from an IRA and contributed to an HSA is limited to the maximum annual contribution amount allowed by the IRS for individual or family coverage, whichever is applicable, under the HDHP at the time of the contribution. The amount that can be contributed to the HSA for the year is reduced by the amount contributed from the IRA. No deduction is allowed for the amount contributed from an IRA to an HSA.

An individual is allowed only one contribution from an IRA to an HSA during his or her lifetime. There is one exception to that rule: If the contribution is made during a month in which an individual has individual coverage as of the first day of the month and later that tax year he/she changes to family coverage, an additional contribution from an IRA to an HSA may be made once the individual has changed to family coverage. The additional contribution must be made during the same tax year as the first contribution, and the combined contributions cannot exceed the maximum annual contribution allowed by the IRS.

Now that I am eligible to carry my dependents up to age 26 on my HDHP, can I use my HSA funds to pay for their medical expenses?

This is only true if the adult child is considered a dependent for tax purposes. The Patient Protection and Affordable Care Act states that an adult child need not be considered a dependent nor live in his/her parent's household in order to be covered by a parent's health plan. The IRS has not changed HSA requirements to coincide with the updated healthcare regulations. Parents may only use the HSA funds to pay for healthcare expenses of an adult child if that individual is listed on their tax return as a dependent. Please note that an adult child may open their own Health Savings Account to take advantage of the same tax benefits, as long as they are covered by their own or a parent's HSA-qualified HDHP.

How do I make withdrawals (or take distributions) from my HSA?

You can make tax-free withdrawals (also known as distributions) from your HSA to pay for qualified medical expenses at any time during the year. When your account is opened, you receive a debit card for easy access to your funds. Other withdrawal methods include our free online bill payment and funds transfer services. For additional details on exactly how you may access the funds within your HSA, visit our Web site and navigate to “Account Features > Banking Services.”

If you make withdrawals from your HSA for non-qualified medical expenses or other non-qualified expenses, the amount withdrawn will be subject to income tax and may be subject to an excise tax, as well. Be sure to track all of your withdrawals from your HSA so you can supply documentation of your expenditures, if required by the IRS. It is up to you to monitor the deposits and withdrawals made to and from your HSA.

How do I report HSA distributions on my tax return?

How you report your distributions depends on whether you used the distribution for a qualified medical expense:

- If you use a distribution from your HSA for a qualified medical expense, you do not pay tax on the distribution, but you have to report the distribution on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040.

- If you use a distribution from your HSA for something other than a qualified medical expense, you must pay tax on the distribution and report the amount on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040. You must also report the distribution on your IRS Form 1040 and pay an additional tax, unless you meet one of the exceptions established by the IRS. Contact the IRS or your tax advisor for more information on the exceptions.

What is the tax penalty for using HSA funds for non-qualified expenses, and how do I report it?

The penalty levied on non-qualified HSA distributions (withdrawals taken before age 65 that are not for qualified medical expenses) increased from 10 percent to **20 percent.** The account owner is required to report the additional tax in the “Other Taxes” section of IRS Form 1040.

Exceptions to the additional tax: There is no additional tax if you are disabled, age 65 or older, or die during the year. Once someone has reached retirement age of 65, they may use HSA funds for non-medical expenses, and the amount would only be taxed as income.

Have the limitations around over-the-counter drugs changed from previous years?
Yes. Effective January 1, 2011, account holders are required to obtain a prescription from a physician in order for over-the-counter (OTC) medications to be considered an eligible HSA expense. This change impacts OTC items falling under the following categories:

- Allergy & Sinus
- Cold & Flu
- Pain Relief
- Respiratory Treatments
- Sleep Aids
- Stomach Remedies

Certain OTC medications are exempt. To find a complete listing of HSA-eligible medical expenses that do not require a physician prescription, please refer to Publication 502 on the IRS Web site at www.irs.gov. Although you will not be asked to provide prescriptions for OTC medications to the pharmacy at the time of purchase, HSA account holders should keep copies of their prescriptions with their receipts, in case they are audited by the IRS.

Are health insurance premiums qualified medical expenses?
No. In most cases, health insurance premiums are not qualified medical expenses.

Are there any exceptions?
Yes. The following health insurance premiums are exceptions and considered HSA-qualified expenses:

- Premiums for COBRA health care continuation coverage

- Premiums for health coverage while an individual is receiving unemployment compensation

- Premiums for qualified long-term care insurance

- For individuals age 65 and older, premiums for Medicare Part A, Medicare Part Band a Medicare HMO, and the employee's share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance. Note that premiums for Medigap policies are not qualified medical expenses.