Health Savings Accounts Q&A

What is a Health Savings Account?

When combined with a high deductible health plan, a Health Savings Account (HSA) is an alternative to traditional health insurance. An HSA is a tax-advantaged savings product that offers a different way for consumers to pay for their health care. HSAs enable your members to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

A person must be covered by a high deductible health plan (HDHP) to take advantage of HSAs. An HDHP generally costs less than traditional health care coverage and the money saved on insurance can be put into the HSA.

The HSA owner owns and controls the money in the HSA. Decisions on how to spend the money are made by the HSA owner. The HSA owner also chooses for the account one of the investment options that you offer.

What Is a High Deductible Health Plan?

A high deductible health plan (HDHP) is required to open an HSA. Sometimes referred to as a "catastrophic" health insurance plan, an HDHP is a less expensive health insurance plan that generally doesn't pay for the first several thousand dollars of health care expenses (i.e., the "deductible") but will generally provide coverage after that. Of course, the HSA is available to help pay for the expenses that the insurance plan does not cover.

WHO CAN HAVE AN HSA?

Who is eligible for an HSA?

In order to contribute to an HSA, an individual must be covered by an HSA-qualified HDHP and cannot 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 eligibility for an HSA.

Can a member get an HSA even if the member has other insurance that pays medical bills?

A member is only allowed to have auto, dental, vision, disability and long-term care insurance at the same time as an HDHP. The member may also have coverage for a specific disease or illness as long as it pays a specific dollar amount when the policy is triggered. Wellness programs offered by the member's employer are also permitted if they do not pay significant medical benefits.

Does the HDHP policy have to be in the name of the individual contributing to an HSA?

No. While an individual must be covered by an HDHP, the policy does not have to name the individual as an insured. HSA eligibility can be established by a family coverage HDHP provided by the employer of the member's spouse.

Is health insurance required to contribute to an HSA?

A member cannot establish and contribute to an HSA unless the member has coverage under an HDHP.

Can a member covered by Medicare contribute to an HSA?

No. A member covered by Medicare cannot contribute to an HSA. But a member can use the assets in an HSA to pay medical expenses while the member has Medicare coverage.

Can a member who is eligible for VA medical care contribute to an HSA?

A member cannot contribute to an HSA during the three months after receiving health benefits from the Veterans Administration or one of its facilities, including prescription drugs. But mere eligibility to receive VA medical care does not affect HSA eligibility.

Can a member who is on active-duty military and has Tricare coverage have an HSA?

No. At this time, Tricare does not offer an HDHP option, so these individuals are not eligible for an HSA.

Can a member make HSA contributions and participate in an FSA at the same time?

Participation in a typical flexible spending arrangement (FSA) makes a member ineligible to contribute to an HSA. But HSA eligibility is not affected by a “limited purpose” (limited to dental, vision or preventive care) or “post-deductible” (pay for medical expenses after the plan deductible is met) FSA.

Can a member covered by an HRA make HSA contributions?

As with FSAs, participation in a typical health reimbursement arrangement (HRA) makes a member ineligible to contribute to an HSA. But HSA eligibility is not affected by a “limited purpose” (limited to dental, vision or preventive care) or “post-deductible” (pay for medical expenses after the plan deductible is met) HRA. An HRA that provides benefits after a member retires does not affect HSA eligibility prior to retirement.

Can a member contribute to an HSA if the member is covered by a broad coverage FSA or HRA provided by the employer or the member’s spouse?

No.

Can an unemployed member contribute to an HSA?

Yes, as long as the member is covered by an HDHP and meets the other HSA eligibility requirements. For example, a member can make HSA contributions based on family HDHP coverage obtained through the employer of the member’s spouse.

Can parents make contributions to HSAs for their children?

Parents cannot contribute to a child’s HSA based on the child’s coverage under a family coverage HDHP of one of the parents. But they can contribute to a child’s HSA if the child is covered under his or her own HDHP through the child’s employer, provided that they do not claim the child as a dependent and the child meets the other HSA eligibility requirements.

CONTRIBUTIONS

Can members who are over age 55 make “catch-up” contributions to their HSAs as they can with their IRAs?

Yes, individuals age 55 and older who meet the HSA eligibility tests can make additional “catchup” contributions. The additional allowed “catch-up” contributions to HSAs are as follows:

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

Do HSA contributions have to be made in equal amounts each month?

No, contributions can be made in a lump sum, or in any amount or frequency the member wishes. The contribution deadline for a year is the tax-filing deadline for that year, typically April 15 of the following year. However, the credit union can impose minimum deposit and balance requirements.

Do contributions depend on when the HSA was established or when the HDHP coverage begins?

Eligibility to contribute to an HSA is determined by the date a member meets all of the eligibility tests, including coverage by an HDHP. As long as the HSA is opened by the contribution deadline, the opening date does not affect the contribution limits for the year. However, medical expenses incurred before the date the HSA is established cannot be reimbursed from the account.

Can employers contribute to HSAs?

Members, their employers, or both can make contributions to HSAs. The amount that an eligible member can contribute to his or her own HSA is reduced by the amount contributed by the member's employer.

Do HSA contributions provide any tax benefits?

Personal contributions offer an "above-the-line" deduction. An "above-the-line" deduction allows a member to reduce taxable income by the amount the member contributes to an HSA. A member does not have to itemize deductions to claim this tax benefit. The HSA owner receives this deduction even for contributions made by family or friends.

Can HSA contributions be made through an employer on a "pre-tax" basis?

Employer contributions to the HSAs of their employees are made on a pre-tax basis (i.e., they are not subject to either income tax or FICA tax). This includes employer contributions through a "salary reduction" plan (also known as a "Section 125 plan" or "cafeteria plan"). This is in lieu of the above-the-line deductions discussed above. The employer deducts HSA contributions as an ordinary business expense in computing taxable income.

If both spouses are age 55 or older, can both spouses make "catch-up" contributions?

Yes, if both spouses are eligible individuals and both spouses have established their own HSAs. But a member cannot increase the contributions to his or her own HSA based on the fact that the member's spouse is eligible to make "catch-up" contributions.

Does tax-filing status (joint vs. separate) affect the ability to make or deduct HSA contributions?

No. Tax filing status does not affect the ability to make or deduct HSA contributions.

May a self-employed person contribute to an HSA on a pre-tax basis?

An owner-employee who makes HSA contributions to his or her own HSA may not deduct them as an ordinary business expense. As a result, these HSA contributions will not reduce the income from the business shown on Schedule C of Form 1040 or on the Schedule K-1 received from the partnership or Subchapter S corporation operating the business. But the owner employee can take an "above-the-line" deduction for these contributions when completing Form 1040. The net result of these rules is than an owner-employee's contributions to his or her own HSA reduce taxable income; but they do not reduce the self-employment income on Schedule SE.

MANAGING THE HSA

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

A member can use a one-time direct rollover from a traditional IRA to an HSA to make HSA contributions that could otherwise be made for the year. The amount transferred to the HSA is treated as coming out of the portion that would be taxable income if distributed to the owner, and the member does not receive a deduction for such a contribution. Other types of retirement plans cannot be used to make HSA contributions.

What happens to the money in the HSA when the HSA owner dies?

If the HSA owner's spouse is the death beneficiary, then the spouse becomes the owner of the HSA. This is a tax-free transaction, and subsequent distributions from the account to pay the medical expenses of the spouse are tax-free distributions. If anyone other than the HSA owner's spouse is the death beneficiary (including the HSA owner's estate), the account ceases to be an HSA, and the value of the account is taxable income for the death beneficiary in the year of death.