

Using Your Health Savings Account (HSA) in 2011

Workshop presented by Community Bank of San Joaquin

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FREQUENTLY ASKED QUESTIONS

The following information was originally used for discussion at workshops conducted by Community Bank of San Joaquin in January 2011. The yellow highlights indicate additional points that were added to this document based on the questions and feedback of attendees at each session.

• **How have HSAs changed in 2011?**

Two primary changes impact Health Savings Accounts in 2011. These changes are:

- A change to the definition of “qualified medical expenses” eliminates the use of HSA funds for the purchase of non-prescription **medications**, but still allows over-the-counter **medical devices and supplies**.

Refer to *Affordable Care Act: Questions and Answers on Over-the-Counter Medicines and Drugs*. IRS, Dec. 23, 2010. (<http://www.irs.gov/newsroom/article/0,,id=227308,00.html>)

- Penalties for improperly using HSA money have doubled. If the IRS decides to audit a participant and that participant cannot prove a distribution was used for “qualified medical expenses”, the amount of distribution is subject to a 20% penalty.

• **Does healthcare reform (sometimes called “Obama Care”) impact HSAs?**

- Yes. So far, only in the sense that the definition of “qualified medical expenses” has changed and a 20% penalty can now be assessed for misuse of funds.
- As the healthcare reform laws are defined and debated, more changes may come to any health plan or tax law. However, for now, the tax laws governing HSAs remain in place and there is no plan to discontinue Health Savings Accounts.

• **What are qualified medical expenses?**

- The IRS has updated their *Publication 502* for tax year 2010 which lists both “medical expenses that are includible” and “medical expenses that are not includible” for tax purposes. In general, these lists also serve as a guide for users of Health Savings Accounts. **Some items appear in both categories with *Publication 502* explaining the reasons.**

- Health insurance plan may also provide information.

- **It appears that, in general, if taken internally (medicines), a prescription is required to be considered a “qualified medical expense”. If used externally (equipment and supplies), it may still be considered a “qualified medical expense” without a prescription.**

Refer to *Affordable Care Act: Questions and Answers on Over-the-Counter Medicines and Drugs*. IRS, Dec. 23, 2010. (<http://www.irs.gov/newsroom/article/0,,id=227308,00.html>)

• **What if HSA money is used for online shopping, gas, food, cellular/utility bills, or other non-qualified expenses?**

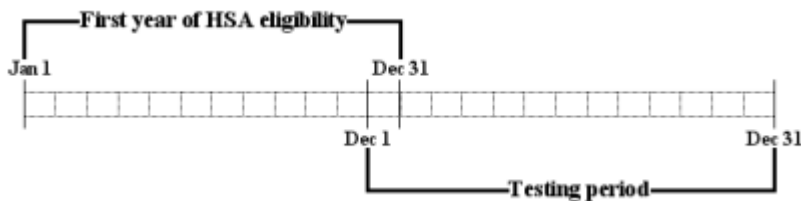
- Participants should have receipts for “qualified medical expenses” that equal the total amount of HSA money withdrawn throughout the year and declared on IRS Form 8889 when taxes are filed.
- If the Internal Revenue Service audits a participant and he or she cannot prove a withdrawal of HSA money was used for “qualified medical expenses”, the amount withdrawn will be subject to a 20% penalty.

- **Do I have to use all of my HSA money by the end of the year?**

- No. There is no requirement that the money be used by a certain date. It will simply remain in the account until the participant needs it for “qualified medical expenses”.
- If the money has not been used by the time the participant turns 65 or becomes disabled, the money can then be used for other purposes without penalties.

- **Can I make a maximum HSA contribution for the first full year even if I only enrolled in a qualified health plan toward the end of the year?**

- An insured participant qualifies for the full annual HSA contribution *if he or she is covered by an HSA-eligible insurance plan by the first day of the last month of their tax year, usually December 1st. This is called the “last month rule”.*
- If contributions were made based on the “last month rule” *the participant must remain in an HSA-eligible insurance plan through the last day of the next tax year, this is called a “testing period”.* In our example, this period would end December 31st of the following year.



- **What happens if I turn 65 this year?**

- At the age of 65, a person is usually automatically enrolled in Medicare. A person enrolled in Medicare as primary insurance cannot contribute to a Health Savings Account.
- The money contributed before turning 65 remains available to the participant.
- Any contributions to a Health Savings Account during the year when the participant turns 65 must be done before the 65th birthday and will be pro-rated from January 1 through the month before the participant turns 65.
- Extra planning may be needed if the person that turns 65 is the primary insured party of a family plan. Talk with your insurance broker or human resources personnel to determine how the insurance needs for the rest of the family will be provided at that time.

- **What is a “catch-up” contribution?**

- Insured participants age 55-64 can contribute up to \$1,000 more than the standard annual limit.

- **Are “catch-up” contributions available for a spouse covered by a Family Plan?**

- Yes. If the participant has a Family Plan that covers his or her spouse, the spouse qualifies for an additional (separate) \$1,000 “catch-up” contribution when he or she is between the age of 55-64.
- A separate Health Savings Account must be opened in the spouse’s name for this additional “catch-up”. The spouse’s “catch-up” contribution **cannot** be deposited into the participant’s Health Savings Account.

- **Can a Health Savings Account be established for someone under 18 years of age?**

- No. A person that is either under 18 years old or that is claimed as a dependent on someone’s taxes does not qualify to open a separate Health Savings Account in his or her own name.

- **What happens to the money in a Health Savings Account if insurance or employment changes?**
 - Money in a Health Savings Account remains the property of its owner – the original individual or family participant. That means that it’s portable. You take it with you wherever you go, and can continue to use the funds for “qualified medical expenses”.
 - However, if your new insurance is not a qualified High Deductible Health Plan (HDHP), contributions can no longer be added to the account.
 - Money can still be used for “qualified medical expenses” even if the account’s owner is no longer covered by a HDHP.
 - It may be of benefit not to close out the account, since full annual contributions can be made into an existing HSA anytime the participant becomes covered again by a qualified HDHP. (Otherwise, the participant would be treated as a brand new HSA participant and be subject to a “testing period” for the first year of the new account.)
- **Do I have to do anything special if a “life changing event” occurs – such as the birth of a child or change in my job or marital status?**
 - Yes. You should notify the Bank of any such changes to make sure your account remains accessible and the correct contribution limits are established.
 - There are also special allowances in current tax law to accommodate some plan changes for “life changing events”.
- **For employers: What if an employee’s address, contribution amount, or employment status changes?**
 - Be sure to notify the Bank whenever an employee’s address, contribution amount, or employment status changes.
 - Be sure to notify the Bank whenever a newly hired employee is added to your HDHP group health insurance.
- **For employers: What if you stop offering HSA-eligible insurance as part of your employee benefits or if an employee changes from a HDHP to a HMO or other plan that is not HSA-eligible insurance?**
 - Be sure to notify the Bank of any such change.
 - Make sure any automated contribution, such as a payroll deduction, is discontinued to avoid the risk of excess contributions.