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HSA

Health Savings Accounts

A health savings account (HSA) is an account funded to help you save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment.

Who Can Have an HSA?

Any adult can have an HSA if you:

- Have coverage under an HSA-qualified, high-deductible health plan (HDHP)
- Have no other first-dollar medical coverage (other types of insurance, such as specific injury or accident, disability, dental care, vision care, or long-term care, are permitted)
- Are not enrolled in Medicare
- Cannot be claimed as a dependent on someone else's tax return

Contributions to your HSA can be made by you, your employer or both. However, the total contributions are limited annually. If you make a contribution, you can deduct the contributions (even if you do not itemize deductions) when completing your federal income tax return.

Contributions to the account must stop once you are enrolled in Medicare. However, you still use your HSA funds to pay for medical expenses tax-free.

HDHPs

You must have coverage under an HSA-qualified high-deductible health plan to open and contribute to an HSA. Generally, this

plan will not cover first-dollar medical expenses, and must have a deductible of at least (for 2018 and 2019):

- Single coverage: \$1,350/\$1,350
- Family coverage: \$2,700/\$2,700

In addition, annual out-of-pocket expenses under the plan (including deductibles, copays and coinsurance) cannot exceed (2018/2019 limits):

- Single coverage: \$6,650/\$6,750
- Family coverage: \$13,300/\$13,500

In general, the deductible must apply to all medical expenses (including prescriptions) covered by the plan. However, plans can pay for preventive care services on a first-dollar basis (with or without a copay). Preventive care can include routine prenatal and well-child care, child and adult immunizations, annual physicals, mammograms and more.

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HSA Contributions

You can make a contribution to your HSA each year that you are eligible. You can contribute no more than (2018/2019 limits):

- Single coverage: \$3,450/\$3,500
- Family coverage: \$6,900/\$7,000

Individuals ages 55 and older can also make additional "catch-up" contributions of up to \$1,000 annually.

Determining Your Contribution

Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. Individuals who are eligible to contribute to an HSA in the last month of the taxable year are allowed to contribute an amount equal to the annual HSA contribution amount provided they remained covered by the HSA for at least the 12-month period following that year. Contributions can be made as late as April 15 of the following year.

Using Your HSA

You can use money in your HSA to pay for any qualified medical expense permitted under federal tax law. This includes most medical care and services, dental and vision care.



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Generally, you cannot use your HSA to pay for medical insurance premiums, except specific instances, including:

- Any health plan coverage while receiving federal or state unemployment benefits
- COBRA continuation coverage after leaving employment with a company that offers health insurance coverage
- Qualified long-term care insurance
- Medicare premiums and out-of-pocket expenses, including deductibles, copays and coinsurance for:
 - Part A (hospital and inpatient services)
 - Part B (physician and outpatient services)
 - Part C (Medicare HMO and PPO plans)
 - Part D (prescription drugs)

You can use your HSA to pay for medical expenses for yourself, your spouse or your dependent children, even if your dependents are not covered by your HDHP. Any amounts used for purposes other than to pay for qualified medical expenses are taxable as income and subject to an additional 20 percent penalty. Examples include:

- Medical procedures and expenses not considered qualified under federal tax law
- Over-the-counter drugs and medications (except insulin)
- Other types of health insurance unless specifically described above
- Medicare supplement insurance premiums
- Expenses not health-related.

After you turn 65, the 20 percent additional tax penalty no longer applies. If you become disabled and/or enroll in Medicare, the

account can be used for other purposes without paying the additional penalty.

Advantages of HSAs

Security – Your HSA can provide a buffer for unexpected medical bills.

Affordability – In most cases, you can lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

Flexibility – You can use your HSA to pay for current medical expenses, including expenses that your insurance may not cover, or save your funds for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Savings – You can save the money in your HSA for future medical expenses and grow your account through investment earnings.

Control – You make the decisions regarding:

- How much money you will put in the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from the account

Ownership – Funds remain in the account from year to year, just like an IRA. There are no “use it or lose it” rules for HSAs.

Tax Savings – An HSA provides you triple tax savings:

1. Tax deductions when you contribute to your account
2. Tax-free earnings through investment
3. Tax-free withdrawals for qualified medical expenses

What Happens to My HSA When I Die?

- If you are married, your spouse becomes the owner of the account and can use it as if it were his or her own HSA.
- If you are not married, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate (and be subject to any applicable taxes).



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HSA Examples of Eligible Expenses

Your Health Savings Account may reimburse:

- Qualified medical expenses incurred by the account beneficiary and his or her spouse and dependents;
- COBRA premiums;
- Health insurance premiums while receiving unemployment benefits;
- Qualified long-term care premiums*; and
- Any health insurance premiums paid, other than for a Medicare supplemental policy, by individuals age 65 or older.

Distributions made from an HSA to reimburse the account beneficiary for eligible expenses are excluded from gross income.

Qualified Medical Expenses

The Internal Revenue Service defines **qualified medical care expenses** as amounts paid for the diagnosis, cure or treatment of a disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate a physical or mental defect or illness.

The products and services listed below are examples of medical expenses eligible for payment under your **Health Savings Account**, when such services are not covered by your high-deductible health plan. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. **This list is not all-inclusive; additional expenses may qualify, and the items listed below are subject to change in accordance with IRS regulations.**

Under a rule that went into effect January 1, 2011, claims for over-the-counter medicine or drug expenses (other than insulin) cannot be reimbursed without a prescription. This rule does not apply to items for medical care that are not medicines or drugs.

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| <ul style="list-style-type: none">• Acupuncture• Alcoholism treatment• Ambulance• Annual physical examination• Artificial limb• Artificial teeth• Bandages• Birth control pills | <ul style="list-style-type: none">• Body scan• Braille books and magazines• Breast pumps and supplies• Breast reconstruction surgery• Capital expenses (improvements or special equipment | <ul style="list-style-type: none">installed to a home, if meant to accommodate a disabled condition)• Car modifications or special equipment installed for a person with a disability• Chiropractor• Christian Science practitioner• Contact lenses |
|--|---|---|

** For purposes of reimbursement of qualified long-term care premiums from an HSA, reimbursement in excess of the amount which may be deducted on an individual's personal tax return is not an eligible expense. IRS 213(d)(10) establishes the tax deduction allowed for qualified long-term care premiums on individual tax returns. If the HSA reimburses long-term care premiums for an amount greater than set forth in IRC 213(d)(10), the amount greater than allowed is included in the account holder's taxable income and is subject to a 20% penalty.*

- Crutches
- Dental treatment (not including teeth whitening)
- Diagnostic devices
- Disabled dependent care expenses
- Drug addiction treatment
- Eye exam
- Eye glasses
- Eye surgery
- Fertility enhancement (in vitro fertilization or surgery)
- Guide dog or other service animal
- Health institute fees (if treatment is prescribed by a physician)
- Certain health insurance premiums (not premiums for an employer-sponsored plan, but certain other medical premiums)
- Intellectually or developmentally disabled care, treatment or special home
- Laboratory fees
- Lactation expenses
- Lead-based paint removal (if a child in the home has lead poisoning)
- Learning disability care or treatment
- Legal fees associated with medical treatment
- Lifetime care, advance payments or "founder's fee"
- Lodging at a hospital or similar institution
- Long-term care
- Medical conference expenses, if the conference concerns a chronic illness of yourself, your spouse or your dependent
- Medical information plan
- Medications, if prescribed
- Nursing home fees
- Nursing services
- Operations
- Osteopath
- Oxygen
- Physical examination
- Pregnancy test kit
- Prosthesis
- Psychiatric care
- Psychologist
- Special education
- Sterilization
- Stop-smoking programs
- Surgery
- Special telephone for hearing-impaired individual
- Television for hearing-impaired individuals
- Therapy received as medical treatment
- Transplants
- Transportation for medical care
- Tuition for special education
- Vasectomy
- Vision correction surgery
- Weight-loss program if it is a treatment for a specific disease
- Wheelchair
- Wig
- X-ray

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Source: www.irs.gov/publications/p502/ar02.html#en_US_publink1000178947

Plans that do not allow reimbursement of all eligible medical expenses as defined by the IRS and Department of Treasury must customize this brochure prior to use.

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