



Frequently Asked Questions & Answers for HSA

Who is eligible for an HSA?

An eligible individual during any specific month is any individual who: (1) is covered under a high deductible health plan (HDHP) on the first day of that month; (2) is not also covered under a health plan that is not a HDHP (with certain exceptions for plans providing certain limited types of coverage); (3) is not entitled to Medicare (generally, has not yet reached age 65); and (4) may not be claimed as a dependent on another person's tax return.

What is a High Deductible Health Plan?

A high deductible health plan is a health plan that, when combined with a Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA), provides insurance coverage and a tax-advantaged way to help save for future medical expenses. For 2006, a high deductible health insurance plan has a deductible of at least \$1,050 for Single and \$2,100 for Family. New deductible limits will be tied to the Consumer Price Index (CPI). The maximum out-of-pocket expenses for allowed costs (deductibles, copayments, and other amounts, but not premiums) must be no more than \$5,250 for single and \$10,500 for 2 or more (family).

Who can contribute to an HSA?

Individuals, employers and employees can contribute. The funds belong to the individual or employee. After an individual has attained age 65 (the Medicare eligibility age), contributions, including catch-up contributions cannot be made.

How much can I contribute to an HSA?

HSA savings account contributions may be made each year up to 100% of the policy deductible. The maximum annual contribution for a single is \$2,700 and for a family \$5,450. The annual maximum contributions are also tied to the Consumer Price Index (CPI) and will change each January.

Individuals ages 55-65 may make additional "catch-up" contributions of up to \$700 in 2006. This amount will increase in \$100 increments annually, until it reaches \$1,000 in 2009 and thereafter. A married couple can make two catch-up contributions as long as both spouses are at least age 55.

Note: If you do not have HDHP coverage for the entire year, you will not be able to make the maximum contribution. All contributions (including catch-up contributions) must be pro-rated according to the number of months of HDHP coverage you have during the year.

What can HSA funds be used for?

Qualified medical expenses as defined under Section 213 of the IRS Code (this is the same code that governed MSA's). In addition, qualified long-term care insurance, COBRA health care continuation coverage, and health care coverage while an individual is receiving unemployment compensation are qualified medical expenses. For individuals over age 65 the following can be paid from an HSA: premiums for Medicare Part A or B, Medicare HMO and the employee share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance. Premiums for Medigap policies are not qualified medical expenses. The penalty for taking withdrawals for other than tax-free reimbursement of eligible medical expenses is 10% (down from 15% on an MSA).

Who receives a decedent's unused HSA assets?

The assets in an HSA become the property of a named beneficiary upon the account holder's death, or go to their estate if no beneficiary is named. A spouse beneficiary can treat such assets as their own account, while a non-spouse must include them as ordinary income for taxation purposes.

What discrimination rules apply to HSAs?

If an employer makes HSA contributions, the employer must make available comparable contributions on behalf of all "comparable participating employees" (i.e., eligible employees with comparable coverage) during the same period. Contributions are considered comparable if they are either the same amount or same percentage of the deductible under the HDHP.

The comparability rule is applied separately to part-time employees (i.e., employees who are customarily employed for fewer than 30 hours per week). The comparability rule does not apply to amounts rolled over from an employee's HSA or Archer MSA, or to contributions made through a cafeteria plan. If employer contributions do not satisfy the comparability rule during a period, the employer is subject to an excise tax equal to 35% of the aggregate amount contributed by the employer to HSAs for that period.

1. Example: Employer X offers its collectively bargained employees three health plans, including a HDHP with self-only coverage and a \$2,000 deductible. For each employee electing the HDHP self-only coverage and a \$2,000 deductible, X contributes \$1,000 per year on behalf of the employee to an HSA. X makes no HSA contributions for employees who do not elect the HDHP. X's plans and HSA contributions satisfy the comparability rule.