Health Savings Account Overview

Findlay City Schools
2016

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What is an HSA?

- Created in Medicare legislation and signed into law on December 8, 2003
- A Health Savings Account (HSA) is a tax-advantaged savings account owned by an individual to pay for current and future medical expenses
- HSAs are available only in conjunction with a “High Deductible Health Plan” (HDHP)
- HSA funds are portable and rollover from year to year

Who is Eligible for an HSA?

- Any individual that has coverage under an HDHP and:
  - Does not have any other first-dollar medical coverage (certain other types of insurance are permitted)
  - Is not enrolled in Medicare
  - Cannot be claimed as a dependent on someone else's tax return (children cannot have their own HSAs)

Who is *Not* Eligible for an HSA?

- Anyone with the following benefits:
  - Medicare
  - Medicaid
  - Tricare
- Flexible Spending Account (some exceptions)
- Health Reimbursement Account (some exceptions)
- Coverage under a spouse's plan, including their low-deductible insurance coverage or their enrollment in an FSA or HRA
- Anyone who has received VA health benefits in the last 3 months

What Other Coverage is Allowed with an HSA?

- Specific disease insurance, accident, disability, long-term care, dental, and vision insurance
- Employee Assistance, Disease Management, and Wellness Programs that do not provide significant benefits for medical care
- Drug discount cards
- "Limited Purpose" FSAs or HRAs (restrict reimbursements to certain permitted benefits such as vision, dental, or preventive care)

What is a High Deductible Health Plan?

- Health insurance that does not cover first dollar medical and prescription expenses (exclusion allowed for preventive care). **Minimum deductible of:**
  - $1,300 for single coverage
  - $2,600 for family coverage
- Annual out-of-pocket expenses cannot exceed a **maximum of:**
  - $ 6,550 for single coverage
  - $13,100 for family coverage

(above amounts are for 2016)

HDHP provides protection against catastrophic, high-dollar medical expenses

HDHPs and Preventive Care

- HDHPs can have first dollar coverage for preventive care (not subject to the deductible, copays allowed)
- Preventive care excludes any treatment for existing conditions
- Certain prescription drugs can be considered preventive care if they are taken by a person who has risk factors for a disease but does not yet have that disease, or to prevent the reoccurrence of a disease

HDHPs and Preventive Care

Allowable preventive care services include:

- Annual physicals
- Screening services (e.g., mammograms, pap smears, PSA screenings)
- Routine pre-natal and well-child care
- Child and adult immunizations
- Tobacco cessation programs
- Obesity weight loss programs

Who Can Contribute to an HSA?

- Employer, employee, or both can contribute to an individual's HSA.
- Once employer contributions are made, they are owned by the employee.
  - Employer contributions are not taxable to the employee
- Contributions can be made by others (such as a spouse) on behalf of the individual, and are deducted by the holder of the HSA account

HSA Contributions

- Maximum amount that can be contributed to an HSA is specified by law – amount is indexed annually.

  For 2016:

  – $3,350 for single coverage

  – $6,750 for family coverage

- Account holders age 55 and older are allowed to contribute an additional catch up contribution of $1,000

  Note: It does not matter when their 55th birthday falls during the year.

HSA Distributions

- Distributions are tax-free if taken for "qualified medical expenses" (IRC Section 213(d))
- Insurance premiums do not qualify except:
  - COBRA continuation coverage
  - Health insurance while receiving state or federal unemployment compensation
  - Health insurance after age 65, except Medigap insurance
  - Medicare premiums
  - Qualified long-term care insurance

HSA Distributions

- The HSA account holder can take tax-free distributions for qualified medical expenses for their spouse or any dependent even if they are not enrolled in an HDHP
- No time limit on distributions- prior years' qualified expenses can be reimbursed tax-free as long as the expenses were incurred after the HSA was established
- Individual's responsibility to keep sufficient records to prove when expenses were incurred and that they were not reimbursed by another source or taken as an itemized deduction

HSA Distributions

- If a distribution is not used for qualified medical expenses, the distribution amount is included as income and is subject to an additional 20% tax except when:
  - Taken after individual dies or becomes disabled
  - Individual is age 65 or older

Advantages of an HSA

- HSAs provide tax savings in three ways:
  - Tax-free contributions to the account
  - Tax-free earnings on account growth through investments
  - Tax-free withdrawals when used for qualified medical expenses
- Health insurance premiums are lower with an HDHP vs. traditional health insurance plan
- HDHP still provides coverage against catastrophic medical claims

Advantages of an HSA

- HSA accounts are owned by the individual, so the individual decides:
  - How much (if any) he or she contributes
  - Whether to use the account for current medical expenses or save for the future
  - How much and when to use the account to pay for medical expenses
  - How to invest the account dollars to grow the account
- Because the individual owns the account, they are also portable – individual keeps the account even if they change jobs or retire

Advantages of an HSA

- Unlimited rollover of funds from year to year – no "use it or lose it"
- Unspent balances remain in account until spent
- Encourages consumers to spend more wisely and look for best value in their healthcare
- Accounts can grow tax-free through investment earnings
  - Same investment options and limitations as IRAs

In Summary…Why Choose an HDHP / HSA?

- **Affordability** – lower insurance premiums
- **Security** – protection against catastrophic medical expenses
- **Rollover** – individual owns funds, no "use it or lose it"
- **Savings** – save money in account for future medical expenses (retirement) and grow funds through investments
- **Flexibility** – individual chooses when and how to use funds
- **Portability** – account completely portable, remains with individual through job changes, retirement, relocation, etc.
- **Tax Savings** – triple tax savings on contributions, investments, and distributions on qualified expenses