



# HDHP & HSA FREQUENTLY ASKED QUESTIONS

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# High Deductible Health Plan & Health Savings Account Frequently Asked Questions

## 1. What is a Health Savings Account ('HSA')?

A Health Savings Account is an alternative to traditional health insurance; it is a savings product that offers a different way for consumers to pay for their health care. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

You must be covered by a Qualified High Deductible Health Plan (HDHP) to be able to take advantage of HSAs. An HDHP generally costs less than what traditional health care coverage costs, so the money that you save on insurance can therefore be put into the Health Savings Account.

You own and you control the money in your HSA. Decisions on how to spend the money are made by you without relying on a third party or a health insurer. You will also decide what types of investments to make with the money in the account to achieve the highest return.

## 2. What Is a 'High Deductible Health Plan' (HDHP)?

You must have a Qualified HDHP if you want to open an HSA. Sometimes referred to as a '*catastrophic*' health insurance plan, a Qualified HDHP is an inexpensive health insurance plan that generally doesn't pay for the first several thousand dollars of health care expenses (i.e., your 'deductible') but will generally cover you after that. Of course, your HSA is available to help you pay for the expenses your plan does not cover.

For **2010**, the minimum deductible amounts are **\$1,200 and \$2,400**, respectively. The annual out-of-pocket (including deductibles and co-pays) for **2010** cannot exceed **\$5,950 (single coverage) or \$11,900 (family coverage)**. Qualified HDHPs can have first dollar coverage (no deductible) for preventive care and apply higher out-of-pocket limits (and co pays & coinsurance) for non-network services.

## 3. Who is eligible for a Health Savings Account?

To be eligible for a Health Savings Account, an individual must be covered by an HSA-Qualified High Deductible Health Plan (HDHP) and must not be covered by other health insurance that is not a Qualified HDHP. Certain types of insurance are not considered '*health insurance*' (see below) and will not jeopardize your eligibility for an HSA.

## 4. Can I get an HSA even if I have other insurance that pays medical bills?

You are only allowed to have auto, dental, vision, disability and long-term care insurance at the same time as a Qualified HDHP. You 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 your employer are also permitted if they do not pay significant medical benefits.



- 5. Does the Qualified HDHP policy have to be in my name to open an HSA?**  
No, the policy does not have to be in your name. As long as you have coverage under the Qualified HDHP policy, you can be eligible for an HSA (assuming you meet the other eligibility requirements for contributing to an HSA). You can still be eligible for an HSA even if the policy is in your spouse's name.
- 6. I don't have health insurance, can I get an HSA?**  
You cannot establish and contribute to an HSA unless you have coverage under a HDHP.
- 7. I'm on Medicare, can I have an HSA?**  
You are not eligible for an HSA after you have enrolled in Medicare. If you had an HSA before you enrolled in Medicare, you can keep it. However, you cannot continue to make contributions to an HSA after you enroll in Medicare.
- 8. I am a Veteran, can I have an HSA?**  
If you have received any health benefits from the Veterans Administration or one of their facilities, including prescription drugs, in the last three months, you are not eligible for an HSA.
- 9. I'm active-duty military and have Tricare coverage, can I have an HSA?**  
At this time, Tricare does not offer an HDHP options so you are not eligible for an HSA.
- 10. My employer offers an FSA, can I have both an FSA and an HSA?**  
You can have both types of accounts, but only under certain circumstances. General Flexible Spending Arrangements (FSAs) will probably make you ineligible for an HSA. If your employer offers a *'limited purpose'* (limited to dental, vision or preventive care) or *'post-deductible'* (pay for medical expenses after the plan deductible is met) FSA, then you can still be eligible for an HSA.
- 11. My employer offers an HRA, can I have both an HRA and an HSA?**  
You can have both types of accounts, but only under certain circumstances. General Health Reimbursement Arrangements (HRAs) will probably make you ineligible for an HSA. If your employer offers a *'limited purpose'* (limited to dental, vision or preventive care) or *'post-deductible'* (pay for medical expenses after the plan deductible is met) HRA, then you can still be eligible for an HSA. If your employer contributes to an HRA that can only be used when you retire, you can still be eligible for an HSA.
- 12. My spouse has an FSA or HRA through their employer, can I have an HSA?**  
You cannot have an HSA if your spouse's FSA or HRA can pay for any of your medical expenses before your HDHP deductible is met.
- 13. I don't have a job, can I have an HSA?**  
Yes, if you have coverage under a Qualified HDHP. You do not have to have earned income from employment, in other words, the money can be from your own personal savings, income from dividends, unemployment or welfare benefits, etc



**14. Does my income affect whether I can have an HSA?**

There are no income limits that affect HSA eligibility. However, if you do not file a federal income tax return, you may not receive all the tax benefits HSAs offer.

**15. Can I start an HSA for my child?**

No, you cannot establish separate accounts for your dependent children, including children who can legally be claimed as a dependent on your tax return.

**16. I'm a single parent with Qualified HDHP coverage but have a child/relative that can be claimed as a dependent for tax purposes, and this dependent also has non-HDHP coverage. Am I still eligible for an HSA?**

Yes, you are still eligible for an HSA. Your dependent's non-HDHP coverage does not affect your eligibility, even if they are covered by your HDHP.

**17. How much can I contribute to my HSA each year?**

For **2010**, the maximum you may contribute to a Health Savings Account (HSA) is **\$3,050 for single coverage or \$6,150 for family coverage**. Minimum Qualified HDHP deductibles are \$1,200 for individuals and \$2,400 for families. HSA holders age 55 and older may make additional annual contributions of \$1,000 for 2010.

**18. I have a very high deductible, is there a limit on how much I can contribute?**

For **2010**, the maximum you may contribute to a Health Savings Account (HSA) is **\$3,050 for single coverage or \$6,150 for family coverage**. Maximum Qualified HDHP deductibles are **\$5,950 for individuals and \$11,900 for families**.

**19. Do my HSA contributions have to be made in equal amounts each month?**

No, you can contribute in a lump sum or in any amounts or frequency you wish. However, your account trustee/custodian (bank, credit union, insurer, etc.) can impose minimum deposit and balance requirements.

**20. Does my contribution depend on when I establish my HSA account or when my Qualified HDHP coverage begins?**

Full HSA contribution is allowed regardless of the month an individual becomes eligible. Individuals who become covered under an HSA qualified plan in a month other than January are allowed to make the maximum HSA contribution for the year. If an individual does not stay in the HSA-eligible plan 12 months following the last month of the year of the first year of eligibility, the amount which could not have been contributed except for this provision will be included in income and subject to a 10 percent additional tax. The amount you can contribute is not determined by the date you establish your account. However, medical expenses incurred before the date your HSA is established cannot be reimbursed from the account.

**21. Can my employer contribute to my HSA?**

Contributions to HSAs can be made by you, your employer, or both. All contributions are aggregated to determine whether you have contributed the maximum allowed. If your employer contributes some of the money, you can make up the difference



- 22. Do my contributions provide any tax benefits?**  
Your personal contributions offer you an 'above-the-line' deduction. An "above-the-line" deduction allows you to reduce your taxable income by the amount you contribute to your HSA. You do not have to itemize your deductions to benefit. Contributions can also be made to your HSA by others (e.g., relatives). However, you receive the benefit of the tax deduction.
- 23. If my employer contributes to my HSA, does that also provide me any tax benefit?**  
If your employer makes a contribution to your HSA, the contribution is not taxable to you the employee (excluded from income).
- 24. Can I make contributions through my employer on a 'pre-tax' basis?**  
If your employer offers a '*salary reduction plan (also known as a 'Section 125 plan' or 'cafeteria plan')*', you (the employee) can make contributions to your HSA on a pre-tax basis (i.e., before income taxes and FICA taxes). If you can do so, you cannot also take the 'above-the-line' deduction on your personal income taxes.
- 25. Can I claim both the 'above-the-line' deduction for an HSA and the itemized deduction for medical expenses?**  
You may be able to claim the medical expense deduction even if you contribute to an HSA. However, you cannot include any contribution to the HSA or any distribution from the HSA, including distributions taken for non-medical expenses, in the calculation for claiming the itemized deduction for medical expenses.
- 26. Can I take a tax deduction for my Qualified HDHP premium?**  
Not at this time.
- 27. I'm over 55 and would like to make catch-up contributions to my HSA, like I've done with my IRA. Is that possible?**  
Yes, individuals 55 and older who are covered by a Qualified HDHP can make additional catch-up contributions each year until they enroll in Medicare. The additional '*catch-up*' contributions to HSA allowed for **2010** and after are \$1,000.
- 28. I turned 55 this year. Can I make the full 'catch-up' contribution?**  
Yes
- 29. If both spouses are 55 and older, can both spouses make 'catch-up' contributions?**  
Yes, if both spouses are eligible individuals and both spouses have established an HSA in their name. If only one spouse has an HSA in their name, only that spouse can make a 'catch-up' contribution.
- 30. If each spouse has a single Qualified HDHP coverage (neither spouse has family coverage), how much can we contribute?**  
Each spouse is eligible to contribute to an HSA in their own name, up to the amount of the deductibles under their respective policies. However, each spouse's contribution cannot exceed the contribution limit of \$3,050 for individuals for 2010. (The catch up contributions are in addition to these limits.)



**31. Does tax filing status (joint vs. separate) affect my contribution?**

Tax filing status does not affect your contribution.

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

No. Self-employed persons may not contribute to an HSA on a pre-tax basis and may not take the amount of their HSA contribution as a deduction for SECA purposes. However, they may contribute to an HSA with after-tax dollars and take the above-the-line deduction.

**33. Does an HSA pay for the same things that regular insurance pays for?**

HSA funds can pay for any '*qualified medical expense*', even if the expense is not covered by your Qualified HDHP. For example, most health insurance does not cover the cost of over-the-counter medicines, but HSAs can. If the money from the HSA is used for qualified medical expenses, then the money spent is tax-free.

**34. How do I know what is included as 'qualified medical expenses'?**

Unfortunately, we cannot provide a definitive list of 'qualified medical expenses'. A partial list is provided in *IRS Pub 502* (available at [www.irs.gov](http://www.irs.gov)). There have been thousands of cases involving the many nuances of what constitutes "medical care" for purposes of *section 213(d) of the Internal Revenue Code*. A determination of whether an expense is for "medical care" is based on all the relevant facts and circumstances. 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. The determination often hangs on the word "primarily."

**35. Who decides whether the money I'm spending from my HSA is for a 'qualified medical expense'?**

You are responsible for that decision, and therefore should familiarize yourself with what qualified medical expenses are (*as partially defined in IRS Publication 502*) and also keep your receipts in case you need to defend your expenditures or decisions during an audit.

**36. What happens if I don't use the money in the HSA for medical expenses?**

If the money is used for other than qualified medical expenses, the expenditure will be taxed and, for individuals who are not disabled or over age 65, subject to a 10% tax penalty.

**37. Are dental and vision care qualified medical expenses under a Health Savings Account?**

Yes, as long as these are deductible under the current rules. For example, cosmetic procedures, like cosmetic dentistry, would not be considered qualified medical expenses.

**38. Can I use the money in my HSA to pay for medical care for a family member?**

Yes, you may withdraw funds to pay for the qualified medical expenses of yourself, your spouse or a dependent without tax penalty. This is one of the great advantages of an HSA.



**39. Can I use my HSA to pay for medical service provided in other countries?**

Yes.

**40. Can I pay my health insurance premiums with an HSA?**

You can only use your HSA to pay health insurance premiums if you are collecting Federal or State unemployment benefits or you have COBRA continuation coverage through a former employer.

**41. Can I purchase long-term care insurance with money from my HSA?**

Yes, if you have tax-qualified long-term care insurance. However, the amount considered a qualified medical expense depends on your age. *See IRS Publication 502* for the amounts deductible by age.

**42. I have an HSA but no longer have Qualified HDHP coverage. Can I still use the money that is already in the HSA for medical expenses tax-free?**

Once funds are deposited into the HSA, the account can be used to pay for qualified medical expenses tax-free, even if you no longer have Qualified HDHP coverage. The funds in your account roll over automatically each year and remain indefinitely until used. There is no time limit on using the funds.

**43. What happens to the money in my HSA if I lose my Qualified HDHP coverage?**

Funds deposited into your HSA remain in your account and automatically roll over from one year to the next. You may continue to use the HSA funds for qualified medical expenses. You are no longer eligible to contribute to an HSA for months that you are not an eligible individual because you are not covered by a Qualified HDHP. If you have coverage by a Qualified HDHP for less than a year, the annual maximum contribution is reduced; if you made a contribution to your HSA for the year based on a full year's coverage by the Qualified HDHP, you will need to withdraw some of the contribution to avoid the tax on excess HSA contributions. If you regain Qualified HDHP coverage at a later date, you can begin making contributions to your HSA again.

**44. Do unused funds in a Health Savings Account roll over year after year?**

Yes, the unused balance in a Health Savings Account automatically rolls over year after year. You won't lose your money if you don't spend it within the year.

**45. What happens to the money in a Health Savings Account after you turn age 65?**

You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. The one expense you cannot use your account for is to purchase Medicare supplemental insurance or a 'Medigap' policy.

Once you turn age 65, you can also use your account to pay for things other than medical expenses. If used for other expenses, the amount withdrawn will be taxable as income but will not be subject to any other penalties. Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a 10% penalty on the amount withdrawn.



**46. Can I use my HSA to pay for medical expenses incurred before I set up my account?**

No. You cannot reimburse qualified medical expenses incurred before your account is established. We recommend you establish your account as soon as possible.

**47. Who will be the 'bookkeeper' for my HSA?**

It is your responsibility to keep track of your deposits and expenditures and keep all of your receipts. If you run out of HSA funds (and therefore need to use your Qualified HDHP), you may need to send those receipts to your insurer.

**48. How do I use my HSA to pay my physician when I'm at the physician's office?**

If you are still covered by your Qualified HDHP and have not met your policy deductible, you will be responsible for 100% of the amount agreed to be paid by your insurance policy to the physician. Your physician may ask you to pay for the services provided before you leave the office. If your HSA custodian has provided you with a checkbook or debit card, you can pay your physician directly from the account. If the custodian does not offer these features, you can pay the physician with your own money and reimburse yourself for the expense from the account after your visit.

If your physician does not ask for payment at the time of service, the physician will probably submit a claim to your insurance company, and the insurance company will apply any discounts based on their contract with the physician. You should then receive an "Explanation of Benefits" from your insurance plan stating how much the negotiated payment amount is, and that you are responsible for 100% of this negotiated amount. If you have not already made any payment to the physician for the services provided, the physician may then send you a bill for payment.

**49. What do I have to do to 'establish' my account?**

Your account trustee/custodian will determine what you need to do, which may include completing and processing appropriate paperwork, and making a minimum deposit.

**50. What is the difference between an HSA 'custodian' and an HSA 'trustee'?**

The differences between a 'custodian' and a 'trustee' are minor. A trust is a legal entity under which assets are actually owned and held on behalf of a beneficiary. The trustee has some level of discretionary fiduciary authority over the assets of the fund. The trustee must exercise that authority in the best interests of the beneficiary. A custodial arrangement, on the other hand, is like a trust, but the custodian simply holds the assets on behalf of the owner of the assets. Other than holding the assets and doing as the owner orders, the custodian has no fiduciary obligations to the owner.

The determination of what constitutes a trust or custodial arrangement is a determination made under state law.

**51. Can couples establish a 'joint' account and both make contributions to the account, including 'catch-up' contributions?**

'Joint' HSA accounts are not permitted. Each spouse should consider establishing an account in their own name. This allows you to both make catch-up contributions when each spouse is 55 or older.



**52. Must couples open separate accounts?**

If both husband and wife are eligible to contribute to an HSA, they are both eligible to establish separate HSAs. However, if both spouses want to make 'catch-up' contributions when they are age 55+, they must establish separate accounts.

**53. How soon can I open my account?**

Your account can be established as early as the effective date of your HDHP coverage.

**54. I want to make sure my HSA is 'established' as soon as possible. Can I establish my account before my HDHP coverage begins?**

You can complete all the paperwork and make a minimum deposit to your account prior to the effective date of your Qualified HDHP coverage. However, your account is not officially 'established' until your Qualified HDHP coverage begins. But completing the necessary steps before your coverage begins ensures that your HSA will be 'established' as early as possible. This is especially important when your Qualified HDHP coverage is effective on a non-business day.

**55. Who has control over the money invested in a Health Savings Account?**

The account holder controls all decisions over how the money is invested. You can also choose not to invest your funds.

**56. Can the funds in an HSA be invested?**

Yes, you can invest the funds in your HSA. The same types of investments permitted for IRAs are allowed for HSAs, including stocks, bonds, mutual funds, and certificates of deposit.

**57. Will my bank notify me if I've exceeded my allowable contribution amount?**

No, it is your sole responsibility to keep track of the amounts deposited and spent from your account, just like a normal savings or checking account.

**58. Can I borrow against the money in my HSA?**

No. You may not borrow against it or pledge the funds in it. For more information on prohibited activities, see *Section 4975 of the Internal Revenue Code*.

**59. Can I roll the money in a Health Savings Account over into an IRA?**

You cannot roll the HSA funds over into an IRA. They will stay in the HSA or be rolled into another HSA.

**60. Can I roll over an IRA into an HSA?**

A one-time contribution to an HSA of amounts distributed from an Individual Retirement Arrangement (IRA). The contribution must be made in a direct trustee-to-trustee transfer. The IRA transfer will not be included in income or subject to the early withdrawal additional tax. The transfer is limited to the maximum HSA contribution for the year, and the amount contributed is not allowed as a deduction. Generally, only one transfer may be made during the lifetime of an individual. If an individual electing the one-time transfer does not remain an eligible individual for the 12 months following the month of the contribution, the transferred amount is included in income and subject to a 10 percent additional tax.



61. **Can I roll funds in my Archer MSA into my HSA?**  
Yes, if you do so within 60 days of withdrawing the funds from the Archer MSA.
62. **What happens to the money in my HSA when I die?**  
What happens depends on how the HSA is designed. If your spouse is designated as the beneficiary by you, your spouse becomes the owner of the HSA when you die. If you provide that it goes to your estate or other entity, the value of the HSA at death is income to the estate or other entity.
63. **As an employer, do I own my employees' HSAs? Can I control how they spend the money in them?**  
No, you do not own your employees' HSAs. The employee fully owns the contributions to the account as soon as they are deposited, just as with a personal checking or savings account to which you would deposit their compensation.
64. **My employees want to contribute to their HSAs but want to make sure they get a tax benefit out of doing so. How does that work?**  
Employee contributions can be made to HSAs on either after-tax or pre-tax basis. If made on an after-tax basis they should be counted as an above-the-line deduction on their tax return, effectively making their contributions tax-free. If they want to make the contribution pre-tax it can be done through a *Section 125 (also called a 'salary reduction' or 'cafeteria plan')*.
65. **How much do I have to contribute to my employees' HSA, as an employer?**  
As much or as little as you want, while staying below the legal limit **for 2010** on the account of **\$3,050 for individual employees or \$6,150 for employees with family coverage**.
66. **As an employer, do I have to contribute the same amount to every employee's HSA?**  
Employer contributions must be '*comparable*', that is they must be in the same dollar amount or same percentage of the employee's deductible for all employees in the same '*class*'. You can vary the level of contributions for '*full-time*' vs. '*part-time*' employees, and employees with '*single coverage*' vs. '*family coverage*'. You do not need to consider employees who do not have a Qualified HDHP coverage as they are not eligible for HSA contributions.
67. **Our company offers benefits through a Section 125 plan; do contributions have to be comparable under these plans as well?**  
*Section 125 plans (also known as 'salary reduction' or 'cafeteria' plans)* must meet a different set of rules. Under these plans, contributions (both from employer and/or employee) must meet '*nondiscrimination*' rules. These rules require the employer to ensure that contributions *do not favor* higher compensated employees.
68. **Our company wants to offer 'matching' contributions, can we do that?**  
Yes, but your company can only offer '*matching*' contributions through a Section 125 plan. Remember that the non-discrimination rules still apply.



**69. I don't offer health insurance, but some of my employees have opened HSAs and I'd like to help them out, what can I do?**

Your company can make pre-tax contributions to your employees' HSAs as long as you do so for all eligible employees. However, the *comparability rules apply*. If you have a *Section 125 plan*, then the *non-discrimination rules apply*.

**70. How are contributions treated for owners and shareholders of S corps?**

Owners and officers with greater than 2% share of a Subchapter S corporation cannot make pre-tax contributions to their HSAs through the company by salary reduction. In addition, any contributions made to their HSAs by the corporation are *taxable as income*. However, they can make their own personal contributions to their HSAs and take the "*above-the-line*" deduction on their personal income taxes.

**71. How are contributions treated for partners in a partnership or limited liability company (LLC)?**

Partners in a partnership or LLC cannot make pre-tax contributions to their HSAs through the partnership by salary reduction. However, they can make their own personal contributions to their HSAs and take the "*above-the-line*" deduction on their personal income taxes.

**72. What information must be reported?**

Reporting requirements are straightforward. *Form 5498* is used to report total contributions made to the account during the year and the value of the account at the end of the year. *Form 1099-SA* reports the total distributions taken from the account during the year. Both forms and instructions for completing the forms are available from the IRS or can be downloaded from the Treasury and IRS web sites.

Cook & Associates does not give tax or legal advice. Please consult your tax advisor or legal counsel concerning how a Health Savings Account affects you and/or your family.