

Harvest Health™

Frequently Asked Questions

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 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 in order to make it grow.

What Is a “High Deductible Health Plan” (HDHP)?

You must have an HDHP if you want to open an HSA. Sometimes referred to as a “catastrophic” health insurance plan, an 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 2006, in order to qualify to open an HSA, your HDHP minimum deductible must be at least \$1,050 (self-only coverage) or \$2,100 (family coverage). The annual out-of-pocket (including deductibles and co-pays) for 2006 cannot exceed \$5,250 (self-only coverage) or \$10,500 (family coverage). 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.

Who is eligible for a Health Savings Account?

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

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 an 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.

Does the 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 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.

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.

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.

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.

My spouse has an FSA or HRA through their employer, can I have 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.

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.

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.

I'm a single parent with HDHP coverage but have 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.

How much can I contribute to my HSA each year?

Your annual HSA contribution cannot exceed the deductible of your HDHP. For example, if you choose a plan with a deductible of \$1,100, you may not deposit more than \$1,100 in your HSA for that year. If you want to save more, you must choose an HDHP with a higher deductible. If you are age 55 or older, you can also make additional "catch-up" contributions (see below).

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

The most you can put into your account for 2006 is \$2,700 if you have single coverage and \$5,450 for a family. These amounts will be increased for inflation in future years.

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.

Does my contribution depend on when I establish my HSA account or when my HDHP coverage begins?

Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. Your annual contribution depends on the number of months of HDHP coverage you have during the year (technically, the months where you have HDHP coverage on the first day of the month). 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.

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.

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.

Can I take a tax deduction for my HDHP premium?

Not at this time. President Bush has proposed allowing individuals not covered by an employer plan to deduct their HDHP premiums as well as their HSA contributions. However, this proposal will not be effective until enacted by Congress.

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 an HDHP can make additional catch-up contributions each year until they enroll in Medicare. The additional “catch-up” contributions to HSA allowed are as follows:

2006 - \$700
 2007 - \$800
 2008 - \$900
 2009 and after - \$1,000

I turned 55 this year. Can I make the full “catch-up” contribution?

If you had HDHP coverage for the full year, you can make the full catch-up contribution regardless of when your 55th birthday falls during the year. If you did not have HDHP coverage for the full year, you must pro-rate your “catch-up” contribution for the number of full months you were “eligible”, i.e., had HDHP coverage.

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.

If each spouse has self-only 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 \$2,700 for individuals for 2006. (The catch up contributions are in addition to these limits.)

If both spouses have family HDHP coverage but one spouse has other coverage, are both spouses eligible for an HSA? How much can each spouse contribute?

The following examples describe how much can be contributed under varying circumstances. Assume that neither spouse qualifies for “catch-up contributions.”

Example 1: Husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also has self-only coverage with a \$200 deductible. Wife, who has coverage under a low-deductible plan, is not eligible and cannot contribute to an HSA. Husband may contribute \$5,000 to an HSA.

Example 2: Husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also has self-only HDHP coverage with a \$2,200 deductible. Both husband and wife are eligible individuals. Husband and wife are treated as having only family coverage. The combined HSA contribution by husband and wife cannot exceed \$5,000, to be divided between them by agreement.

Example 3: Husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also has family HDHP coverage with a \$3,000 deductible. Both husband and wife are eligible individuals. Husband and wife are treated as having family HDHP coverage with the lowest annual deductible (\$3,000). The maximum

combined HSA contribution by husband and wife is \$3,000, to be divided between them by agreement.

Example 4: Husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also has family coverage with a \$200 deductible. Husband and wife are treated as having family coverage with the lowest annual deductible (\$200). Neither husband nor wife is an eligible individual and neither may contribute to an HSA.

Example 5: Husband and wife have family HDHP coverage with a \$5,000 deductible. Husband has no other coverage. Wife also is enrolled in Medicare. Wife is not an eligible individual and cannot contribute to an HSA. Husband may contribute \$5,000 to an HSA.

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

Tax filing status does not affect your contribution.

I'm a single parent with HDHP coverage but have 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. You can contribute up to the amount of your HDHP deductible to your HSA.

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.

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 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.

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). 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."

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.

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.

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.

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 HSAs.

Can I use my HSA to pay for medical serviced provided in other countries?

Yes.

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.

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.

I have an HSA but no longer have 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 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.

What happens to the money in my HSA if I lose my 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 an HDHP. If you have coverage by an 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 HDHP, you will need to withdraw some of the contribution to avoid the tax on excess HSA contributions. If you regain HDHP coverage at a later date, you can begin making contributions to your HSA again.

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.

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 a Medicare supplemental insurance or "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.

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.

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 HDHP), you may need to send those receipts to your insurer.

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 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.

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.

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.

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.

How soon can I open my account?

Your account can be established as early as the effective date of your HDHP coverage. However, if your coverage begins on any day other than the first day of the month, you cannot establish your account until the first day of the following month.

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 HDHP coverage. However, your account is not officially “established” until your 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 HDHP coverage is effective on a non-business day.

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.

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.

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.

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.

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.

Can I roll over an IRA, 401(k) or other retirement plan into an HSA?

You cannot directly roll funds in an IRA, 401(k) or other retirement plan into an HSA. You can withdraw funds from one of these accounts, pay applicable taxes (and penalties) on the amount you withdraw, and then use the remaining funds to make a contribution to your HSA. However, the amount you contribute to your HSA is still limited by the annual contribution limits.

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.

Do 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, keep in mind that the funds belong to the employee after they are deposited.

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.

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.

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.

For customers who may have employees:

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.

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").

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 on the account of \$2,600 or \$5,150 for employees with family coverage).

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 "self-only" coverage vs. "family coverage". You do not need to consider employees who do not have HDHP coverage as they are not eligible for HSA contributions.

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.

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).

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.

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.

Source: United States Department of Treasury