SHDR
Benefit Consultants
A division of McGriff Insurance Services

Health Savings Account (HSA)

Now, more than ever, your health care dollars need to go further.

Open a Health Savings Account (HSA) to work with your high-deductible health plan (HDHP) and make your money work for you.

What is an HSA?

An HSA is a tax-advantaged account that can be used to pay for current and future medical expenses. An HSA works with an HDHP, and allows you to use before-tax dollars to pay your provider or reimburse yourself for your eligible out-of-pocket medical expenses for you, your spouse, and your dependents, which in turn saves you tax dollars and increases your spendable income.

An HSA can only be established with an HDHP, which is defined as a plan with:

- 2019 - Annual deductible of at least $1,350 (single) or $2,700 (family)
- 2019 - Annual out-of-pocket expenses (deductibles, co-pays, and other amounts, not premiums) not exceeding $6,750 (single) or $13,500 (family)

Your maximum annual contribution to an HSA in a calendar year is determined by several factors, including: the maximum annual contribution limit set by the IRS (subject to cost-of-living adjustments), the type of coverage you elect (single or family), and your age.

HSA contribution limits for 2019

	Single	Family
Under 55 years old	$3,500	$7,000
55 to 64 years old	$4,500	$8,000

How Does an HSA Work?

When you enroll in the HDHP and elect an HSA, an account will be created for you through SHDR. You will be given access to a secure, easy-to-use web portal where you can track your account balance, view your investment accounts, and submit requests for reimbursements.

In addition, you will receive a CarePlus Benefit Access Visa® Debit Card you can use for qualified medical expenses at doctors' offices, hospitals, and pharmacies. The card contains the value of your HSA and, as you use the card to pay for services, the payment is automatically withdrawn from your account. There are no out-of-pocket costs and you do not have to submit receipts to verify the purchase (but you should keep receipts for your own records). Just swipe your card and go. It's that easy.

Monthly statements are issued for the HSA deposit account and Mutual Fund Investment Account, and can be accessed through the web portal or mailed to your address on file. You may access your HSA through the web portal at **www.shdr.com/flex** or through the CarePlus Benefit Access Mobile App, which is available for all Apple and Android users.

Benefits to You:

- An HSA is your account. Funds in your HSA stay with you, even if you change jobs.
- HSA balances roll forward each year.
- You contribute to the HSA tax-free. An HSA reduces your taxable income. The money is tax-free both when you deposit it and when you take it out to cover qualified medical expenses.
- The money you spend for eligible expenses is tax-free.
- Your funds grow tax-free. An HSA grows with you. If you maintain a minimum balance of $2,000, your additional funds may be invested in mutual funds yielding tax-free earnings.
- Until you turn 65, withdrawals you use for non-eligible expenses will be taxed at your regular income tax rate, plus an additional 20% penalty will apply. Once you are age 65, withdrawals for non-eligible expenses are taxed at your regular income tax rate, but no additional penalty will apply.

HSA Eligibility Guidelines

To be eligible to make contributions to an HSA, you must satisfy the following conditions established by law.

	If "Yes"	If "No"
1. Can you be claimed as a dependent on another person's tax return?	You are not eligible for an HSA.	Proceed to question #2.
2. Are you enrolled in Medicare?	You are not eligible for an HSA.	Proceed to question #3.
3. Are you enrolled in a qualified high-deductible health plan (HDHP) with a minimum annual deductible of at least $1,350 for single coverage and $2,700 for family coverage?	Proceed to question #4.	You are not eligible for an HSA.
4. Do you or family members covered under the HDHP have additional health coverage under another plan?	Proceed to question #5.	Proceed to question #6.
5. If you answered yes to question #4, is this other health coverage an HDHP?	Proceed to question #6.	You are not eligible for an HSA.
6. Do you or family members covered under the HDHP currently participate in a tax-deferred health care Flexible Spending Account (FSA)?	You are not eligible for an HSA.	You are eligible for an HSA. Proceed to calculate your annual contributions.

Are you eligible?

You must be covered under an HDHP to qualify for an HSA. The provider of your health plan should be able to tell you if the plan satisfies HDHP requirements. See the Frequently Asked Questions section for more details on eligibility.

Here are two examples:

Example 1: John has family coverage under an HDHP through his employer. John's wife, Mary, participates in a health care FSA offered by her employer. In this case, neither John nor Mary is eligible to contribute to an HSA, because they have other coverage (Mary's health care FSA) in addition to the HDHP.

Example 2: Robert has family coverage under an HDHP, while his wife, Marie, provides family accident insurance through her employer, plus disability coverage on herself. Because these other types of insurance (that Marie has through her employer) qualify as permissible coverages, Robert is eligible to contribute to an HSA.

How much money could you save?

Because they are not included in your take-home pay, all HSA contributions are free from federal, state, local, and FICA taxes. Here's an example of how your HSA can save you a significant amount of money each year.

HSA Potential Tax Savings

	With HSA	Without HSA
Annual income	$34,000	$34,000
Pre-tax contribution to HSA	$3,000	$0
Taxable income	$31,000	$34,000
Estimated taxes (35%)	$10,850	$11,900
After-tax expenses	$0	$3,000
Take-home income	$20,150	$19,100
Tax savings	**$1,050**	**$0**

This example is for illustrative purposes only and is not intended to represent any specific benefits plan or potential plan savings. Hypothetical plan savings are based on the employee's federal, state, local, and FICA taxes, totaling 35 percent of annual income. A plan participant's tax rates and actual savings are likely to be different.

Full-year statutory contribution limits ($3,500 for single coverage and $7,000 for family coverage in 2019) are permissible only if the HSA owner either (1) maintains a high-deductible plan for the entire 2019 calendar year, OR (2) maintains a high-deductible health plan from December 2019 through December 2020. Under (2), if a full-year contribution is made for 2019 and the HSA owner ceases to maintain a high-deductible health plan in 2019, the additional contributions made under this special full-contribution rule will be subject to income tax plus an additional 10 percent penalty tax (unless the HSA owner is no longer HSA-eligible due to death or disability).

HSA Frequently Asked Questions

What is a Health Savings Account (HSA)?	An HSA is a tax-free way to help pay for current or future out-of-pocket health care expenses. An HSA can be established through a custodian or trustee. Dollars not used in a given year roll over into the next year and are completely portable should the participant change jobs or switch health coverage.
Who is eligible to open an HSA?	An individual who meets all of the following criteria may open and contribute to an HSA: • Covered under a qualified high-deductible health plan (HDHP). • Not covered by any other non-HDHP plan (with certain exceptions for plans providing certain limited types of coverage). • Not enrolled in Medicare. • Not claimed as a dependent on another person's tax return.
What can HSA funds be used to cover?	HSA distributions are tax-free if used for qualified medical expenses, as defined by Internal Revenue Code Section 213(d). Qualified medical expenses include: • Doctors' office visits • Coinsurance • Non-covered services, like LASIK eye surgery • And more! (refer to the Internal Revenue Code Section 213(d) for a complete list) Nonqualified distributions will be taxed as part of gross income and will incur a 20-percent penalty. After age 65, the 20-percent penalty on nonqualified distributions is dropped, though the distribution is still treated as taxable income.
Who may contribute to an HSA?	Anyone can contribute to an HSA on an individual's behalf, including an employer, family, and the individual.
When can contributions be made to an HSA?	Contributions to an HSA can be made at any time during the year in any increment, including: • All at once at the beginning of the year. • All at once at the end of the year. • In equal amounts during the year. Contributions to an HSA can be made through April 15 of the following year. For example, 2019's contributions can be made through April 15, 2020.
Can individuals have other health coverage in addition to their HSA?	To open/contribute to an HSA, individuals cannot be covered by any plan except for: • Dental or vision coverage • Long-term care coverage • Accident/disability coverage • Hospital insurance-type coverage/disease-specific coverage Individuals can be covered by more than one HDHP and still be eligible to contribute to an HSA.
How much can an individual contribute each year to an HSA?	The 2019 maximum annual contribution for single coverage is $3,500 and $7,000 for family coverage. Rollover amounts from previous years and/or Archer Medical Savings Accounts (MSA) or another HSA do not count toward the maximum annual contribution. These amounts will be updated each year to account for inflation. Participants between the ages of 55 and 64 can contribute an additional $1,000 (in 2019) above the maximum to their HSA.
Can individuals make contributions if they are not enrolled in an HDHP for the entire year?	Yes. Full-year statutory contribution limits are permissible – $3,500 for single coverage and $7,000 for family coverage in 2019 – but the HSA owner must maintain eligibility throughout the testing period, which runs from the last month of the initial eligibility year through the end of the 12-month period following that month. If HSA owners are not eligible for this entire testing period, they must include in their gross income the contributions made for the months when they were not otherwise qualified. This amount will also be subject to a 10-percent penalty. The tax and penalty do not apply if the HSA owner is no longer HSA-eligible because of death or disability.
If a married couple is enrolled in a family HDHP, can they open a joint HSA?	No. HSAs are strictly individual accounts. A husband and wife enrolled in a family HDHP can do the following: • Open individual HSAs and contribute to both, but the collective total of both must not exceed the family maximum. • Open an HSA in one spouse's name and contribute up to the family maximum.
Can someone enrolled in Medicare contribute to an HSA?	No. But if they have an existing HSA, they can use the funds already in it.

HSA Frequently Asked Questions (continued)

If one or both spouses have family coverage, how is the contribution limit computed?	If either spouse has family coverage under an HDHP, both are treated as having family coverage. The 2019 maximum statutory contribution limit is $7,000 for family coverage. Whether each spouse opens an individual account or one spouse opens an account, the collective total must not exceed the family maximum.
What happens when HSA contributions exceed the maximum amount?	An excise tax of six percent for each taxable year is imposed on the account beneficiary for excess individual contributions. However, the account beneficiary can avoid the excise tax on excess contributions by withdrawing such excess contributions before the last day prescribed by law (including extensions) for filing the account beneficiary's federal income tax return for the taxable year. The net income attributable to the excess contributions is included in the account beneficiary's gross income.
Are health insurance premiums qualified medical expenses?	Generally, health insurance premiums are not qualified medical expenses, except for the following: • Qualified long-term care insurance • COBRA health care continuation coverage • Health care coverage while an individual is receiving unemployment compensation In addition, individuals older than age 65 may use HSA funds to pay the following premiums: • Medicare Part A and/or B • Medicare HMO premiums for employer-sponsored health insurance, or employer-sponsored retiree plan However, Medicare supplemental policies are not qualified medical expenses.
If individuals are no longer enrolled in an HDHP, can they still use their HSA?	Yes. Individuals do not have to be enrolled in an HDHP to use their HSA. However, individuals can only make contributions to an HSA if enrolled in an HDHP.
Are claims incurred prior to the establishment of the HSA eligible for reimbursement from the HSA?	No. Your HSA is established on the effective date of your HSA account. If you delay, the IRS may infer you intended to open your account at a later date.
Can the employee make contributions to an HSA if covered under a Flexible Spending Account (FSA)?	Yes. However, the FSA would have to be a limited-scope FSA (which limits claim reimbursement to vision, dental, and preventive care only) and/or a post-deductible health FSA (which limits reimbursement to expenses incurred after the minimum annual HDHP deductible has been satisfied).
Can COBRA employees contribute to their HSA?	Yes. Individuals can choose to contribute to their HSA as long as they are enrolled in an HDHP.
What reporting is required for an HSA?	Employer contributions (including pre-tax salary withholding amounts that individuals contribute to their HSAs) must be reported on the employee's W-2 Form. In addition, trustees will issue reports on HSA contributions and distributions. Employees can use this information to report required HSA information on their individual tax returns.
What is the tax treatment of an eligible individual's HSA contributions?	Contributions made by an eligible individual to an HSA (which are subject to limits) are deductible by the eligible individual determining adjusted gross income (AGI) (i.e., above the line). The contributions are deductible whether or not the eligible individual itemizes deductions. However, the individual cannot also deduct the contributions as a medical expense deduction under Code Section 213. Employee contributions can be made pre-tax through a cafeteria plan (if sponsored by an employer) and/or post-tax. Pre-tax employee contributions are not deductible for the employee. Employer contributions are tax-deductible for the employer, and the employer realizes FICA/FUTA savings on pre-tax employee contributions. Consult a tax advisor for additional details regarding the tax treatment of HSAs.
What is the tax treatment of contributions made by a family member on behalf of an eligible individual?	Contributions made by a family member on behalf of an eligible individual to an HSA (which are subject to the limits) are deductible by the eligible individual in computing adjusted gross income

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