

# Health Savings Account

A Health Savings Account (HSA) is an individually owned, tax-favored account that allows individuals to pay for qualified health care expenses. In order to set up or contribute to an HSA, you must be covered by a Qualified High-Deductible Health Plan (HDHP). Premiums associated with an HSA-qualified plan are usually lower than a traditional plan, allowing employees to capture the savings and fund their account. HSA funds can then be used to pay for any qualified out-of-pocket medical, dental or vision expenses for not only the account holder, but also for their legal spouse and any tax dependents.

## Tax Savings

One of the best benefits of the HSA is that they offer triple tax savings on all of the contributions. This means that any contributions to the HSA can be made either pre-tax or are tax deductible at year-end. Any interest income or earnings on investments tied to your HSA also remain tax free. Lastly, as long as the HSA funds are used to pay for qualified health care expenses then no taxes will be charged on distributions.

## HSA Benefits

- 100% of unused funds roll over year-after-year
- Portable- the HSA goes with you even if you switch employers
- Can pay for the eligible expenses of your legal spouse and tax dependents regardless of their insurance
- Can be used for Medicare premiums as well as qualified long-term care premiums

## How HSA's work with insurance

The primary purpose of your HSA is to help you pay for any eligible out-of-pocket expenses you may incur such as those related to your health insurance deductible. Though your HSA can be used to pay for a number of items not connected to your health insurance, these are some of the most common expenses incurred by individuals. With the enrollment in a HDHP, you will be responsible for paying 100% of your annual Deductible. However, under a HDHP, all out-of-pocket-expenses (i.e. prescriptions, doctor visits, MRI, etc.) processed through your health insurance will apply to your deductible. Once your Deductible is met, depending on your health insurance plan, you may be responsible for a percentage of your out-of-pocket expenses (Co-Insurance) up to a set amount called your Out-Of-Pocket maximum. After which your insurance company pays all eligible expenses for the remainder of the year.

## Who is Eligible for an HSA?

In general, to be eligible for an HSA, you must meet the following criteria:

1. You must be covered under a qualified HDHP (Option 1 or 2) and cannot have other healthcare coverage that is not a HDHP (including a spousal FSA)
2. You cannot be enrolled in Medicare
3. You cannot be claimed as a dependent on someone else's tax return

## HOW AN HSA WORKS



## What is the difference between my current plan and the new HSA options?

The new board paid plans are qualified high deductible health plans. This means that Aetna does not pay anything in terms of benefits until you reach your individual in-network deductible (\$3,000). After you meet your deductible, Aetna will pay 90% of all costs until you reach your individual in-network out of pocket maximum (\$6,000). There are no copays for services. All services are subject to your deductible then coinsurance. When you utilize services, you will receive a discount for utilizing contracted network providers.



### How much can I put into the HSA account?

HSA contributions run on a calendar year basis. In 2020, the annual limit is \$3,550 for an individual, or \$7,100 for a family. You may put 50% of this amount in the account between July 1 and December 31, 2020. 2021 limits have not been released by the IRS. The school district will contribute \$20 per month into an account on your behalf, so keep that in mind when determining your contribution so you do not over contribute if you elect to put in additional money.

### Catch-Up Contributions for Eligible Employees age 55+

If you are 55 and older you can contribute an additional \$1,000 to your HSA. This is a “catch-up” contribution. You can do this each year that you are eligible for an HSA. Once you enroll in Medicare you are no longer permitted to make these contributions. Remember to pro-rate your “catch-up” contribution for 2020 (50% or \$500 catch-up contribution). If you have a family HDHP that covers your spouse, and your spouse is age 55 or older, he or she can make a catch-up contribution. If your spouse wants to do this, he or she would have to open up his or her own HSA. Only one person can own an HSA. This means that your spouse can't contribute his or her catch-up contribution to your HSA. **Note:** This is assuming that your spouse is not yet enrolled in Medicare.

### Excess Contributions

The amount that you can contribute to an HSA each year is based on a number of factors. These include your level of HDHP coverage (self-only or family); how long you had the HDHP; and your age. If you contribute more to the HSA than what you can contribute for the year, you have an “excess contribution.” If you have an excess contribution, you should withdraw that amount as well as any earnings on that amount. You have until the tax filing deadline to do this. For most people, the tax filing deadline is April 15 of the following year. You will have to pay income tax on this amount. However, you will not have to pay a tax penalty. If you do not withdraw the excess contribution by the tax filing deadline, you must also pay a 6% excise tax. This tax applies to the excess amount and its earned interest. You will have to pay this excise tax each year that you leave the excess in the HSA. You can use the excess toward the annual contribution limit of another year. If you do that, you will not have to pay the excise tax again. **Note:** If you fail to meet a testing period (for the last month-rule or a rollover from an IRA), you can't treat that amount as an excess contribution. You will still have to pay income and penalty taxes for that amount.

### Non-Qualified Medical Expenses

If you used HSA funds for a non-qualified medical expense, you can return the money to your HSA. You would have to do this before the tax filing deadline for the year in which you knew, or should have known, that the withdrawal was a mistake. If you return the money before the deadline, you will not have to pay a penalty for this.

### Double Coverage (I am also on my spouse or parent's plan)

If you and/or your dependents are covered under your spouse's (or parents) plan in *addition* to the school district's plan (and elect an HSA option), and that second plan is **not** a qualified high deductible health plan (for example, a traditional PPO similar to Option 3 or HMO)- you **CANNOT** contribute money into an HSA without taxes and penalties applying. **This includes if your spouse is enrolled in their employer's FSA plan- by default you are not eligible for contributing to an HSA if your spouse is enrolled in an FSA at his/her employer (this would be considered 'double dipping' the pre-taxability).** Being enrolled in a non-HSA qualified plan disqualifies you from contributing tax-free money into an account. If you elect Plan 1 or 2, the district will still contribute to an account, but it is your responsibility to understand the potential tax impacts the additional \$240 annually will have, as the district cannot track any secondary coverage you may have. If you are double covered and wish to retain your secondary coverage, you may still elect the Limited Purpose Flexible Spending Account (FSA) and take advantage of the tax savings associated with having an FSA through that method regardless of the type of secondary coverage in which you are also enrolled (these funds would be for dental and vision expenses only).

### What happens to my HSA when I turn 65 and/or retire?

At age 65 and older, your funds continue to be available without federal taxes or state tax (for most states) for qualified medical expenses; for instance, you may use your HSA to pay certain insurance premiums, such as Medicare Parts A and B, Medicare HMO, or COBRA. Funds cannot be used tax-free to purchase Medigap or Medicare supplemental policies. If you use your funds for qualified medical expenses, the distributions from your account remain tax-free. If you use the monies for non-qualified expenses, the distribution becomes taxable, but exempt from the 20 percent penalty. With enrollment in Medicare, you are no longer eligible to contribute to your HSA. If you reach age 65 or become disabled, you may still contribute to your HSA if you have not enrolled in Medicare. Funds remain in the account if you retire pre-65 and are available for usage for qualified medical expenses beyond retirement.

### What happens to my HSA if I change employers or switch to a non-HSA qualified plan?

Since you own your HSA, you will be able to keep your account, even if you change health plans or change employers. However, if you no longer are enrolled in a qualified HDHP you are not eligible to make future contributions to your HSA, but you may continue to use your HSA to pay for qualified medical, dental or vision expenses.

