Understanding the Health Savings Account (HSA)

What is an HSA?

A health savings account (HSA) is a tax-exempt savings account into which both the employer and employee can deposit money (up to an annual limit specified by the IRS) on a tax-preferred basis. The idea is simple: after enrolling in a qualified High Deductible Health Plan (HDHP) and opening an HSA, members can use accumulated tax-free contributions to pay for health care costs for themselves, their spouse and any tax dependents - including doctor and hospital visits, co-payments, eyeglasses, prescriptions, certain long-term care insurance premiums and COBRA premiums.

The employee must be an eligible individual to qualify for an HSA. An HSA offers valuable savings:

- Contributions are tax free
- Growth in interest and earnings are tax free
- Withdrawals for eligible medical expenses are tax free

Any balance left over at the end of the year stays with the individual, available regardless of job changes or retirement. Balances earn interest and may be invested, offering HSA owners the ability to set aside thousands of dollars for future health care needs.

Who Is Eligible to open an HSA?

- Covered under a qualified high-deductible health plan (HDHP)
- Not covered under any other health plan that isn't HDHP
- You cannot be enrolled in any part of Medicare
- Neither you nor your spouse can have a medical FSA (Flexible Spending Account). A Limited Flexible Spending Account and Childcare FSA are allowed.
- You cannot be claimed as a dependent on another person's federal income tax return
- You cannot have received health benefits from the Veterans Administration in the past 90 days. If you have there is a 90 black-out period for contributions to the HSA.
- NOTE: your spouse's insurance coverage has no impact on your eligibility unless you are covered by a spouse's health insurance and it is NOT a qualified HDHP

How does an HSA Works?

Employees who wish to participate in an HSA must be enrolled in the high deductible health plan, cannot be enrolled in any part of Medicare, cannot be claimed as a dependent on another person's tax return, and cannot be enrolled in any other non-qualified medical plan including Medicare and military plans.

HSA's are not use-it-or-lose-it plans. The contributions you make to the account rollover year to year and are yours to take with you if you leave the University. The HSA is not pre-funded. You use what is available in the account after it has been deposited.

Management of your HSA is your responsibility. You must first open your account before funds may be deposited (including any employer contributions) or withdrawn to pay for qualified medical expenses.

Click here for a copy of the paper enrollment form.
What are my Investment Options?

You can choose *either or both* of the following options:

**Vanguard Mutual Funds:**
- Choose up to four of the 22 Vanguard® Funds offered.
- Click [here](#) to view the list of the 22 Vanguard mutual funds offered.

**Debit Card:**
- FDIC insured/APY varies on account balance
- No monthly low-balance fee/optional checks available
- Note: Debit Card cannot access Vanguard Funds

Securities offered through The Vanguard Group, Member NASD SIPC. Security products: Not insured by FDIC or any Federal Government Agency; May Lose Value; Not a Deposit of or Guaranteed by the Bank or any Bank Affiliate.

**Coverage of Adult Children**
While the Patient Protection and Affordable Care Act allows parents to add their adult children (up to age 26) to their health plans, the IRS has not changed its definition of a dependent for health savings accounts. This means that an employee, whose 24-year-old child is covered on his HSA-qualified high-deductible health plan and *not* a tax dependent, is not eligible to use HSA funds to pay that child's medical bills.

**Same Sex Domestic Partners enrolled in the high deductible health plan (HDHP)**
Employees who cover a same sex domestic partner on the high deductible health plan (HDHP) need to be aware of a few stipulations regarding the health savings account (HSA).

Qualified medical expenses are those incurred by the account holder, spouse and any tax dependents. Any funds the employee or the University contribute to the HSA may not be withdrawn on a tax free basis for medical expenses incurred by the employee's same sex domestic partner. An employee's same-sex domestic partner covered by the University's HDHP plan may elect an HSA on their own through Health Savings Administrators to cover their medical expenses throughout the year. The employee and the same sex domestic partner will each be subject to the IRS pre-tax limits of $6,750 for family coverage. The University will contribute the $1,000 (over the course of the year) to the employee's HSA.

**What are the benefits of establishing my HSA with Health Savings Administrators?**
- The University will make an annual employer contribution to your HSA
- Your HSA payroll contributions and employer contribution will be forwarded to Health Savings Administrators
- The University will pay the annual administrative fee if you remain in the High-Deductible Health Plan

**How Much Can Be Contributed to Your HSA?**

For the 2016 tax year, the maximum contribution is $3,350 for individuals and $6,750 for a family. Account holders age 55 or older can contribute an additional $1,000 to amounts listed above. The University will contribute annually $500 for individuals and $1,000 for a family. Please note that the University contribution is included in your contribution maximum.
The University’s contribution normally will be deposited a portion each paycheck.

**Who May Contribute?**

- Employee
- Family members
- Your employer
- Any other person including a "non - individual"

**Can I contribute to an HSA outside of payroll deductions?**

Yes. You may contribute to an HSA outside of payroll deductions by submitting a personal check or online contribution to Health Savings Administrators. Click here for more information. Please sure to monitor of all contributions for the year to ensure you do not exceed your annual maximum contribution limit.

**When is the Deadline for Contributions?**

You may make contributions to your HSA until April 15th for the prior tax year.

**How is the Activity Reported?**

- The custodian will report all withdrawals on for 1099-SA. All contributions will be reported on form 5498-SA. Both forms are sent to the IRS and to the taxpayer.
- Individual must report contributions and distributions on IRS Form 8889.
- The custodian is not responsible to monitor limits or distributions.

**What is the HSA Owner's Responsibility?**

- Determine eligibility
- Determine if contributions/distributions are qualified
- Seek tax and/or legal assistance
- Seek investment advice

**What happens to the HSA upon the Individual's Death?**

- If the spouse is the beneficiary - account becomes his/hers and can still be used tax free for eligible medical expenses
- If the spouse is not the beneficiary, the HSA becomes part of estate. (Fair market value is calculated on date of death.)

**How is a HSA different from an FSA?**

Health Savings Accounts (HSAs) and Healthcare Flexible Spending Accounts (FSAs) are both great ways to reduce your income taxes by paying for medically-related expenses with pre-tax money - that is, money deducted from your paycheck before income taxes are calculated on your pay. Both types of accounts work similarly, in that you can deposit pre-tax money into the account, and use the account to
pay for various tax-deductible medical expenses as they occur. But the two types of accounts operate quite differently.

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<th>HSA</th>
<th>Healthcare FSA</th>
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<tr>
<td><strong>Eligibility to Contribute</strong></td>
<td>You are eligible if you have a high deductible health insurance plan that meets IRS definitions.</td>
<td>You are eligible if you do not have an HSA.</td>
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<td><strong>Account Ownership</strong></td>
<td>The HSA is a bank account owned by you, regardless of where you work.</td>
<td>Your FSA is set up and owned by your employer.</td>
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<td><strong>Access to Your Money</strong></td>
<td>You only have access to what has actually been deposited into your HSA to date, like any other bank account. If you have a big claim and don't have enough in your HSA to cover it, you will need to pay for the cost out-of-pocket, and reimburse yourself later as more funds are deposited.</td>
<td>You have access to your entire annual healthcare FSA election amount any time during the year, even if you have not had all of the money deducted yet from your check.</td>
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<td><strong>Use It or Lose It</strong></td>
<td>No, any unused funds in your HSA at the end of the plan year are yours to keep, and stays in your account indefinitely until you spend it.</td>
<td>Yes, any money you do not spend out of your FSA prior to December 31st is forfeited back to the company.</td>
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<td><strong>Option to Change Contributions</strong></td>
<td>You can change your election amount on a monthly basis, as long as it does not exceed IRS limits, and the amount is in proportion to the number of months you were covered under a high-deductible health plan.</td>
<td>You can only change your election amount if you experience certain qualifying events such as marriage, divorce, birth of a child, etc. Otherwise you are &quot;locked in&quot; until the next open enrollment.</td>
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**How do you transition from an FSA to an HSA?**

A healthcare FSA and/or a spouse's healthcare FSA are not allowed if the employee and/or spouse are enrolled in the HDHP. Healthcare FSAs must be closed by December 31 before HSA contributions can be established for the New Year. For participants who have FSA funds remaining in their account after December 31, employer and employee HSA contributions will begin after April 1 of the New Year.

More detailed information can be found at [HSA Enrollment Materials and Forms](#).