Health Savings Account (HSA)

Frequently Asked Questions

Check out these frequently asked questions to learn more about Health Savings Accounts (HSAs).

Q What's an HSA?

A An HSA is a special bank account for your employees' eligible health care costs. Your employees can put money into their HSA through pre-tax payroll deduction, deposits or transfers. As the amount grows over time, they can continue to save it or spend it on eligible expenses. The money in the HSA belongs to the employee and is theirs to keep, even if they switch jobs. The funds roll over from year to year and can earn interest.

Q Are HSAs and HDHPs the same thing?

A No. The term HSA is sometimes used to describe the whole plan, but there are actually two parts. An HSA is an account through a financial institution. It lets employees save money and pay for eligible health care expenses. An HDHP is a high-deductible health insurance plan. Enrollment in the HDHP is what allows employees to open an HSA.

Q What are the tax benefits of an HSA?

A Here are a couple of the tax benefits an HSA has to offer an employee:

- Employees aren't taxed on the money they put in their HSA (up to the annual limit).
- If employees contribute through payroll deduction, the amount is taken from their pay before taxes are taken out, if you (the employer) let them. This may even help reduce their taxable income.
- If employees contribute to their HSA with after-tax money, they can deduct their contributions during tax time on Form 1040.

Q Does the money in an HSA earn interest?

A Yes. Employees can earn interest through their HSA and through investing their HSA money. Employees should ask their bank what options are available to them.

Q Who's eligible for an HSA?

A To be eligible for an HSA, the employee must:

- Be covered under a high-deductible health plan (HDHP).
- Not be covered under an ineligible plan like a non-HDHP, Medicare or a general-purpose flexible spending account (FSA). Plans like dental and vision plans, along with accident and disability insurance are ok and don't affect the member's eligibility.
- Not be claimed as a dependent on someone else's tax return.

Q Can an employee have an HSA and a limited-use health care flexible spending account (FSA)?

A Yes. Only a limited-use FSA may be used with an HSA.

Q If an employee has an FSA with a grace period (2 months, 15 days), can they enroll in an HSA?

A Yes. But they can't put money into their HSA until the FSA grace period is over.

Q Can an employee still open an HSA if their spouse has an FSA through work?

A They can open an HSA only if their spouse's FSA is a limited-use FSA or employee-only FSA.

Q How does the HSA work?

A It's just like a bank account, but for eligible medical expenses. Here's how it works:

1. Employees put money in their HSA through payroll deduction, deposit or transfer.
2. When they have an eligible expense, they can withdraw money from their HSA to pay for it. Like other bank accounts, they can make withdrawals with a debit card or check specific to the HSA.
3. Employees can use the money in their HSA to pay for care until they reach their deductible, or for coinsurance after they reach it. Or pay for other eligible expenses not covered by their HDHP, like dental or vision care.

Q Where and how does my employee open an HSA account?

A Many banks and credit unions offer HSAs. You may already have a preferred HSA option for your employees. Or your employees can choose any financial institution they want that offers an HSA.

Q How soon can an employee open an HSA?

A The HSA can be opened as soon as the employee's HDHP coverage is effective, if it starts on the first day of the month. If not, they can start their HSA on the first day of the following month.

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Q How do employees contribute to an HSA?

A You can allow pre-tax or after-tax payroll deductions for your employees. Or, the HSA bank may take checks or a variety of other deposit methods (e.g., online transfers, etc.). Employees can contribute funds to their HSA account up until April 15 of the following year.

Q As the employer, can I contribute to an employee's HSA?

A Yes, you can contribute to your employees' HSAs. Plus, you save on payroll and FICA taxes through tax-deductible contributions. Keep in mind, total combined employer and employee contributions to an employee's HSA can't exceed the annual limit set by the IRS.

Q Do HSA contributions have to be the same amount every month?

A No. Deposits can be made in one lump sum or in smaller deposits throughout the year. However, the bank may require a minimum deposit or balance.

Q What's the limit to how much money can be put into an HSA?

A The annual limit is set by the IRS and is updated every year. Here are the maximum annual limits for 2020:

- Individual: $3,550
- Family: $7,100

If someone is 55 years or older, they can make an extra $1,000 contribution.

The annual limit is based on the number of months that the member is eligible for an HSA through an HDHP. They must be eligible on the first day of the last month of the tax year (usually Dec. 1) in order to contribute the entire HSA annual limit.

Q Is the HSA contribution limit smaller if the employee opens their account in the middle or toward the end of the year?

A No. However, they can't be paid back for medical expenses that took place before they opened the HSA.

Q Can both spouses in a family contribute to an HSA?

A Yes, as long as both people are covered by an HDHP and not enrolled in an ineligible plan (non-HDHP medical plan, Medicare or a general-purpose FSA). However, the combined contributions can't be more than the annual family limit.

Q What are eligible HSA expenses?

A An HSA can be used to pay for a variety of health care expenses for employees, their spouses and their eligible dependents. For a full list, visit **healthpartners.com/myhsa**. Some expenses include:

- Doctor visits
- Chiropractor fees
- Prescription medicine copays
- Dental and vision care

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Q What should HSA plan members know about getting care at an on-site clinic?

A If you (the employer) cover all or some of the cost for care at your on-site clinic, HSA members likely won't want to use the clinic. This is because members must meet their deductible before they get care paid for by someone else. If they use the clinic, the money they put in their HSA could be taxed.

If you don't cover any of the cost, HSA plan members are welcome to use your on-site clinic. Here are some things to know:

- The on-site clinic will check the member's coverage when they come in for care. The clinic will submit a claim to HealthPartners for the visit.
- Members will need to pay their share of the cost, based on their benefits.

All members can always use the clinic for first-aid care and work-related injuries, regardless of your payment arrangement with the clinic.

Q Can employees use the money in their HSA to pay for health insurance premiums?

A Yes, there are some situations that allow employees to use their HSA to pay for health insurance premiums. They can use their HSA to pay premiums for:

- COBRA continuation coverage
- Health coverage while getting unemployment compensation
- Qualified long-term care
- Medicare and other health insurance if they're 65 or older, not including Medicare supplement insurance

Q Can the money in the HSA be used for something other than an eligible expense?

A Yes, however any money used to pay for anything other than eligible HSA expenses will be taxed and subject to a 20 percent penalty. Exceptions to the 20 percent penalty include expenses paid after the account owner turns 65, is disabled or dies.

Q How do employees pay for expenses using their HSA?

A Many banks provide account holders with claim forms, debit cards or checkbooks to pay for their eligible medical expenses using the HSA.

Q How can my employees keep track of their HSA balance?

A At the end of each tax year account holders will get Form 5498 from their HSA financial institution that lists all contributions and paid expenses for the year. The bank may also have this form, monthly statements and other documents available through an online account.

Q What happens to the money in the HSA if my employee doesn't use it all in one year?

A The money in the HSA belongs to the employee. Therefore, any money left at the end of the year will stay with them and carry over into the next year.

Q What happens to the money in the HSA if an employee leaves my company?

A It's their money, so they can take it with them. They won't be eligible to contribute to the HSA after they leave your company if they don't enroll in another HDHP.

Q What if an employee changes their health plan or insurance carrier?

A Employees can continue to contribute to their HSA as long as they're still covered by an HDHP. If they're no longer covered by an HDHP, they can use what money is left in the HSA for eligible medical expenses, but they won't be able to put more money in the HSA. Any amount they contributed to their HSA that exceeds their eligibility amount due to a change in their HDHP coverage is considered gross income.

Q What are my employees' responsibilities as an HSA owner?

A As an HSA owner, employees are responsible for:

- Making sure their contributions don't exceed the annual maximum
- Adding non-eligible expenses back to their gross income
- Keeping records of their expenses
- Completing Form 8889 at tax time
- Making sure they're not covered by any plans other than an HDHP, including a standard FSA
- Ensuring they're not being claimed as a dependent on someone else's taxes

Q Do my employees need to keep track of expenses paid using their HSA?

A Yes. They should keep copies of their receipts for expenses paid with HSA money. They can check with their tax advisor for more information.

Q Do my employees need to itemize their HSA deductions on their tax return?

A No. They will just need to complete Form 8889 and attach it to their federal tax return.

Q What do I need for tax purposes?

A Your contributions will need to be reported on employees' Form W-2.

Q How can my employees or I get more information on HSAs?

A When members enroll in an HSA plan, they'll get a Summary Plan Description that explains the details of their HDHP. They can also call HealthPartners Member Services at **952-883-7000** or **866-443-9352**. You (employers) can contact your broker or account manager with questions.

Note: This document has general HSA information. Please refer to your plan document for information specific to your HSA plan offering.