Health Savings Accounts

A Guide for Missouri School District Employees

"Over ***80% of employees and retirees*** in the Missouri Educators Unified Health Plan (MEUHP) are enrolled in an HSA Plan.

Projected Plan Year Contributions to MEUHP Employee HSA Accounts:

$8,107,220

(*based on 7-1-18 enrollment data)

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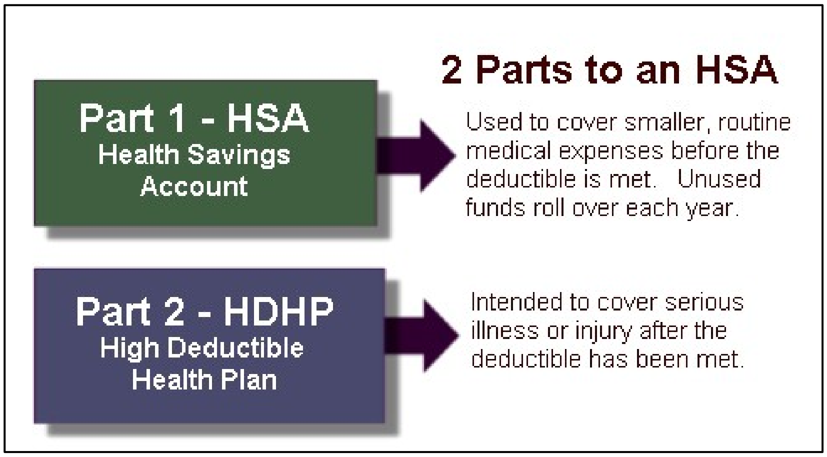
Updated for 2019

What is a Health Savings Account (HSA)?

Health Savings Accounts (HSAs) are essentially special savings accounts for medical expenses that are paired with high-deductible insurance coverage. Both employers and employees can invest money in the account. Employee contributions through payroll deductions are withheld on a pre-tax basis and other employee HSA contributions are tax deductible. Employer HSA contributions are a tax-deductible employee benefit expense. Employees can withdraw funds, **tax free**, for eligible medical purposes.

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 saved on insurance premiums can be put into the Health Savings Account.



Employees own and control the money in the HSA. Decisions on how to spend the money are made by the employee without relying on a third party or a health insurer. Employees 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)?

Sometimes referred to as a “catastrophic” health insurance plan, an HDHP is a lower cost health insurance plan that doesn't pay any expenses until the deductible is met. An HDHP may provide preventive care benefits without a deductible for services such as:

- Annual physicals
- Routine prenatal and well-child care
- Child and adult immunizations
- Tobacco cessation programs
- Obesity weight-loss programs

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Who is eligible for a Health Savings Account?

To qualify for an HSA, you must meet the following requirements:

- You must have a High Deductible Health Plan (HDHP)
- You have no other health coverage (exceptions shown below)
- You must not be enrolled in Medicare
- You cannot be claimed as a dependent on someone else's tax return

Examples of other permitted coverages include policies which specifically cover:

- Accidents
- Cancer
- Disability
- Dental
- Vision
- Long-term care

What is the maximum an individual can contribute to an HSA?

For 2019, you'll be able to contribute:

- $3,500 for individuals
- $7,000 for families

These amounts will be pro-rated based on the number of months your HDHP is in effect. The HSA catch up contributions for those 55 and older remains at $1,000.

What are the investment options for an HSA?

- HSAs can be set up through banks, credit unions, insurance companies, or any other entity that meets the IRS standards for being an IRA trustee or custodian. HSAs can be invested in the same type of investments permitted for IRAs including stocks, bonds, mutual funds, CDs, etc. The individual decides whether they want to invest their funds in their account and what type of investments best suit their needs.

Questions & Answers

Let's say I go to the doctor's office...how does the HSA work?

If you are 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 until your deductible has been met.

The physician will 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 what your responsibility is.

What happens after I have met the deductible?

It depends on the HDHP plan design. Typically, there will be coinsurance with higher benefits for in network vs. out of network. There also may be additional copays for prescriptions, office visits or other services. With some plan designs, benefits may be payable at 100% after the deductible and coinsurance has been met. It's important to ask questions about the plan so you fully understand what benefits are available to you.

Who makes sure my expenses are eligible?

You're responsible for complying with HSA spending regulations. The IRS may ask you to prove an expense is eligible, so always save itemized receipts when you spend HSA money.

How do I know which expenses are eligible?

In general, you can spend your HSA funds tax-free for all medical, dental (including braces for your children), and vision expenses and even chiropractic visits. For a more detailed list, visit **www.irs.gov** and search for Publication 502.

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.

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What is the maximum age for adult dependent children for HSA expenses?

While the 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. If account holders can't claim a child as a dependent on their tax returns, then they can't spend HSA dollars on services provided to that child.

According to the IRS definition, a dependent is a qualifying child (daughter, son, stepchild, sibling or stepsibling, or any descendant of these) who:

- Has the same principal place of abode as the covered employee for more than one-half of the taxable year.
- Has not provided more than one-half of his or her own support during the taxable year.
- Is not yet 19 (or, if a student, not yet 24) at the end of the tax year or is permanently and totally disabled.

What if I don't use the HSA funds?

If you fund your HSA regularly, stay healthy and do not use a lot of medical care, a substantial amount of wealth can accumulate in your account. Below is an example of an individual's potential savings based on a 4% and 10% interest rate. Your interest rate will, of course, vary depending on your investment and the market conditions.

Example: Individual's Approximate Savings HSA Growth Over 30 Years. Based on a yearly contribution of $2,750		
Medical Expenses Per Year	**4% Annual Return**	**10% Annual Return**
$0	$154,233	$452,358
$500	$126,191	$370,111

Can I use the money in my HSA to pay for insurance premiums?

You can use tax-free funds from your HSA to pay for the following types of health coverage:

- COBRA continuation coverage
- Health coverage while you are receiving unemployment benefits
- Long-term care insurance
- When age 65 or older, premiums for Medicare Part B and Medicare Part D. You cannot, however, use HSA funds to pay for Medicare Supplement policies.

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Can I get an HSA even if I have other insurance that pays medical bills?

You are allowed to have certain other coverage such as dental, vision, cancer, accident disability and long-term care insurance at the same time as an HDHP. Wellness programs offered by your employer also are generally permitted.

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.

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 custodian can impose minimum deposit and balance requirements.

Remember – it is the **employee's responsibility** not to exceed the calendar year HSA contribution limits. This includes any employer contributions.

Can I make contributions 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.

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.

Do the tax benefits phase out at certain income levels?

No. Unlike many other tax breaks, there aren't any income limits.

What happens if I withdraw the money for non-medical expenses?

If you are under age 65 and use the money in your HSA for non-medical expenses, you will incur a 20% penalty in addition to paying income taxes on the money.

Am I allowed to withdraw the money for non-medical expenses after age 65?

Yes you are. You won't be hit with the penalty if you use the money for non-medical expenses after age 65, but you would still have to pay income taxes on the money. Keep in mind that you can continue to withdraw money from the account tax free for qualified medical expenses after age 65.

How much can I contribute if my spouse also has insurance?

It depends on the circumstances. The following examples describe how much can be contributed under a variety of situations.

Example 1: Steve and Mary Jones are married with three children. Steve has a low deductible family health plan that covers him and the Jones children. His plan does not qualify for an HSA. Mary, who is not covered under Steve's family plan, may have her own separate high deductible health plan (HDHP) that does qualify for an HSA.

Example 2: Steve has a family HDHP coverage that covers Mary and their children. Steve has no other coverage. Mary also has self-only coverage with a $200 deductible. Mary, who has coverage under a low-deductible plan, is not eligible and cannot contribute to an HSA. Steve, under the family plan, may contribute the maximum to an HSA.

Example 3: Steve has a family HDHP that covers Mary and their children. Steve has no other coverage. Mary also has *self-only* HDHP coverage. Both Steve and Mary are treated as having family coverage. The combined HSA contribution by Steve and Mary cannot exceed $7.000, to be divided between them by agreement.

What happens to my HSA if I leave the District?

HSAs are portable. You can keep the money in an HSA account even after you leave the district (similar to a 403(b)). Funds remain in the account indefinitely.

If your new employer also has an HSA option, you can continue to contribute to your account tax-free *and* withdraw your funds tax free for eligible medical expenses. On the other hand, if there were no HSA option, you would still be able to withdraw your funds tax free for eligible medical expenses but would not be able to contribute.

What happens to the money in a HSA after I turn age 65?

You can continue to use your account tax free for out-of-pocket health expenses. If you have retiree health benefits through your former employer, you also can use your account to pay for your share of retiree medical insurance premiums

Once you turn age 65, you also can 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.

What happens when I enroll in Medicare?

When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. You cannot, however, use HSA funds to pay for Medicare Supplement or Medigap policies. After you enroll in Medicare, you cannot continue to make contributions to an HSA.

What happens to the HSA when I die?

If you have named your spouse as your beneficiary, it will be treated as the spouse's HSA upon your death.

If someone other than a spouse is designated:

- The account stops being an HSA, and
- The fair market value of the HSA becomes taxable to the beneficiary in the year in which you die.

If your estate is the beneficiary, the value is included on your final income tax return.

This guide is for informational purposes only and is not intended to be legal advice.

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