Health Savings Accounts

An Informational Booklet for Employees

HSAs just got a little easier!

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KAPNICK INSURANCE GROUP

People helping people...*it's what we do best*

Kapnick Insurance would like to Welcome you to the wonderful world of Health Savings Accounts (HSAs).

In this guide you will find a wealth of information compiled to help you understand how your HSA works, how you can contribute, earn interest, and spend money on health expenses - all tax-free through your HSA.

Health savings accounts (HSAs) are a growing trend in health care. An HSA is a tax-exempt savings account established for the purpose of paying for the qualified medical expenses of an individual and/or his or her spouse and tax dependents.

HSAs are designed to provide eligible individuals with triple federal tax benefits:

(1) HSA contributions are tax-free
(2) Interest and other earnings on HSA contributions accumulate tax-free, and
(3) Amounts distributed from an HSA for qualified medical expenses are tax-free as well.

In addition to tax benefits, HSA plans have grown in popularity because they offer potential health care cost savings to employees. For example, individuals covered under an HSA are more likely to seek preventive care, choose generic drugs, not misuse the emergency room and use online tools to research health care and providers.

HSAs are offered in combination with high deductible health plans (HDHPs). To be HSA-eligible, an individual must be covered under a qualified HDHP and not also covered by another health plan that is not an HDHP (with a few exceptions, including disability, dental care, vision care and long-term care insurance). HDHPs generally have lower monthly premiums and higher deductibles than traditional health plans. HSAs can cover medical expenses until the HDHP deductible is reached. The idea of this design is that the HSA pays for routine, smaller health expenses, while the HDHP offers protection in the event of a catastrophic medical expense, such as an unexpected illness, injury or hospitalization.

Because HSA amounts are non-forfeitable, amounts contributed to an HSA can increase savings for future health care needs, even into retirement.

In general, money placed into an HSA can be withdrawn at any time. Any HSA withdrawal used for a purpose other than to pay for qualified medical expenses is taxable as income and subject to a 20% excise tax.

What is an HSA?

A Health Savings Account (HSA) helps you do what you know you should do - save money - plus, an HSA also allows you to invest it and spend it tax free! One catch is that you have to spend the money on qualified medical expenses, which isn't much of a catch when you consider the long list of qualified medical expenses and your family's total healthcare expenses.

An HSA combines a high deductible health insurance plan with a tax-favored savings account. Money in the savings account can help pay for your qualified medical expenses or you can save and use it for qualified medical expenses once you retire. The balance in your health savings account rolls over from year-to year and the account earns interest and is yours to keep, even if you leave the company.

HSAs are one tool in the ever-expanding toolbox of consumer driven health plans. Designed by the U.S. Government, HSAs help you, the consumer, play a more informed and active role in controlling your family's healthcare costs.

Who is eligible for an HSA?

Anyone who is:

- Covered by a high-deductible health plan (HDHP);
- Not covered under another medical plan that is not an HDHP;
- Not entitled to (eligible for AND enrolled in) Medicare benefits; or
- Not eligible to be claimed on another person's tax return.

What is a high-deductible health plan (HDHP)?

A high-deductible health plan is a plan with a minimum annual deductible and a maximum out-of-pocket limit as listed below. These minimums and maximums are determined annually by the Internal Revenue Service (IRS) and are subject to change.

Type of Coverage	Minimum Annual Deductible		Maximum Annual Out-of-Pocket	
	2013	2014	2013	2014
Individual	$1,250	$1,250	$6,250	$6,350
Family	$2,500	$2,500	$12,500	$12,700

How does an HSA work?

Part 1: Qualifying high-deductible health insurance plan - intended to cover serious illness or injury after the deductible has been met.

Part 2: Health Savings Account - Pays for out-of-pocket expenses incurred before the deductible is met.

How much can I contribute to my HSA?

Maximum Contribution Limits for:	2013	2014
Single Coverage	$3,250	$3,300
Family Coverage	$6,450	$6,550
Catch-up Contributions*	$1,000	$1,000

* If you are 55 to 65 years of age, you can make an additional catch-up contribution.

Many consumers are eager to learn more about health savings accounts, which continue to generate buzz as a growing trend in health care coverage. The general assumption is that a financial tool with this much potential must be complex and difficult to understand. However, HSAs are simple to outline, and can be broken down into a list of ten basic points for consumers to easily digest.

1. **HSAs fund health care needs.**
   The HSA is first and foremost designed to fund health care expenses in conjunction with a high-deductible health plan (HDHP). An HDHP is a requirement to set up an HSA. The HSA is a savings account that secures pretax dollars in a fund for future medical needs, and helps meet the deductible on one's health insurance plan, should something happen that takes medical expenses beyond what is readily affordable.

2. **HSAs utilize pretax funds.**
   HSAs may be set up through employers or through financial institutions like banks, insurance companies or third party administrators. Contributions to HSAs through employers are set up as pretax investments. HSA accounts created through financial institutions are designed so that consumers can take an "above-the-line" deduction on personal taxes. One asset for many is that taxable income is decreased, so fewer taxes need to be paid out.

3. **HSAs come with significant premium savings over traditional insurance plans.**
   High-deductible health plans also come with much lower premiums than a traditional plan. This is especially apparent to someone who pays the premiums all year long but doesn't actually go to the doctor or utilize medical services very often. For this person, the premium can feel like money out the window. Based on premium savings alone, some HSA consumers see 20 to 40 percent savings each year.

4. **HSAs offer expanded coverage options for consumers.**
   Unlike typical insurance plans that have a highly negotiated list of medical products or services that are covered, HSAs allow many additional health-related expenses. So doctors' visits, hospital expenses and prescriptions are covered, but coverage also extends to some over-the-counter drugs with a prescription, dental and vision services, and certain "non-traditional" treatments such as acupuncture and deep tissue massage.

5. **HSAs allow negotiating power to secure discounts on medical services.**
   Because an HSA is a "cash" account, it empowers consumers with an option to negotiate pricing on many medical services, which can lead to substantial savings on medical expenses. For example, standard imaging services can vary widely in price depending on location and payment method. An MRI, for example, can cost anywhere from $400 to $1,800 for the exact same service.

6. **HSAs offer control and choices regarding health care needs.**
   With these plans, consumers have unlimited choices regarding services, service providers and medical expenditures. With an HSA, one can go to the doctor of his or her choice.

7. **HSAs are portable.**
   If a consumer switches jobs, the HSA account follows. And, unlike traditional insurance plans, consumers do not lose unused funds in these accounts at the end of the year. The consumer "owns" this account and all benefits that come from its good management.

8. **HSAs create financial incentives for managing health care expenses.**
   There are always unfortunate cases where a catastrophic event occurs and emergency medical services are required that do not allow time to "shop around." But the majority of medical transactions faced in the course of a lifetime are more mundane and predictable. Since the HSA is a consumer-controlled cash account, that consumer is encouraged to think about whether a particular expense is really worth it or if a cheaper alternative (like a generic medication instead of name brand) might work just as well.

9. **HSAs are a powerful tool for retirement investing.**
   Over time, a relatively healthy person or someone who is a decent financial manager can save a good deal of money and investment earnings in an HSA. Consumers who are between the ages of 55 and 65 also have the opportunity to make additional "catch-up" contributions to the fund. Increased access to this fund begins at age 65. The account can continue to be used for medical expenses with no penalties, but withdrawals for other purposes are also possible (after age 65) and often face fewer penalties than withdrawals from an IRA.

10. **HSAs create a health-conscious community and put market forces to work that drive down health costs for everyone.**
    Because of the incentive to save and earn money, consumers are encouraged to become educated on health care and medical services to become active participants in the control of their health and wellness. Providers of medical products and services are forced into a healthier competition for consumers. Additionally, there is a personal incentive to make smarter decisions about the use of the health care system, which decreases the likelihood of its abuse. Overall, it becomes a more efficient system and the costs of medical services decrease to meet the new market realities.

The HSA is an easily understood tool that offers consumers a very manageable way to take control of their health investments. It puts all of the financial incentives in the right place to encourage the consumer to make healthier lifestyle choices, better health care-related financial decisions, and to invest and save money over time for future medical needs. Consumer-driven health care has the power to change a family's financial future while also catalyzing positive change in America's health care system as a whole.

Frequently Asked Questions

1. **Who may contribute to an HSA?**
   Anyone (an eligible individual, a family member, an employer or any other person) may make contributions to an HSA on behalf of an eligible individual.

2. **How much can I contribute each year to an HSA?**
   The maximum amount you can contribute is determined by the Internal Revenue Service each year. For 2014, the maximum contribution is $3,300 for single coverage and $6,550 for family coverage.

3. **Are additional contributions allowed for those ages 55 or older?**
   Yes, those ages 55 or older may contribute an additional $1,000 to their HSA. If both employee and spouse are covered and both are over 55 then an additional $2,000 can be contributed.

4. **Do I have to spend all the proceeds in my HSA during the plan year?**
   No. Unlike a FSA that requires you to spend the money you've set aside during the plan year, your HSA account balance rolls over from year to year. This gives you the flexibility to pay for qualified medical expenses at your discretion.

5. **What happens to my HSA if I terminate employment?**
   You own the HSA. You can continue to pay qualified medical expenses from your HSA after your employment is terminated. You can also use proceeds from your HSA to fund COBRA premiums.

6. **I have single coverage under our HDHP. Will my spouse's otherwise uncovered medical expenses be payable from my HSA, the way they are from my current FSA?**
   Yes, you may use the money in your HSA to pay your spouse's or other family members' uncovered medical expenses. However, you are not allowed to have both an HSA and a health care FSA at the same time.

7. **I am covered by my spouse's traditional health plan. Can I elect the HDHP and contribute to an H.S.A.?**
   No, you can't have a non-HDHP and contribute to an HSA.

8. **My spouse is covered by a traditional health care plan. I also cover her on my HDHP. Can I contribute the family maximum to an HSA? Can her uncovered expenses be paid out of my HSA?**
   Yes, you can contribute the family maximum to an HSA, and your HSA money can be used to pay for spouse's out-of-pocket expenses.

9. **My spouse has an FSA or HRA through his employer; can I have an HSA?**
   You cannot have an HSA if your spouse's FSA or HRA can pay for any of your medical expenses before your HSA compatible health plan's deductible is met.

10. **I have coverage under my employer's HSA-compatible health plan and also contribute to an HSA. What happens if I elect coverage under my employer's health care FSA?**
    You will be enrolled in a Limited Purpose FSA which allows you to pay for Vision, Dental, or Medical Expenses after your deductible is met.

11. **Are there individual deductibles or out-of-pocket maximums for a family contract with HSA-compatible health plans?**
    On a family contract, the full family deductible and out-of-pocket maximum must be met by one or a combination of all of the members before claims are paid.

12. **Can I get an HSA even if I have other insurance that pays medical bills?**
    You are only allowed to have auto, dental, vision, disability and long-term care insurance at the same time as an HSA-compatible health plan. You may also have coverage for a specific disease or illness as long as it pays a specific dollar amount when the policy is triggered. Wellness programs offered by your employer are also permitted if they do not pay significant medical benefits.

13. **Does the HSA-compatible health plan policy have to be in my name for me to open an HSA?**
    No, the policy does not have to be in your name. As long as you have coverage under the policy, you can be eligible for an HSA (assuming you meet the other eligibility requirements for contributing to an HSA). You can still be eligible for an HSA even if the policy is in your spouse's name.

14. **I don't have health insurance; can I get an HSA?**
    You cannot establish and contribute to an HSA unless you have coverage under an HSA-compatible health plan.

15. **I am a veteran; can I have an HSA?**
    If you have received any health benefits from the VA or one of its facilities, including prescription drugs, in the last three months, you are not eligible for an HSA.

16. **I'm active duty military and have Tricare coverage; can I have an HSA?**
    At this time, Tricare does not offer HSA-compatible health plan options, so you are not eligible for an HSA.

17. **Does my income level affect whether I can have an HSA?**
    There are no income limits that affect HSA eligibility. However, if you do not file a federal income tax return, you may not receive all the tax benefits HSAs offer.

18. **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.

19. **I am Medicare eligible; can I contribute to an HSA?**
    No, you cannot be covered by Part A or Part B and contribute to an HSA.

20. **Can dependent children over 19 covered on parents HDHP have their eligible children withdrawn from the HSA? What about covered non-dependent children over 19? What about expenses of dependent parents not Medicare eligible?**
    For HSAs, dependents must be IRS tax dependent to be eligible for tax free payment from HSA. The dependent does not have to be insured by the HDHP. Same for adult dependents…must be IRS tax dependent.

21. **If an employee is providing the only health care coverage for employee and spouse on a HDHP and the spouse is over 55 can they put in the extra $1,000? What if both employee and spouse are over 55?**
    Yes, and if both are over 55, they can put in an extra $2,000, but the spouse must contribute to their own account.

HSA Eligible Expenses

The Internal Revenue Service defines **qualified medical care expenses** as amounts paid for the diagnosis, cure or treatment of a disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate a physical or mental defect or illness.

The products and services listed below are examples of medical expenses eligible for payment under your **Health Savings Account**, when such services are not covered by your high-deductible health plan. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. **This list is not all-inclusive; additional expenses may qualify, and the items listed below are subject to change in accordance with IRS regulations.**

Under a rule that went into effect January 1, 2011, claims for over-the-counter medicine or drug expenses (other than insulin) cannot be reimbursed without a prescription. This rule does not apply to items for medical care that are not medicines or drugs.

- Abortion
- Acupuncture
- Alcoholism treatment
- Ambulance
- Annual physical examination
- Artificial limb
- Artificial teeth
- Bandages
- Birth control pills
- Body scan
- Braille books and magazines
- Breast pumps and supplies
- Breast reconstruction surgery
- Capital expenses (improvements or special equipment installed to a home, if meant to accommodate a disabled condition)
- Car modifications or special equipment installed for a person with a disability
- Chiropractor
- Christian Science practitioner
- Contact lenses
- Crutches
- Dental treatment (not including teeth whitening)
- Diagnostic devices
- Disabled dependent care expenses
- Drug addiction treatment
- Eye exam
- Eye glasses

Source: *www.irs.gov/publications/p502/ar02.html#en_US_publink1000178947*

- Eye surgery
- Fertility enhancement (in vitro fertilization or surgery)
- Guide dog or other service animal
- Health institute fees (if treatment is prescribed by a physician)
- Certain health insurance premiums (not premiums for an employer-sponsored plan, but certain other medical premiums)
- Intellectually or developmentally disabled care, treatment or special home
- Laboratory fees
- Lactation expenses
- Lead-based pain removal (if a child in the home has lead poisoning)
- Learning disability care or treatment
- Legal fees associated with medical treatment
- Lifetime care, advance payments for "founders fee"
- Lodging at a hospital or similar institution
- Long-term care
- Medical conference expenses, if the conference concerns a chronic illness of yourself, your spouse or your dependent
- Medical information plan
- Medications, if prescribed
- Nursing home fees
- Operations
- Osteopath
- Oxygen
- Physical examination
- Pregnancy test kit
- Prosthesis
- Psychiatric care
- Psychologist
- Special education
- Sterilization
- Stop-smoking programs
- Surgery
- Special telephone for hearing-impaired individual
- Television for hearing-impaired individuals
- Therapy received as medical treatment
- Transplants
- Transportation for medical care
- Tuition for special education
- Vasectomy
- Vision correction surgery
- Weight-loss program if it is a treatment for a specific disease
- Wheelchair
- Wig
- X-ray

HSA Ineligible Expenses

Your Health Savings Account lets you pay for medical care expenses not covered by your insurance plan with pre-tax dollars. The Internal Revenue Service (IRS) defines medical care expenses as amounts paid for the diagnosis, cure or treatment of a disease, and for treatments affecting any part or function of the body.

The items listed below are examples of products and services that are NOT eligible for reimbursement under your HSA, according to the IRS. Typically, expenses for items that promote general health are not eligible expenses. Please note that this list is not all-inclusive, and is subject to change.

- Babysitting, childcare and nursing services for a normal, healthy baby
- Controlled substances or illegal drugs
- Cosmetic surgery
- Dancing lessons
- Diapers or diaper service
- Electrolysis or hair removal
- Funeral expenses
- Future medical care (except advance payments for lifetime care, or long-term care)
- Hair transplant
- Health coverage tax credit
- Household help
- Illegal operations or treatments
- Insurance premiums (with a few exceptions)
- Maternity clothes
- Medication from other countries
- Non-prescription drugs and medicine, except insulin (over-the-counter medicine is eligible for reimbursement with a prescription)
- Nutritional supplements, unless recommended by a medical practitioner as treatment for a specific medical condition
- Personal use items (e.g., toothbrush, toothpaste, dental floss)
- Swimming lessons
- Teeth whitening
- Veterinary fees
- Weight-loss program (unless for a specific disease diagnosed by a physician)

Source: www.irs.gov/publications/p502/ar02.html#en_US_publink1000178947

Glossary of HSA Terms

Kapnick Insurance Group understands how confusing it can be to decipher all the insurance terms and acronyms that come with enrolling in a Health Savings Account. Therefore, we would like to provide you with the definitions of the most commonly used insurance terms and acronyms.

"Above the Line" Deduction
In regard to HSAs, this term refers to the fact that if you make HSA contributions directly from your paycheck (before taxes are calculated and paid), it will reduce your total taxable income whether you itemize or use the standard deduction on your income tax form.

Beneficiary
For your HSA, you may select an individual(s) as your beneficiary to inherit any HSA funds that remain in your account after your death.

Catch-up Contributions
Catch-up contributions are additional contributions above the annual limits, HSA owners can contribute when they reach age 55. As with all contributions, these must stop once an individual becomes eligible for Medicare.

Coinsurance
A common provision of health plan coverage in which the insured shares in the cost of covered services on a percentage basis. Generally, coinsurance is applied after you meet your policy deductible. For example, a plan with 80/20 coinsurance means that after you pay your deductible, the insurance company will pay 80% of the remaining covered expenses, up to a set amount and you will pay the other 20%.

Contributions
Deposits to an HSA account

Copayment
A fixed dollar amount (e.g., $20) you must pay directly to the medical provider at the time you receive health care services. Typical copay services include visits to a physician office or the purchase of prescription drugs.

Covered Expenses
Services for which the health plan makes either a full or partial payment.

Custodian
The insurance company, bank or other financial institution that holds your HSA account funds. In some states, the institution is considered a "trustee" of your account.

Deductible
A fixed dollar amount you are required to pay each year for qualified expenses before your health plan begins paying part or all of additional costs. If the deductible is $1,000, for example, you pay the first $1,000 of qualified health expenses, then further costs will be covered in part or in full by your health plan.

Distributions
Amounts paid from your HSA for qualified health care services.

Embedded Deductible
The amount any one family member has to pay before the policy pays for covered benefits. This amount is generally lower than an "umbrella deductible". Also, known as an "individual deductible".

Enrollee
An individual who has coverage under a health insurance policy. Also referred to as a member, insured or participant.

Explanation of Benefits (EOB)
An insurance company document that usually reports the medical services you received, the provider's charges for these services, the negotiated rate at which the benefits were payable under your policy and the amount you owe the provider. It also may show how much you have paid year-to-date towards meeting your deductible and/or out-of-pocket limit.

Family Coverage
For HSA purposes, any coverage is not "self-only" coverage. It includes self + spouse, self + dependent children, and self + spouse + children.

First-dollar Coverage
Applies to specific covered expenses in which your plan provides immediate reimbursement or does not require any payment without your having to meet your deductible. Some preventive services may have first-dollar coverage under your health plan; check your Certificate of Coverage or Plan Summary for more details.

Flexible Spending Account (FSA)
A pre-tax savings account offered through an employer and funded by payroll deductions that employees can use to pay for medical expenses not reimbursed by their health plans. Although FSAs are exempt from federal taxes and from state taxes in most states, you generally cannot roll over your FSA balances to the next year and unused funds revert back to the employer.

Health Reimbursement Arrangement (HRA)
A tax-exempt account - funded and owned exclusively by the employer - that an employee can use to pay general health care expenses before using traditional health care coverage. Unspent funds usually can be carried over to the next year, but cannot be taken with you if you leave the company.

High-Deductible Health Plan (HDHP)
A health plan that meets federal requirements regarding minimum deductibles, maximum out-of-pocket expenses, covered benefits and preventive care. Compared to traditional health plans, a HDHP typically offers lower premiums in exchange for higher annual deductibles. You must be covered under a HDHP to be eligible to open a Health Savings Account. Also known as an HSA-Qualified Plan.

Health Maintenance Organization (HMO)
In an HMO, the enrollee uses the doctors, hospitals and clinics that participate in their plan's network. No benefits are paid for non-emergency benefits provided outside the HMO network. In addition, the enrollee selects a primary care physician who coordinates care and makes referrals to any necessary specialists.

In-Network
Care that has been provided by health care professionals and facilities that have an agreement with your insurance carrier to provide services to you at a negotiated fee.

Maximum Annual Contribution
The total amount the government allows you (and your employer) to add to your HSA in a given year. If you are 55 or older, you are eligible to make additional catch up contributions to your HSA above this amount.

Medical Savings Account (MSA)
MSAs are tax-exempt trust or custodial accounts in which account holders can save money for future qualified medical expenses. They have been replaced by HSAs and you can no longer open a new MSA. If you have an MSA, you can keep your account and continue taking tax deductions for additional contributions, or roll your MSA into an HSA.

Out-of-Network
Care provided by health care professionals and facilities that do not have an agreement with your insurance carrier to provide services at a negotiated fee. These providers may charge undiscounted prices that may not be paid by your health insurance company.

Out-of-Pocket Expenses
The costs you pay to providers for health care services, including deductibles, copays and coinsurance. This does not include insurance premiums.

Out-of-Pocket Maximum
The maximum amount you must pay in a year under your health plan coverage through coinsurance, deductibles and copayments. After you reach this maximum, your health plan pays 100% of additional covered health care expenses.
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Permitted Insurance
Refers to additional policies you may hold and still contribute to your HSA. These can include policies that provide coverage for workers' compensation, accidents, disability, dental care, vision care, long-term care or specified diseases or illness, such as cancer, diabetes, asthma or congestive heart failure.

Preferred Provider Organization (PPO)
A health care delivery arrangement that offers insured individuals access to participating providers at reduced costs. Traditionally, PPOs encourage enrollees to use providers in their network by offering lower deductions and copayments.

Preventive Care
Health care services meant to either prevent a medical condition from occurring or to detect the early stages of a condition, which then can be more effectively treated. Preventive care includes regular check-ups, screening tests, vaccinations and programs that encourage healthy lifestyles.

Qualified Medical Expenses
Medical expenses that count toward satisfying your health plan deductible and/or are allowed to be paid tax-free from your HSA, HRA or FSA. The federal government determines which expenses are considered "qualified" and provides a partial list of such services at www.irs.gov.

Tax-Free Contributions
If you participate in a payroll deduction program through your employer, these deductions are excluded from your taxable federal income, Social Security (FICA) and for most states, your state income. By taking deductions pre-tax, you reduce the dollars on which you are taxed, and, as a result, your total tax bill.

Umbrella Deductible
The total amount of out-of-pocket expenses that a family must meet before a health plan pays for covered benefits. Depending on the terms of the policy, this deductible may be met by one or any combination of family members' out-of-pocket expenses. Also known as a "family deductible".

Source: www.hsainsights.com

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