What is a Health Savings Account?

Health Savings Accounts (HSAs) were created so that individuals covered by qualified high- deductible health plans could receive tax-preferred treatment for money saved for medical expenses. Generally, an HSA is set up to pay for the qualified medical expenses of the account holder or their eligible spouse/dependent(s). The HSA provides a triple tax free benefit as the dollars contributed go in tax free, grow interest tax free, and are tax free when they are used for qualified expenses.

ELIGIBILITY

Who is eligible for an HSA?

To be eligible to contribute to the HSA, you must be covered under a qualified high deductible health plan (HDHP) and have no other health coverage. Eligible individuals may not be enrolled in Medicare or be claimed as a dependent on another person's tax return. You must be, or be considered, an eligible individual on the first day of a month to take an HSA deduction for that month.

Special Note

- If another taxpayer is entitled to claim an exemption for you, you cannot claim a deduction for an HSA contribution. This is true even if the other person does not actually claim your exemption.
- Eligible spouses may not contribute to the WHOI Employee's HSA. Instead, they may open their own account and contribute; however, the combination of the WHOI Employee and Spouse HSA contributions may not exceed the annual Family maximum as defined by the IRS.
- Domestic partners are not eligible dependents and, therefore, HSA dollars may not be used towards their medical expenses. Similar to the spouse, a domestic partner may open a separate HSA. The difference between a spouse and domestic partner HSA is that a domestic partner may contribute up to the family maximum on their own; however, a spouse may only contribute the difference between the annual family maximum and what the employee/WHOI have contributed.

Example: Employee A has a child from a previous marriage who is claimed as a tax dependent on the ex-spouse's tax return.

- If the Employee elects EE + 1 coverage to cover the child and the child is currently claimed as a dependent by the ex-spouse, HSA dollars cannot be used for medical expenses for that child.

Can I enroll in health coverage other than a HDHP/HSA?

In order to be considered HSA eligible, you must be enrolled in a qualified HDHP (WHOI's Blue Care Elect Saver plan). Your spouse can have health coverage other than a HDHP if they are enrolled in a separate plan and you are not covered by that plan. If you have a Healthcare Flexible Spending Account (HCFSA) you may only use it for limited purposes (ex: vision & dental services). Similarly, your spouse may not be enrolled in a traditional HCFSA plan through their own employer if you will be using HSA dollars for their medical expenses.

Example: Employee A has a spouse who works for another organization.

- If an employee elects a HDHP with HSA and the spouse retains coverage with their employer in a traditional health plan (HMO, POS, PPO, etc.), the spouse cannot contribute towards the employee's HSA account. Only the employee enrolled in the HDHP may contribute to the account; however, the funds contributed by the employee or WHOI can be used for a spouse or dependents even if they are not covered by the WHOI plan. See *distribution and contribution* rules for more detail.

CONTRIBUTIONS

What is the maximum annual contribution I can make towards the HSA?
For 2017, the contribution limits are as follows:

	2017 Contribution Limit (under age 55)	**2017 Contribution Limit (age 55+)**
EE Only Coverage	$3,400	$4,400
EE Plus Coverage	$6,750	$7,750

- The total eligible HSA contribution amount is pro-rated based upon the number of months you are enrolled in the qualified HDHP
- If you have more than one HSA, total contributions to multiple HSAs cannot exceed the annual limits described above (i.e. if you work at another company for part of the year and had a HSA at that employer, then join WHOI's HSA plan, your combined HSA contribution cannot exceed the limits above)
- Catch up contributions of $1,000 may be made for participants age 55+

Special Note

- All references to contributions in this document refer to both employee and employer dollars.
- **Rules for married couples**: The rules for married couples apply only if both spouses are eligible individuals. If either spouse has family HDHP coverage, both spouses are treated as having family HDHP coverage. The contribution limit for family coverage is $6,750. This limit applies even if each spouse is enrolled in a qualified HDHP under separate employer plans. If you over contribute to your HSA, you must reduce the amount of additional contributions or be subject to penalty. After that reduction, the contribution limit is split equally between the spouses unless you agree on a different division; however, the total may not exceed the annual family maximum.
- If both spouses are 55 or older and **not** enrolled in Medicare, each spouse is eligible to make an additional $1,000 annual "catch up" contribution; however, in order to do so, each spouse must have an account opened in their own name. If both spouses meet the age requirement, the total contributions under family coverage cannot be more than $8,750. Each spouse is eligible to make the additional $1,000 contribution to his or her own HSA.

Examples: (Pre and Post Age 55 Employees and Dependents) Employee A has a spouse who works for another organization and also has an HSA. Employee and Spouse also have 2 children.

- If both spouses have access to a HDHP with HSA from their respective employers, they are each allowed to select the HDHP with HSA; however, their combined pre-tax contributions cannot be greater than $6,750.
- If Employee A elects family coverage and chooses to cover 1 child and the spouse covers the

second child, the total amount of pre-tax contributions cannot exceed the family maximum, even though they are on two separate plans.

- To further this point, if the employee elects family coverage and has $4,000 in pre-tax contributions in the HSA plan for that year, the spouse can only contribute up to $2,750. The sum of these two equate to the annual family maximum of $6,750.
- If the employee is over 55, they can contribute an additional $1,000 for that year.
- If both employee and spouse are over 55, they can each contribute $1,000 (up to $2,000 in total which equates to $8,750 annually). The $1,000 contribution by each spouse must be made into their own HSA.

IMPORTANT: Contributions include both employee and employer dollars. Therefore the total contributions may not exceed $3,400 for single coverage, $4,400 for single coverage over the age of 55 or $6,750 for family or up to $7,750 if both are over the age of 55.

Are the rules the same if my spouse and I work for the same employer?
Yes. Regardless of who owns the account, the maximum contributions for under age 55 employees are $6,750. If both spouses work at the same employer, and are covered under a qualified HDHP, they cannot contribute greater than the IRS limit for that year. This is true even if one employee chooses single coverage and the other employee chooses family coverage.

When can I contribute to my HSA?
You can make contributions to your HSA for 2017 until April 15, 2018. The pro-rated maximum is based upon the number of months you were enrolled in the plan during the tax year so if you were enrolled in EE Only coverage for 4 months, the maximum allowable HSA contribution for 2017 would be $1,133 ($3,400/12 months x 4 months enrolled) or $2,1133 if over age 55.

Example: Employee A contributes $2,000 in the calendar year
- The employee or employer has the ability to contribute an additional $1,400 between January 1, 2018 and April 15, 2018 to reach the individual maximum of $3,400. If contributions are made on a post-tax basis, they can be deducted as pre-tax as you file your taxes.

DISTRIBUTIONS

Distributions from the HSA
You can receive distributions from an HSA even if you are not currently eligible to make contributions. However, any part of a distribution not used to pay qualified medical expenses is includible in gross income and is subject to an additional 20% tax. Distributions can be from the Health Equity debit card, or reimbursed through paper form.

What are qualified medical expenses?
Generally, qualified medical expenses for HSA purposes are medical expenses that you are responsible to pay for out of pocket. Expenses incurred before you have the HSA are **not qualified** medical expenses.
- Non-prescription medicines (other than insulin) are not qualified medical expenses.
- You cannot treat insurance premiums as qualified medical expenses unless the premiums are for:

- Long-term care (LTC) insurance,
- Healthcare continuation coverage (such as coverage under COBRA),
- Healthcare coverage while receiving unemployment compensation under federal or state law
- Medicare and other healthcare coverage if you are 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap).

Example: (Using HSA for Non-Qualified Expenses) Employee A incurs qualified medical expense and uses the HSA to cover deductible expenses ($1,000). The employee also uses the card to pay for over-the-counter drugs (ex: Tylenol at $100) without a prescription.

- Deductible expenses are considered eligible expenses to be paid with pre-tax dollars from an HSA; however, the over-the-counter expenses are not eligible. The HSA cardholder is subject to taxes on the dollars used to purchase the Tylenol and will also incur an additional 20% penalty.

Who can HSA dollars be distributed to?
Qualified medical expenses are those incurred by the following persons:

- You and your legal spouse (so long as the spouse is not enrolled in a traditional FSA plan)
- All dependents you claim on your tax return
- Any person you could have claimed as a dependent on your return except that:
- The person filed a joint return,
- The person had gross income of $3,800 or more, or
- You, or your legal spouse if filing jointly, could be claimed as a dependent on someone else's tax return.

  For this purpose, a child of parents that are divorced separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents.

Example: (Domestic Partner) Employee A has a domestic partner and is covered under the Insurance plan

- The HSA is a federal program and covered by the Family Protection Act. This Act does not recognize a domestic partner as an eligible dependent.
- For example, in Massachusetts you can cover your domestic partner on the High Deductible Health Plan, and you can contribute to the HSA up to the family maximum. However, note that you will be taxed if you use your HSA funds for your domestic partner. The only way a domestic partner can be recognized for federal tax purposes is if the partner qualifies as a legal tax dependent.

Can my domestic partner set-up his or her own HSA?
Yes. As long as your domestic partner is covered by a High Deductible Health Plan, he or she can open and contribute to an individual HSA. This can be done directly through Health Equity.

Example: (Domestic Partner) Employee A has a domestic partner.

- If enrolled in Family coverage with the domestic partner, the employee may contribute up to the Family limit of $6,750; however, HSA dollars must only be used for the employee, as pre-tax dollars cannot be used for the domestic partner, who is not an IRS recognized tax dependent.

- The domestic partner may choose to open a separate HSA account, using pre-tax dollars to pay for eligible medical expenses. If enrolled under family coverage with the employee, the domestic partner may also contribute up to the family maximum of $6,750 into the HSA.
  The domestic partner may only use dollars from this account to pay for their own or legal tax dependent(s) eligible medical expenses.

ACCOUNT POST EMPLOYMENT

What happens if I lose my job or my participation in the WHOI health plan ends for any reason?
HSAs are owned by the individual, so if you change jobs or health plans, you may keep your HSA or roll your funds into another HSA. You may continue to contribute to a HSA only if you enroll in another qualified HDHP. If you do not enroll in another HDHP, you may use funds to pay for eligible medical expenses, but you will no longer be eligible to contribute.

POST 65 OR MEDICARE ELIGIBLE

What happens when I turn age 65 and become eligible for Medicare?
IRS rules say that you cannot continue to contribute to an HSA if you are entitled to Medicare. You can draw on funds already in the account but you can no longer contribute. It is important to know the difference in meaning between "eligible" and "entitled" as defined by government officials.

- Eligible for Medicare means that you have met the requirements to qualify for Medicare Part A (inpatient hospital insurance) in other words, you or your spouse has enough Social Security work credits—but you have not yet applied for it.
- Entitled to Medicare means that you are eligible, you have filed an application to receive Medicare Part A or have been approved automatically, and your name is already in the system—or that the application has been processed and you have been sent a Medicare card showing the date your Medicare Part A coverage starts.
- Enrolled in Medicare means that you have chosen to sign up for or where automatically enrolled in Part A or Part B (covers doctors' and outpatient services) or that you are one of the relatively few people who pay premiums to purchase Part A. Most people don't need to actively enroll in Part A because if they have sufficient work credits, they're automatically eligible and enrolled at age 65 and do not pay premiums for it.

Special Note
- If you are eligible for Medicare but not enrolled in either Part A or Part B coverage, you can continue to contribute to your HSA after age 65 and postpone applying for Social Security and Medicare until you stop working. There is no penalty for this delay; however, you will only have the opportunity to enroll again during the annual Medicare Open Enrollment period.

What if I have applied for or am enrolled in Medicare Part A already?
If you have applied for, or are receiving, Social Security benefits—which automatically entitles you to Part A—you cannot contribute to the HSA. In these circumstances, the only way you could opt out of Part A is to pay back to the government all the money you have received in Social Security payments, plus everything Medicare has spent on your medical claims. You must repay these amounts before your application to drop out of Part A can be processed. If you take this action, you are no longer entitled to Social Security or Medicare—but you can reapply for both at any time in the future (for

example, if you end or lose your HDHP coverage); however, you can only enroll during the Medicare Open Enrollment period.

What if I am age 65 and my spouse is not?

If you are 65+ and enrolled in Medicare, you are not eligible to contribute to or receive WHOI contributions into the HSA. If you are under age 65, but your spouse is over 65, you may continue to contribute and use HSA funds for yourself and your spouse. Regardless of your age or your spouse's age, you may use accumulated funds in the account for eligible expenses. The only impact once you enroll in Medicare is that you will no longer be able to contribute to the account. You are still eligible to receive distributions and use the funds to pay for eligible expenses.

Special Note:

These rules apply even if your WHOI coverage is your primary insurance plan and Medicare is your secondary insurance plan. Enrollment in any part of Medicare disqualifies you or your spouse from contributing to the HSA.

Example: (Post 65 employee with Pre 65 Spouse) Employee A is Post 65, is enrolled in a family plan with his employer. The plan covers the spouse who is not 65. The employee is not enrolled in Medicare.

- Since the employee is not enrolled in Medicare, they can continue to contribute to the HSA account on a family basis; however, if the employee does enroll in Medicare, they cannot continue to make pre-tax contributions to the HSA or be enrolled in the Blue Care Elect Saver plan.

Example: (Pre 65 employee with Post 65 Spouse) Employee A is Pre 65, with a spouse who is Post 65 and also enrolled in the plan.

- Since the employee is Pre 65 and not enrolled in Medicare, they can continue to contribute to the HSA account up to the family maximum. HSA money can be used for qualified medical expenses for spouses over the age of 65.

DEATH OF ACCOUNT HOLDER

What happens in the event that the HSA holder dies?

You should choose a beneficiary when you set up your HSA. What happens to that HSA when you die depends on whom you designate as the beneficiary. If you designate:

- Your spouse as the beneficiary, the account will transfer to your spouse's name after your death and will continue to be treated as an HSA.
- Someone other than your spouse or if you do not designate a beneficiary, the account becomes part of your estate and is no longer treated as an HSA.