

USING YOUR HSA

1. Does an HSA pay for the same things that regular insurance pays for?

HSA funds can pay for any "qualified medical expense", even if the expense is not covered by your HDHP. For example, most health insurance does not cover the cost of over-the-counter medicines, but HSAs can. If the money from the HSA is used for qualified medical expenses, then the money spent is tax-free.

2. How do I know what is included as "qualified medical expenses"?

Unfortunately, we cannot provide a definitive list of "qualified medical expenses". A partial list is provided in IRS Pub 502 (available at www.irs.gov). There have been thousands of cases involving the many nuances of what constitutes "medical care" for purposes of section 213(d) of the Internal Revenue Code. A determination of whether an expense is for "medical care" is based on all the relevant facts and circumstances. 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. The determination often hangs on the word "primarily."

3. Who decides whether the money I'm spending from my HSA is for a "qualified medical expense?"

You are responsible for that decision, and therefore should familiarize yourself with what qualified medical expenses are (as partially defined in IRS Publication 502) and also keep your receipts in case you need to defend your expenditures or decisions during an audit.

4. What happens if I don't use the money in the HSA for medical expenses?

If the money is used for other than qualified medical expenses, the expenditure will be taxed and, for individuals who are not disabled or over age 65, subject to a 10% tax penalty.

5. Are dental and vision care qualified medical expenses under a Health Savings Account?

Yes, as long as these are deductible under the current rules. For example, cosmetic procedures, like cosmetic dentistry, would not be considered qualified medical expenses.

6. 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.

7. Can I use my HSA to pay for medical services provided in other countries?

Yes.

8. Can I pay my health insurance premiums with an HSA?

You can only use your HSA to pay health insurance premiums if you are collecting Federal or State unemployment benefits, or you have COBRA continuation coverage through a former employer. Once you are enrolled in Medicare, any health insurance premiums except for Medicare Supplement policies can be paid for tax-free from your HSA.

9. Can I purchase long-term care insurance with money from my HSA?

Yes, if you have tax-qualified long-term care insurance. However, the amount considered a qualified medical expense depends on your age. See IRS Publication 502 for the amounts deductible by age.

10. I have an HSA but no longer have HDHP coverage. Can I still use the money that is already in the HSA for medical expenses tax-free?

Once funds are deposited into the HSA, the account can be used to pay for qualified medical expenses tax-free, even if you no longer have HDHP coverage. The funds in your account roll over automatically each year and remain indefinitely until used. There is no time limit on using the funds.

11. What happens to the money in my HSA if I lose my HDHP coverage?

Funds deposited into your HSA remain in your account and automatically roll over from one year to the next. You may continue to use the HSA funds for qualified medical expenses. You are no longer eligible to contribute to an HSA for months that you are not an eligible individual because you are not covered by an HDHP. If you have coverage by an HDHP for less than a year, the annual maximum contribution is reduced; if you made a contribution to your HSA for the year based on a full year's coverage by the HDHP, you will need to withdraw some of the contribution to avoid the tax on excess HSA contributions. If you regain HDHP coverage at a later date, you can begin making contributions to your HSA again.

12. Do unused funds in a Health Savings Account roll over year after year?

Yes, the unused balance in a Health Savings Account automatically rolls over year after year. You won't lose your money if you don't spend it within the year.

13. What happens to the money in a Health Savings Account after you turn age 65?

You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. The one expense you cannot use your account for is to purchase a Medicare supplemental insurance or "Medigap" policy. Once you turn age 65, you can also 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. Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a 10% penalty on the amount withdrawn.

14. Can I use my HSA to pay for medical expenses incurred before I set up my account?

No. You cannot reimburse qualified medical expenses incurred before your account is established. We recommend you establish your account as soon as possible.

15. Who will be the “bookkeeper” for my HSA?

It is your responsibility to keep track of your deposits and expenditures and keep all of your receipts. If you run out of HSA funds (and therefore need to use your HDHP), you may need to send those receipts to your insurer.

16. How do I use my HSA to pay my physician when I’m at the physician’s office?

If you are still 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 to the physician. Your physician may ask you to pay for the services provided before you leave the office. If your HSA custodian has provided you with a checkbook or debit card, you can pay your physician directly from the account. If the custodian does not offer these features, you can pay the physician with your own money and reimburse yourself for the expense from the account after your visit.

If your physician does not ask for payment at the time of service, the physician will probably 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 that you are responsible for 100% of this negotiated amount. If you have not already made any payment to the physician for the services provided, the physician may then send you a bill for payment.