FREQUENTLY ASKED QUESTIONS
REGARDING HEALTH SAVINGS ACCOUNTS

Question: What is a health savings account?

- An HSA is a personal 'savings' account, much like an IRA, that allows individuals to save and pay for qualified medical and retiree health expenses on a tax free basis.
- HSAs are established for the benefit of an individual and are portable.
- Unused account balances can be carried over from year to year, continuing to grow tax free.

Question: How do I qualify?

You are eligible if all of the requirements are met:

- Covered under a high deductible health plan (HDHP)
- Not covered by any other health plan that is not an HDHP
- Not currently covered by Medicare benefits
- Not eligible to be claimed as a dependent on another person's tax return;
- Have HDHP coverage on the first day of the month during the month that the account is opened.

Question: What is a High Deductible Health Plan (HDHP)?

- <u>For those with individual coverage:</u>
  - 2009: A health plan with a minimum annual deductible of $1,150 and annual out-of-pocket expenses not to exceed $5,800 for the 2009 plan year.
  - 2010: A health plan with a minimum annual deductible of $1,200 and annual out-of-pocket expenses not to exceed $5,950 for the 2010 plan year.
- <u>For those with family coverage:</u>
  - 2009: A health plan with a minimum annual deductible of $2,300 and annual out-of-pocket expenses not to exceed $11,600 for the 2009 plan year.
  - 2010: A health plan with a minimum annual deductible of $2,400 and annual out-of-pocket expenses not to exceed $11,900 for the 2010 plan year.

Question: How much can I contribute to an HSA?

Review the chart below for contribution limits for 2008 & 2009.

Contribution Limits	Standard		Catch Up Contributions*	Combined Standard and Catch up Limits	
Tax Year	**Individual**	**Family**		**Individual**	**Family**
2009	$3,000	$5,950	$1,000	$4,000	$6,950
2010	$3,050	$6,150	$1,000	$4,050	$7,150

*Catch up contributions are available for ages 55 and older

Question: Who can contribute to an HSA?

Once the eligibility requirements are met, anyone can contribute to an HSA on an individual's behalf (the individual, the employer, their family, etc.) as long as they do not exceed the total annual maximum.

Question: Do I have an HSA qualified health insurance plan?
The quickest way to find out if your health insurance plan is HSA qualified is to ask your health insurance company. If they say 'yes,' then you know your health plan qualifies you to open an HSA. If your employer provides your health insurance, ask your employer. If they do not know, they should ask the insurer on your behalf.

Question: What are qualified out-of-pocket medical expenses?
Any expense that the IRS allows you to deduct as a medical expense on Federal Income Tax Form 1040 and as defined under Section 213 of the IRS Code are qualified, including:

- Deductibles
- Co-Payments
- Prescription drugs
- Over-the-counter drugs
- Long-term care insurance
- Health insurance premiums during unemployment
- And other health-care related expenses not including premiums

Change for 2007. The pro-rated contribution requirement for HSAs that were opened after January, 2007 has been removed. HSA owners are now allowed to contribute the annual maximum amount for the tax year regardless of the date the account is established during the year. Similar to rollover provision, a testing period applies. However, in this provision, the testing period is from December 1, 2007 through December 31, 2008. If the individual becomes ineligible during the testing period, the amount that would have otherwise not been contributed to the account except under this new provision will be included in the individual's gross income and subject to a 10 percent additional tax.

Question: Are HSAs tax deductible?

- Contributions made by the employer are not included in the employee's taxable income and are not deductible on their federal tax return.
- Contributions made by the employee (or their family members) can be claimed as a deduction on their federal tax return.
- Contributions are not deductible from Wisconsin income tax.

Question: What if I use my HSA funds for non-qualified medical expenses?
It is your responsibility to ensure that your HSA funds are spent for qualified medical expenses, as defined by the IRS. If you use funds for non-qualified medical expenses, you must report this in your annual income tax filing, and pay the related income taxes, plus a 10 percent tax penalty. After age 65, any funds used for non-qualified medical expenses must still be reported as income, but the 10 percent tax penalty does not apply.

Question: Are the Park Bank account fees that are charged to my account considered to be qualified expenses?

Yes, the IRS considers account, debit card and check fees to be eligible expenses to be paid from an HSA.

Question: Do I need to save my itemized receipts?
Yes. They may be needed if the IRS requests documentation to verify that the funds in your HSA were used for qualified medical expenses.

Question: What if total contributions exceed the limits?
If total contributions exceed the allowable contribution limit for the year, you will be subject to an excess contribution tax. It is your responsibility to remove excess contributions and any interest earned before filing your federal income taxes.

Question: Can I be covered if I have a health plan that is not a High Deductible Health Plan?
Only; in the following circumstances:

- Workman's compensation;
- Insurance for a specified disease or illness
- An insurance paying a fixed amount for hospitalization, accident insurance, disability insurance, dental care, vision care of long term care.

Question: Are rollover contributions permitted?
Yes, when the rollover is from one qualified HSA or Archer MSA to another qualified HSA. An individual who is covered by a high deductible health plan (HDHP) and who maintains a general purpose health flexible spending arrangement (FSA) or health reimbursement account (HRA) is not eligible to make contributions to an HSA. To allow such individuals to be eligible to make HSA contributions, the new law permits employers to directly transfer funds from an employee's general purpose health FSA or HRA into an HSA. Such transfers were previously prohibited. Employers must make this new benefit available to all employees covered under an HDHP. The maximum amount that can be transferred is limited to the balance in the health FSA or HRA as of September 21, 2006 or as of the date of the transfer, whichever is less. Only one transfer for each of the individual's health FSA or HRA is allowed from January 1, 2007 through December 31, 2011. The transferred funds do not count against the annual maximum contribution for the year in which the transfer was made. The transferred amount continues to be excluded from the individual's gross income as long as the individual remains eligible during a "testing period." The testing period is a 12-month period that begins when the transfer is completed and ends on the last day of the twelfth month. An individual becomes ineligible when he/she is no longer covered by an HDHP, obtains other health insurance (other than plan or plans for specific disease or illness, automobile, disability, dental, vision, or long-term care coverage) while maintaining HDHP coverage, becomes eligible for Medicare, is claimed as a dependent on someone else's tax return, or continues to contribute to a general purpose health FSA or HRA.

Individuals are now allowed to make a one-time contribution to an HSA from an Individual Retirement Account (IRA), excluding SIMPLE and SEP IRAs. The transfer must be completed as a "trustee-to-trustee transfer" and is not subject to an early withdrawal penalty. The amount transferred is limited to the annual maximum contribution limits for self-only and family plans. Any amount less than the maximum contribution limit is counted toward that limit for additional contributions into the HSA. Only one transfer from an IRA is allowed during the HSA owner's lifteime. An exception to this rule is that, if during the same tax year, an individual changes from a self-only plan to a family plan, a second transfer is allowed to bring the total amount of both transfers equal to the family plan's maximum contribution limit.

Question: What happens to the HSA in the event of death?

- Balances remaining in the account become the property of the beneficiary in the account: If the surviving spouse is the listed beneficiary, the HSA becomes the property of the surviving spouse and is subject to income tax only to the extent that distributions are not used for qualified medical expenses.
- If the beneficiary is not the surviving spouse, the HSA ceases to be an HSA as of the date of death.

Question: Are there sources where I can get more details regarding HSAs?

Yes, the Internet has several good resources for information including:

- http://www.hsainsider.com
- http://www.ustreas.gov/offices/public-affairs/hsa/
- http://www.irs.gov/