



Frequently Asked Questions Health Savings Account

CONTRIBUTIONS

How much can I contribute to my HSA?

The maximum annual contribution that an individual, with individual coverage, can make to an HSA is \$2,900 for 2008. In the case of a family, with family coverage, the maximum annual contribution is \$5,800 for 2008. The deductible contribution is not limited to the annual deductible under the high deductible health plan.

How much may I contribute to the account if I establish my HDHP after January 1, 2008?

An individual or family, who are covered under an HDHP in a month other than January, may make a full HSA contribution for the year as long as certain conditions are met. However, if you cease to remain an eligible individual throughout 2009, the extra amount contributed is included in income and subject to an additional 10 percent tax; the 12 month rule.

Example: An individual enrolls in an HDHP in December of 2008 and is otherwise an eligible individual in that month. The individual is not an eligible individual in any other month in 2008. The individual can make an HSA contribution for 2008 as if he or she had been enrolled in the HDHP for all of 2008. If the individual ceases to be an eligible individual (e.g., if he or she ceases to be covered under an HDHP) in June 2009, an amount equal to the HSA deduction attributable to treating the individual as an eligible individual for January through November 2008 is included in the individual's income in 2009.

Can I use Funds from My IRA to fund my HSA?

An individual may make a one-time contribution to an HSA of an amount distributed from an IRA.

The contribution must be made in a direct trustee-to-trustee transfer. Amounts distributed from the IRA are not includible in the individual's income to the extent that the distribution would otherwise be includible in income. Such distributions are not subject to the 10-percent additional tax on early distributions.

The amount that can be distributed from the IRA and contributed to an HSA is limited to the maximum contribution to the HSA computed on the basis of, individual vs. family coverage under the HDHP at the time of the contribution. The amount that can be contributed to the HSA is reduced by the amount contributed from the IRA. No deduction is allowed from the amount contributed from an IRA to an HSA.

An individual is allowed only one distribution and contribution during his or her lifetime, except if a distribution and contribution are made during a month in which an individual has individual coverage as of the first day of the month, an additional distribution and contribution may be made during a subsequent month within the taxable year in which the individual changes to family coverage. The limit applies to the combination of both contributions.

If the individual does not remain an eligible individual during the testing period (12 month rule), the amount of the distribution and contribution is includible in the individual's gross income. The testing period is the period beginning with the month of the contribution and ending on the last day of the 12th month following such month. The amount is includible for the taxable year of the first day during the testing period that the individual is not an eligible individual. A 10-percent additional tax also applies to the amount includible. An exception applies if the individual ceases to be an eligible individual by reason of death or disability.

May I use my HRA or FSA to fund my HSA?

An individual may make a one-time contribution to an HSA of an amount distributed from an HRA or FSA and contributed through a direct transfer to an HSA without violating the otherwise applicable requirements for such arrangements.

The amount that can be distributed from the Health FSA or HRA may not exceed an amount equal to the lesser of (i) the balance in the Health FSA or HRA as of September 21, 2006, or (ii) the balance in the Health FSA or HRA as of the date of the distribution. The balance in the Health FSA or HRA as of any date is determined on a cash basis (i.e., expenses incurred that have not been reimbursed as of the date the determination is made are not taken into account).

Any amounts contributed to the HSA are excluded from the employee's income for income and employment tax purposes and are not taken into account in applying the maximum deduction limitation for HSA contributions. This provision is limited to one distribution with respect to each Health FSA or HRA of the individual.

Example: An individual has a balance in his or her Health FSA as of September 21, 2006 of \$2,000 and the balance in his or account as of January 1, 2008 is \$3,000. Under the new changes, the individual may distribute an amount not to exceed \$2,000 from his or her Health FSA to his or her HSA. If the individual ceases to be an eligible individual as of June 1, 2008, the \$2,000 contribution amount is included in his or her gross income and subject to a 10-percent additional tax. If instead, the distribution and contribution are made as of June 30, 2008 when the balance in the Health FSA is \$1,500, the amount of the distribution and contribution is limited to \$1,500.

DISTRIBUTIONS

How do I make withdrawals (or take distributions) from my HSA?

You can make tax-free withdrawals (also known as distributions) from your HSA to pay for qualified medical expenses at any time during the year. When your account is opened, you receive a debit card and checks for easy access to your funds. However, you do not have to make withdrawals from your HSA each year. Your contributions remain in your HSA from year-to-year until you use them. If you make withdrawals for non-qualified medical expenses or for other reasons, the amount withdrawn will be subject to income tax and may be subject to an excise tax as well. Please keep in mind you should track all of your withdrawals from your HSA so you can supply documentation on your expenditures, if needed. It is up to you to monitor the deposits and withdrawals made to your HSA.

How do I report distributions on my tax return?

How you report your distributions depends on whether or not you used the distribution for qualified medical expenses.

- When you use a distribution from your HSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040.
- When you do not use a distribution from your HSA for qualified medical expenses, you must pay tax on the distribution and report the amount on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040. You must also report and pay an additional tax on your IRS Form 1040, unless you meet one of the exceptions established by the IRS. You will need to contact the IRS or your accountant for more information on the exceptions.

In addition, if an amount is contributed to your HSA this year (by you or your employer), and the HSA is used to pay for medical expenses of someone who is not covered by a high deductible health plan (HDHP), or is also covered by another health plan that is not an HDHP, at the time the expenses are incurred, you must report and pay tax on the distribution. See the IRS instructions on Form 8889 for more information.

Reporting and paying the additional tax: There is a 10% additional tax on the part of your distribution that was not used for a qualified medical expense. The account owner is required to report the additional tax in the Other Taxes section of your IRS Form 1040.

Exceptions to the additional tax: There is no additional tax if you are disabled, age 65 or older, or die during the year.

Are health insurance premiums qualified medical expenses?

In most cases, health insurance premiums are not qualified medical expenses. However, the following are exceptions:

- Premiums for qualified long-term care insurance
- Premiums for COBRA health care continuation coverage
- Premiums for health coverage while an individual is receiving unemployment compensation
- For individuals over age 65, premiums for Medicare Part A or B, a Medicare HMO and the employee share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance. Premiums for Medigap policies are not qualified medical expenses.