Employee Health Savings Account FAQ

We share this information for general informational purposes only. It does not necessarily address all of your specific issues. It should not be construed as, nor is it intended to provide, legal advice. Questions regarding specific issues and application of these rules should be addressed to your tax consultant as well as Human Resources and Payroll departments. IRS rules govern Health Savings Accounts and are therefore subject to change.

- ***No change of Medical Network (UHC Options PPO Network)***
- ***No change of Drug Formulary or Pharmacy Network***
  - ***You can still acquire 90 day supply at retail or Orchard Mail Order***
  - ***Rx data transmits to UMR daily. As long as you show your ID card at the pharmacy your cost for medication will apply to the Out of Pocket tracked by UMR***
  - ***Mail Order may or may not be cheaper. Consult the MedTrak Rx Price Finder tool or call MedTrak to compare Retail 90 vs. Mail Order pricing***
- ***You get the negotiated cost on medical and pharmacy claims when you show your UMR card at the providers office or pharmacy***
- ***Auglaize County will allocate $150 Single amount (annual) or $300 Family amount (annual) into either your Health Savings Account or Flexible Spending Account***
- ***The most any one individual will have to pay Out of Pocket in a Calendar Year is $2,600 (includes deductible, 20% co-insurance, Rx Copays)***

Who can have a High Deductible Health Plan (HDHP) with Health Savings Account (HSA)?

1)Who is an "eligible individual?"

An "eligible individual" is someone who: (1) has coverage under a qualified High Deductible Health Plan ("HDHP"); (2) cannot be claimed as a tax dependent by anyone else; (3) is not enrolled in **any** part of Medicare; and (4) does not have disqualifying coverage, such as being covered under a general purpose Flexible Spending Account or general purpose HRA (Health Reimbursement Arrangement). Eligibility is determined on a monthly basis on the first day of each month.

General Purpose FSA's cover Medical, Rx, Dental and Vision
Limited Purpose FSA's cover Dental and Vision only

If you are Medicare *eligible* but do not enroll in Parts A, B, C or D, then you are eligible to open and contribute to a Health Savings Account.

2) When is an individual's eligibility determined?

An individual's eligibility is determined on a monthly basis on the first day of the month. In addition, the HSA contribution limit is calculated on a monthly basis, and contributions may only be made for months in which an individual meets the eligibility requirements. If an individual becomes covered under an HDHP in the middle of a month, that individual becomes eligible to establish and contribute to an HSA on the first day of the following month (assuming all other eligibility requirements are met).

3) What is a Qualified High Deductible Health Plan?
A qualified High Deductible Health Plan (or "HDHP") is a type of health insurance plan that meets Internal Revenue Code Section 223(c)(2) requirements for minimum annual deductibles and maximum out-of-pocket expense limits. Other than meeting the specific statutory requirements, HDHPs may take many different forms so long as the plan provides "significant benefits." For example, a plan that covers only hospitalization or in-patient care does not provide "significant benefits" and thus cannot be an HDHP. Likewise a "fixed indemnity" plan (i.e., a plan that pays a flat dollar amount per day such as $100 per day while hospital confined) does not provide "significant benefits" and cannot be an HDHP. An employer-sponsored HDHP may be either self-insured or fully insured.

4) How do I know if someone can be claimed as a tax dependent?
Individuals who fall within the definition of "tax dependent" for purposes of Section 152 of the Internal Revenue Code are tax dependents for purposes of HSA eligibility. Code Section 152 defines tax dependents as either a "qualifying child" or a "qualifying relative." Spouses are not considered to be tax dependents for these purposes, but generally, children may be tax dependents. In any case, it is not the employer's responsibility to ask or verify whether an employee can be claimed as a tax dependent on another person's tax return; rather it is the individual's responsibility to know this information.

5) Can my HSA Account be joint owned?
No. You own the Account, and Health Savings Accounts are individually owned. Your financial institution may allow you to have an authorized signer on the account. HSA's cannot have joint ownership.

6) If I am 53 but my spouse is 55 can I still make the $1000 Catch-up contribution?
No because the catch-up rule applies only to the Account Holder per IRS regulations.

7) Can claims incurred prior to my Health Savings Account being effective be paid or reimbursed from the account?
No. Only claims incurred after the account was effective can be paid or reimbursed from the account.

8) If I cannot have an HSA will my FSA still be limited purpose?
If you cannot have an HAS (or elect not to have an HAS) and enroll in the FSA for 2017, your FSA will be a general purpose FSA. It can cover Medical, Rx, Dental & Vision.

Disqualifying Coverage

9) What coverage is "disqualifying coverage?"
Generally, "disqualifying coverage" is any non-HDHP coverage. However, disqualifying coverage does **not** include: (1) coverage for certain preventive care benefits (e.g., annual physicals or routine immunizations is satisfied; or (2) hospital care or medical services provided to a veteran received under any law administered by the Secretary of Veterans Affairs for a service-connected disability (effective for months following December 31, 2015).

Medicare & VA Coverage

Medicare is disqualifying coverage because Part A does not meet the definition of a High Deductible Health Plan.

If you're close to 65, but not getting Social Security or Railroad Retirement Board (RRB) benefits, you'll need to sign up for Medicare. Contact Social Security 3 months before you turn 65. You can also apply for Part A and Part B at socialsecurity.gov/retirement. If you worked for a railroad, contact the RRB. **In most cases, if you don't sign up for Part B when you're first eligible, you may have to pay a late enrollment penalty for as long as you have Part B.**

If you're eligible for free Part A, you can sign up for Part A once your Initial Enrollment Period starts. Your Part A coverage will start 6 months back from the date you apply for Medicare (or Social Security/ RRB benefits), but no earlier than the first month you were eligible for Medicare. However, you can only sign up for Part B (or Part A if you have to buy it) during the times listed below. **Remember, in most cases, if you don't sign up for Part A (if you have to buy it) and Part B when you're first eligible, you may have to pay a late enrollment penalty for as long as you have the coverage.**

Initial Enrollment Period

You can first sign up for Part A (if you have to buy it) and/or Part B during the 7-month period that begins 3 months before the month you turn 65, includes the month you turn 65, and ends 3 months after the month you turn 65.

If you sign up for Part A and/or Part B during the first 3 months of your Initial Enrollment Period, in most cases, your coverage starts the first day of your birthday month. However, if your birthday is on the first day of the month, your coverage will start the first day of the prior month.

If you enroll in Part A and/or Part B the month you turn 65 or during the last 3 months of your Initial Enrollment Period, the start date for your Medicare coverage will be delayed.

Special Enrollment Period

If you (or your spouse) are still working, you may have a chance to sign up for Medicare during a Special Enrollment Period. If you didn't sign up for Part B (or Part A if you have to buy it) when you were first eligible because you're covered under a group health plan based on current employment (your own, a spouse's, or if you're disabled, a family member's), you can sign up for Part A and/or Part B:

- Anytime you're still covered by the group health plan
  - During the 8-month period that begins the month after the employment ends or the coverage ends,
  - whichever happens first.

Usually, you don't pay a late enrollment penalty if you sign up during a Special Enrollment Period. This Special Enrollment Period doesn't apply to people with End-Stage Renal Disease (ESRD).

Note: If you're disabled, the employer offering the group health plan must have 100 or more employees to get a Special Enrollment Period.

General Enrollment Period

If you didn't sign up for Part A (if you have to buy it) and/or Part B (for which you must pay premiums) during your Initial Enrollment Period, and you don't qualify for a Special Enrollment Period, you can sign up between January 1–March 31 each year. **Your coverage won't start**

until July 1 of that year, and you may have to pay a higher Part A and/or Part B premium for late enrollment.

You can view the 2017 Medicare & Me Handbook by typing or pasting this link into your browser:

https://www.medicare.gov/pubs/pdf/10050-Medicare-and-You.pdf

Veterans: Generally, veterans are who are eligible for Veterans Health Administration (VA) medical benefits, but have not received VA benefits in the preceding three months are eligible to establish and make HSA contributions.

However, veterans who are enrolled in a high deductible health plan (HDHP), and have received treatment at a VA facility for a service-connected disability are able to establish and make HSA contributions regardless of whether they have received VA benefits in the preceding three months. The IRS has stated that for administrative convenience treatment at a VA facility will be treated as treatment for a service-connected disability if the individual has a disability rating from the VA. Note: VA medical benefits do not qualify as a HDHP

Deductibles and Out-of-Pocket Maximums

10) What is the IRS minimum annual deductible for qualifying self-only HDHP coverage?
Qualifying HDHP self-only coverage must have an annual deductible of at least $1,300 for 2016 and 2017 before any reimbursement may be made for eligible medical expenses (other than for preventive care). This amount is indexed and will likely be higher in future years.

11) What is the IRS maximum out-of-pocket expense limit for qualifying self-only HDHP coverage?
The maximum out-of-pocket expense limit for self-only HDHP coverage for 2016 and 2017 is $6,550. This amount is indexed and will likely be higher in future years.

12) What is the IRS minimum annual deductible for qualifying family HDHP coverage?
The minimum annual deductible for qualifying family HDHP coverage for 2016 and 2017 is $2,600. This amount is indexed and will likely be higher in future years.

13) What is the IRS maximum out-of-pocket expense limit for family HDHP coverage?
The maximum out-of-pocket expense limit for family HDHP coverage for 2016 and 2017 is $13,100. This amount is indexed and will likely be higher in future years.

14) What if the HDHP has both a per person and a family out-of-pocket deductible?
For qualifying HDHP coverage, individuals with family coverage cannot be reimbursed for medical expenses (other than preventive care) until the required statutory minimum annual deductible for family HDHP coverage has been met.

For Auglaize County, one or more family members may satisfy the family deductible.

15) What expenses count against the out-of-pocket maximum under a qualifying HDHP?
Deductibles, coinsurance, and Rx copay amounts applied toward meeting the deductible also count toward satisfying the out-of-pocket maximum under a qualifying HDHP.

Contributions

Check with the County Administrator on how frequently you can change your payroll contributions. You can contribute after-tax money to your HSA anytime and take the adjustment at the end of the year when you file your tax return.

16) Who can contribute to an HSA?
An employer, an employee, or someone on behalf of an employee may contribute to an HSA. Employer contributions to an employee's HSA are not included in the employee's gross income, and employers may deduct those HSA contributions as business expenses.

If you are over age 65 and enrolled in Medicare you can no longer contribute to your HSA. If you turn 65 in March, you can contribute in January and February only.

17) If I am only eligible for the HSA for 3 months can I keep the full Employer Contribution?
No. Employers must make pro-rata contributions for employees who are eligible for less than the full year. For example, if the employer contributes $300 for the full year, the employer must contribute $150 to an employee who is HSA eligible for 6 months.

18) What if my account ends up being over funded above the IRS Maximum Allowed Contribution?
An individual may have excess contributions based on an employer contribution (e.g., an employee loses HSA eligibility during the year where the employer pre-funds HSAs) or based on her own contribution. The individual must remove the excess contributions, plus earnings by the tax filing date (generally April 15) or pay a 6% excise tax on the excess contributions (including earnings on the excess amount). Excess employer contributions removed by the tax filing date will be taxable as income, but will not be subject to the 6% excise tax.

19) Does my Employer have to verify an employee's eligibility for an HSA?
An employer is only required to verify whether: (1) the individual is enrolled in your organization's HDHP; (2) whether the individual is enrolled in disqualifying coverage through your organization such as a health FSA or an HRA that is not HSA-compatible; and (3) the individual's age (to determine if the individual is eligible for catch-up contributions).

The employer may rely on information the employee provides about his/her age. The employer is not responsible for verifying that an individual may not be claimed as another taxpayer's dependent, that an individual is not enrolled in Medicare, or that the employee does not have disqualifying coverage from another source such as the spouse's employer.

20) What if my spouse has her own HSA through her employer and I am eligible to and want to open an HSA with my Employer?
Each spouse can have their own HSA and contribute between them up to the Family maximum ($6,750). The assumed IRS split is 50% or $3,375 each.

21) Mixed Single/Family Coverage During the Year – Individuals who are HSA eligible for the full year, but change from single to family (or family to single status) will need to pro-rate the contribution amount. For example:

> Tom is covered under a single HDHP. Tom gets married at the end of March and changes his coverage to family HDHP on April 1. Cindy drops her old coverage when she becomes covered under Tom's plan. Tom's maximum contribution (based on statutory maximums of $3,400 and $6,750) would be:
> $3,400/12 x 3 (3 months of single coverage) $850
> $6,750/12 x 9 (9 months of family coverage) $5,062.50
> Total $5,912.50

22) What if I determine later in the year after funding my HSA that I was not really eligible?
Situation: The employee selects family coverage under the employer's HDHP/HSA and elects to contribute $300 per month to the HSA under the employer's cafeteria plan. His wife waives medical coverage under her employer's health plan, but enrolls in her employer's general purpose FSA.

> ***Problem:*** Mid-year, after the employee has contributed $1,800 to his HSA account, he finds out that he is not HSA eligible because his wife enrolled in a general purpose FSA. Since the employee has not been HSA eligible at any time during the year, he can't contribute any amount to an HSA.
> ***Solution:*** The employee will need withdraw all of the funds and close the HSA. He will also need to cancel his $300 HSA election under the cafeteria plan. (Note: No other cafeteria plan changes may be made.) The employer will need to include the $1,800 already deducted on the employee's Form W-2 as taxable income. The employee will need to report any interest earned on the $1,800 while in the account since it will be taxable.

23) What if I have not established my HSA Account by January 1st?

> **Situation:** An employer has a calendar year HDHP and in 2017 contributes $50 each month to the HSA of any employee who enrolls in its HDHP. The employer does not select the HSA trustee/custodian. Employees must set up their own HSA accounts and provide information about the account so that the employer can transfer its $50 contribution each month.
> **Problem:** The employer transfers funds to employees' accounts every month, but is unable to make a contribution for two employees since they have not set up an HSA account by December 31, 2017.
>
> **Possible Solution:** The employer is required to notify employees of the requirement to set up an HSA in order to receive the employer's contribution. If the employee does not set up the account and notify the employer by the end of February (February 28, 2018 for the 2017 calendar year), the employer is not required to make its contribution. If the employee does set up the account and provide the necessary account information to the employer by February 28, 2018, the employer must make the contribution by April 15, 2018. (Note: If the employee sets up the account in January 2018, he/she may receive the 2017 contribution but will not be able to receive reimbursement for any 2017 expenses.

24) Can I transfer funds from one HSA to another HSA (I own both)?
Most likely you can and you should check with your banking institutions. There will be a HSA rollover/transfer form and you may only have a limited window of time to do this.

- HSA rollovers can only be rolled over once within a 12 month period
  - Members can deposit HSA funds to a personal account then send a personal check

    - Can also sign over the closing check by endorsing the back and including "For Deposit Only – Your Bank Name"
- Typically HSA transfers or HSA rollovers do not count against the current tax-year IRS contribution limit. However, if you made current tax-year contributions to your prior HSA, those contribution amounts will be counted toward the annual IRS contribution limit, and will be reported to the IRS by your previous custodian
- Fee's may apply

Distributions

25) Does an individual have to spend all of the contributions made during a given year in that same year?
No. HSA distributions that are made for "qualified medical expenses" are not subject to federal income tax. Unspent funds in an HSA may be rolled over to the next year and earnings will accrue tax-free. Distributions for expenses other than qualified medical expenses are subject to federal income tax and are generally subject to a 20% penalty.

26) Can an employer select a certain HSA trustee for employer and/or salary reduction contributions?
Yes, an employer may select an HSA trustee as long as there are no restrictions on the employee's taking the money out of the account (for example, the employee may choose to transfer the funds to another HSA trustee as soon as they are deposited).

27) Who is responsible for determining if distributions are for qualified medical expenses?
The individuals who own the HSAs are responsible for determining if distributions are for qualified or non-qualified expenses. Neither the HSA trustee, nor the employer is responsible for making this determination. Unlike FSAs or HRAs, claims adjudication by an independent third party is not required.

28) Can distributions from an HSA be made for the medical expenses of an individual's child? Is the age limit for a child "under 26"?
Distributions from an HSA can be made for medical expenses of children whom the individual claims as dependents on his or her income tax return (or whom the individual could claim, if the children's own incomes were disregarded). This means that for a child's expenses to be qualified medical expenses, the child must: (1) be under age 19 at the end of the year (or under age 24 if a student), (2) provide no more than half of his or her own support for the year, and (3) have the same principal place of abode as the individual for more than one-half of such taxable year. The child (adopted or natural) may be the individual's daughter, son, stepdaughter, stepson, or foster child, or a descendant of such a child (e.g., employee's grandchild); or the individual's brother, sister, stepbrother, stepsister, or a descendant of any such relative. In other words, HSA distribution rules do not use the "child under age 26" approach. The changes PPACA made to the tax treatment of adult children for health coverage such as major medical, dental, vision, and even FSAs do not apply to HSA distributions.

29) Can medical expenses for an individual's adult child – such as an employee's 25-year old daughter – ever be considered qualified medical expenses?
An adult child's medical expenses can be considered qualified medical expenses if the adult child meets the definition of "qualifying relative" under Section 152 of the Internal Revenue Code. Generally, a "qualifying relative" is someone whom the employee (i.e., the HSA account owner) provides with over one-half of support for the calendar year, **and** is the employee's child (or grandchild), sibling or step-sibling, parent, grandparent, step-parent, niece or nephew; aunt or uncle; son-in-law, daughter-in-law, father-law, mother-in-law, brother-in-law, or sister-in-law. Thus a 25-year-old daughter for whom the

employee provides more than one half of support for the calendar year satisfies the definition of qualifying relative whose medical expenses may be paid out of the HSA, even though she exceeds the age limit for “qualifying child” (see Q&A 33). An individual (other than the spouse) who for the year has the same principal place of abode as the taxpayer and is a member of the taxpayer’s household may also be considered a “qualifying relative,” if such individual receives more than one-half of his or her support from the HSA account holder for the calendar year.

30) Does the individual have to be HSA eligible when a distribution is made from his/her HSA account?
No. The individual is required to be HSA eligible only when the HSA account is established and when he or she contributes money into the HSA account.

Non-Qualified Distributions

Any withdrawal of funds from an HSA that is not used for a qualified expense is a nonqualified withdrawal. Examples of nonqualified withdrawals include payment for health care expenses that are not deductible (e.g., cosmetic treatments), payment of Medigap premiums, payment of health care contributions under an employer’s retiree health care plan for an individual under age 65, or to pay for a cruise. Payment of health care expenses for a non-tax dependent (e.g., domestic or civil union partner who is not a tax dependent) is also a nonqualified withdrawal. Nonqualified withdrawals are taxable income to the account holder. In addition, a 20% tax penalty applies to most nonqualified withdrawals.
There are three exceptions to the 20% penalty rule:
1) The withdrawal is made after the HSA account holder has reached age 65.
2) The HSA account holder becomes disabled as defined in Internal Revenue Code Section 72(m)(7).
3) The HSA account holder dies. The HSA ceases to be an HSA and becomes taxable as income to the beneficiary (separate rules apply to a surviving spouse – see below).

Other Questions

31) What happens to my account if I die?
The HSA account holder dies. The HSA ceases to be an HSA and becomes taxable as income to the beneficiary (separate rules apply to a surviving spouse – see below).

> -If the account holder dies and the surviving spouse was the designated beneficiary, the surviving spouse inherits the HSA (Federal tax-free) and may continue to withdraw funds for qualified expenses on a tax-free basis.

32) What if I get divorced or married and/or I change from Family/Single to Single/Family?
Situation: In January an employee selects husband & wife coverage under the employer’s HDHP/HSA and contributes $550 per month to the HSA under the employer’s cafeteria plan. In June the employee is divorced. In late October the employee remembers that he needs to change his HSA election.
Problem: The employee has already contributed more than the maximum amount to his HSA even if he remains HSA eligible for November and December 2016. He has contributed $5,500 ($550 x 10 months). The maximum he can contribute for the full calendar year is 6 months at the family level ($6,750/12 x 6 = $3,375) plus 6 months at the self-only level ($3,350/12 x 6 = $1,675) or $5,050.
Solution: The employee will need to withdraw the excess funds ($450 plus earnings) and cancel his HSA contributions for November and December. The employer will need to report $450 as taxable income on the employee’s Form W-2. The employee will be responsible for reporting any interest earned on the $450.

33) What if I am only enrolled in the HSA for a partial year? Can my account be funded up to the IRS Maximum Allowable?

Situation: An employee is hired in June 2016 and enrolls in single coverage in the employer's HDHP/HSA plan effective July 1, 2016. The employee elects to make pre-tax HSA contributions of $400 per month for the rest of 2016. At open enrollment in December, the employee changes to a $500 deductible PPO for January 1, 2017.
Problem: While an employee who is HSA eligible on December 1, 2016 may make the full contribution for 2016 ($3,350 for single HDHP coverage), the employee must remain HSA eligible during a "testing period" which in this case would be all of 2017. If the employee does not remain HSA eligible during this testing period, his contribution is limited based on the number of months he was HSA eligible during 2016 – 6 months for this employee. This employee's maximum HSA contribution for 2016 would be $1,675 (1/2 of the full $3,350 maximum). By the end of 2016, he has contributed $2,400.
Solution: The employee will need to withdraw the excess funds ($775 plus earnings) before his April 17, 2017 tax filing deadline. If he does not withdraw the excess funds including earnings, he will be subject to an excise tax on excess funds and earnings. *Note: If the employee loses HSA eligibility at a later point in the testing period such as July 2016, he will still need to withdraw the excess funds and earnings but will not be able to avoid paying an excise tax.*

34) What if I receive a refund check due to the provider being overpaid?
Employee Receives Refund of Overpayment from a Healthcare Provider
Situation: An individual receives services from a healthcare provider and pays his $300 coinsurance from funds in his HSA. The provider later determines that he billed an incorrect amount and that the correct coinsurance is $250. The provider sends the individual a check refunding the $50 overcharge.
Problem: The individual has received a $300 reimbursement from the HSA account when his qualified expense was only $250. The additional $50 is reimbursement of a non-qualified expense.
Possible Solution: Using the IRS guidance on permitted corrections based on a "mistake of fact", it appears that the individual should be able to redeposit the $50 refund into his HSA account, but he would need to do so before his April 15 tax filing deadline. If instead he cashes the check and keeps the cash rather than re-depositing the money into his HSA, the $50 would be a non-qualified distribution subject to tax and the 20% penalty.