

HEALTH SAVINGS ACCOUNT



IMPORTANT INFORMATION

WHAT IS A HEALTH SAVINGS ACCOUNT?

A Health Savings Account (HSA) is a tax-exempt spending account used in conjunction with a high deductible health plan. An HSA is similar to a 401(k) or IRA, except the HSA is used to save money for qualified medical expenses. Your HSA may be used to pay for medical expenses as they occur, or the funds may remain in your account until you need them later in life.

WHO IS ELIGIBLE FOR AN HSA?

In order to open or contribute to an HSA you must be covered by a qualified high deductible health plan (HDHP). The HDHP is the insurance plan that has a high deductible dollar amount (or limit) you must satisfy before the plan provides payment. However, preventive services, such as routine physicals, well-child checks, various screenings, etc., are often paid by the HDHP before the deductible is applied. The IRS has specified certain criteria for an HDHP to be a qualified plan and HSA eligible. Your carrier can tell you if your HDHP is HSA eligible.

The law prohibits you from being eligible for an HSA if you are covered by any other health plan that is not a high deductible health plan. However, this provision excludes specific accident, injury, disability, dental, vision, and long-term care insurance, as well as limited purpose Flexible Spending Accounts (those which only pay for limited expenses such as vision, dental, and orthodontia).

In addition to the eligibility requirements, you cannot receive benefits under Medicare or be claimed as a dependent on any other person's tax return.

WHAT ARE THE BENEFITS OF HSAs?

HSAs help manage and control health care costs and provide you with substantial tax savings. Contributions made to the HSA and disbursements from the HSA are not subject to tax. Contributions to an HSA may be invested in a variety of funds providing excellent long-term growth potential. In addition, interest and investment earnings on HSA contributions are tax-free.

With an HSA as a component, your high deductible health plans are easier to manage with HSAs. Coinsurance, deductibles, and medical expenses that do not receive first dollar coverage by your health plan can be reimbursed by your HSA. With this design, you are in control of your health care costs. Aside from medical expenses, the HSA may also cover certain premiums such as COBRA and Medicare.

Disbursements from the HSA for eligible medical expenses are tax-free. Disbursements made for non-qualified expenses are subject to income tax and a 20 percent penalty. Once you reach age 65 or if you become disabled, disbursements for non-qualified expenses may be made without penalty, but will be subject to income tax.

Funds in an HSA roll over from year to year. There is no "use it or lose it" rule. For this reason, you do not have to rush to incur unnecessary medical expenses at year end to avoid losing your money. HSAs are individually owned and portable. Unlike similar benefits, your HSA is not forfeited when you terminate or change employment.

HOW MUCH MONEY MAY BE CONTRIBUTED TO AN HSA?

If you carry single high deductible health plan coverage, you can contribute up to \$3,600 to your HSA for the 2021 tax year and \$3,650 for 2022. If you carry family coverage, you can contribute up to \$7,200 for 2021 and \$7,300 for the 2022 plan year.

If you are 55 years of age or older, you are able to make additional "catch-up" contributions to the HSA. The catch-up contribution is \$1,000.

WHAT EXPENSES CAN BE PAID BY HSA?

Your HSA covers a wide variety of medical, dental, and vision expenses. These expenses must be medically necessary for the diagnosis, treatment, or alleviation of a specific illness or injury. They may include hospital or clinic services, prescription drugs and medications, certain over-the-counter medical supplies, and many other health related expenses as defined by Section 213(d) of the Internal Revenue Code. Medical expenses covered under the HSA can include expenses that are not covered under the high deductible health plan such as chiropractic, dental, orthodontia, or vision expenses.

Your HSA can also be used to pay premiums for COBRA, long-term care insurance and health plan coverage you may have while receiving unemployment compensation. Once you reach age 65, your HSA can be used to pay Medicare premiums, as well as health insurance premiums, with the exception of Medicare supplemental insurance premiums.

HOW DO I DETERMINE MY ELIGIBILITY?

The first step in establishing your HSA is to determine your eligibility. In order to be eligible to establish an HSA you must:

- Be enrolled in a qualified high deductible health plan that has a minimum annual deductible of \$1,400 (with \$7,050 out-of-pocket max) for single coverage and \$2,800 (with \$14,100 out-of-pocket max) for family coverage.
- Not be claimed as a dependent on any other person's tax return.
- Not be receiving benefits under Medicare.
- Not be covered by any other health plan that is not a high deductible health plan.*

*Excludes specific accident and injury insurance, disability, dental care, vision care, long-term care, and limited purpose Flexible Spending Accounts (those which only pay for limited expenses such as vision, dental, and orthodontia).

CAN I INVEST MY HSA FUNDS?*

The money contributed to your HSA will be deposited into an interest-bearing, FDIC-insured cash account. Once your HSA balance exceeds \$2,000, you will have the option to invest your money in a variety of mutual funds. You will be required to maintain a minimum \$2,000 "threshold" or cash balance in order to invest additional money in the mutual fund options. If you elect to invest in the mutual funds, you will be asked to define your investment threshold. This can be the \$2,000 minimum or any greater amount.

Your debit card will always be linked to the balance in your cash account. Keep this in mind when deciding the right threshold amount for your HSA.

If you swipe your debit card for \$100 or more, it will trigger an auto-sweep, meaning money is transferred from the mutual fund investments back to your cash account to replenish the available cash balance. The sale from the mutual funds will be pro-rata by fund balance.

WHAT ARE MY RESPONSIBILITIES?

Because an HSA is individually owned, there are some responsibilities that lie with you, the account holder. You are responsible for ensuring that your contributions do not exceed the established maximum. It is also your responsibility to ensure that your HSA distributions are for qualified expenses. There is not a requirement to submit your receipts for reimbursement, but you should save your receipts in the event of an IRS audit.

You will also be required to file IRS Form 8889 with your personal income taxes. This form reports your HSA eligibility for the given tax year, as well as your total HSA contributions and distributions for the year. Form 8889 also calculates the tax savings that you have incurred by using an HSA.

More information about IRS Form 8889 is available online at www.irs.gov.

Q: What happens to my HSA if I die?

A: You will designate a beneficiary at the time your HSA is established. If the beneficiary is your spouse, the HSA becomes your spouse's HSA. If the beneficiary is not your spouse, the HSA ceases to be an HSA and the value of the HSA becomes taxable to the designated beneficiary.

Q: Can I have more than one HSA?

A: Yes, you can have more than one HSA. However, the maximum contribution limit applies to you as an account holder, and total contributions to any and all HSAs must not exceed that limit.

Q: When must an expense be incurred in order to be eligible for payment from my HSA?

A: Any eligible expense incurred on or after the date that you initially established your HSA can be paid from your HSA. Expenses incurred prior to the establishment of your HSA are not eligible.

Q: What permitted types of insurance coverage can I have that won't disqualify me for an HSA?

A: Insurance that pays a fixed amount per day (or other period) of hospitalization, or coverage primarily related to accidents, vision care, dental care, long-term care, disability, specific diseases, or various liabilities.

Q: Can my HSA money be rolled into an IRA or 401(k), or vice-versa?

A: HSA funds can only be rolled into another HSA. 401(k) funds can never be rolled into an HSA, but you are allowed a one-time transfer from an IRA into an HSA. An IRA transfer into an HSA is subject to the maximum annual HSA contribution limit.

Q: Who is responsible for determining whether the expenses I submit to my HSA for disbursement are qualified expenses?

A: This responsibility lies with you, the account holder. You are required to retain documentation to support these expenses for your own personal records, as well as for individual audit purposes.

Q: What tax forms will I receive regarding my HSA?

A: You will receive a copy of both Form 1099-SA in January. The HSA trustee files these forms with the IRS to report all disbursements paid from and total contributions to your account during the preceding tax year.

You will also receive a copy of Form 5498-SA in May. This form is also filed by the trustee and it reports the total contributions to your HSA for the preceding tax year, as well as the fair market value of your account as of the last day of the year. Don't be alarmed that this form arrives in May, it is required to be filed after April 15 of each year.

Both the 1099-SA and the 5498-SA are filed directly with the IRS by your HSA custodian and the copies you receive are duplicates.

Q: What tax forms am I required to file?

A: You are required to file Form 8889 with your personal income taxes.

Q: How do I contact Alerus with questions about my HSA?

A: You can view your HSA online any time by visiting alerusrb.com. You can also contact Alerus' Client Service Center at **877.661.4727** or email healthbenefits@alerus.com.