Indiana University Health

2018 Health Savings Account (HSA)
Frequently Asked Questions

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2018 Health Savings Account (HSA)
Frequently Asked Questions

Health Savings Account (HSA) Plans

What is a Health Savings Account (HSA)?
A Health Savings Account (HSA) is a special tax-advantaged savings account similar to a traditional Individual retirement account (IRA) but designated for medical expenses. An HSA allows you to pay for current covered healthcare expenses and save for future qualified medical and retiree healthcare expenses on a tax-favored basis.

HSAs provide triple-tax advantages: contributions, investment earnings and qualified distributions are all exempt from federal income tax, FICA (Social Security and Medicare) tax and state income taxes (for most states). Consult your financial advisor or State Department of Revenue for more information on how these rules may apply to your personal tax situation.

Unused HSA dollars roll over from year to year, making HSAs a convenient and easy way to save and invest for future medical expenses. You own your HSA at all times and can take it with you when you change medical plans, change jobs or retire. This means the funds in the account (both yours and those contributed by IU Health) are non-forfeitable and are portable.

Members can choose to invest their HSA funds (minimum $2,000 balance requirement) in money market accounts, mutual funds and the like, providing an opportunity for funds to grow.

You must be enrolled in an IU Health HSA medical plan to open an HSA account.

How does an IU Health HSA work?
Your HSA works in conjunction with your IU Health HSA-based medical plan. All the money deposited into your HSA, up to the maximum annual contribution limit, is 100 percent tax-deductible for federal income tax, FICA (Social Security and Medicare) tax and state income tax. This makes HSA dollars tax-free.

Consult your financial advisor or State Department of Revenue for more information about how these rules may apply to your personal tax situation.

You can use these tax-free dollars to pay for expenses covered under your IU Health HSA-based medical plan. The insurance company pays covered medical expenses above your deductible except for any coinsurance; you can pay deductible and coinsurance costs with tax-free money from your HSA. In addition, you can use tax-free dollars for qualified medical expenses not covered by the HSA Medical Plan or HSA Medical Saver Plan, such as dental, vision and alternative medicines.

Funds remaining in your account at year-end cannot be forfeited; they roll over and accumulate for your future healthcare expenses. You may choose not to spend your HSA dollars on small expenses, instead using after-tax dollars to meet these expenses, and leaving your HSA dollars to grow for future needs. Choosing which expenses to spend your HSA dollars on and which to pay out-of-pocket with after-tax dollars is entirely up to you.

How is money deposited to my HSA?
You may deposit money to your HSA through payroll deduction or directly to your account. Deposits may be made periodically or in a lump sum.

> **Payroll deduction:** You may specify a contribution to be deducted from your paycheck. This contribution will be made before Social Security, federal and state income taxes are deducted.
> **After-tax contribution:** You may choose to make all or part of your annual account contributions to your HSA by making "after-tax" contributions to your account. These contributions, which you can make by writing a personal check, may be deducted on your income tax return, using IRS Form 1040 and Form 8889.

If you elect coverage under the IU Health team member HSA Medical Plan or HSA Medical Saver Plan, IU Health will contribute to your HSA account as well (total annual contribution of $700 per individual/$1,400 per family). IU Health will deposit these funds in your HSA account the first pay period of the month in which coverage is effective. (This amount will be prorated on a quarterly basis depending on when coverage begins.)

Contributions from all sources—including your contributions and those made by IU Health–must be added together for purposes of determining whether you are within the IRS maximum contribution limits for the year.

Note: You will use IRS Form 1040 for your HSA contributions, not the short Form 1040A or 1040EZ. This deduction is taken "above the line"—you do not need to itemize contributions on Schedule A to claim the deduction for HSA contributions.

A tip: You can contribute up to the maximum allowed for the year at any time until April 15 of the following year. (For example, you can deduct an additional after-tax contribution on your 2018 income tax return when you file your 2018 tax return in 2019.)

What are the advantages of an HSA?
There are many advantages to establishing and funding an HSA including:
– Contributions through payroll deposits are usually made with pretax dollars, meaning they are not subject to federal income taxes (or state income taxes in most states).
– Contributions to your HSA made with after-tax dollars can be deducted from your gross income, meaning you pay less income tax at the end of the year.
– Employers may make contributions to your account; these contributions are excluded from your gross income.
– Funds withdrawn from your HSA for qualified medical, dental and/or vision expenses are not subject to federal income tax (or state income taxes, for most states),
– Unused funds accumulate over time and remain available for future medical expenses.
– Anyone—you, your employer, family members, etc.—may contribute to your HSA up to the maximum annual contribution limit.
– The interest you earn on your HSA balance is not subject to federal income taxes (or state income taxes in most states).
–Funds may be invested (minimum $2,000 balance requirement to begin investment) in money market accounts, mutual funds and the like, providing an opportunity for funds to grow.

In addition, HSA accounts are flexible and portable:

> **Flexible:** The money is yours; it grows and remains with you, even when you change medical plans, change employers or retire. There are no "use it or lose it" rules. Even if you are no longer eligible to make contributions, funds in your account may still be used to pay for qualified medical expenses tax-free.
> **Portable:** Accounts move with you when you change medical plans, change employers or retire.

How do HSAs differ from Health Care Flexible Spending Accounts (HCFSAs)?
Both HSAs and FSAs allow you to pay for qualified medical expenses with pretax dollars. One key difference, however, is that HSA balances can roll over from year to year, while in most cases, FSA money left unspent at the end of the year is forfeited. IU Health has adopted the “$500 carryover” FSA option. This allows team members to carry over up to $500 of their health care FSA balance into the next plan year. Balances above $500 will be forfeited at the end of the current plan year.

You may contribute to both an HSA and a Limited-Purpose FSA. A Limited-Purpose FSA is an FSA that may only be used to pay for eligible dental and vision expenses not otherwise covered by your HSA-based medical plan such as:
– Vision expenses including glasses, frames, contacts, prescription sunglasses, goggles, vision copayments, optometrists or ophthalmologist fees and corrective eye surgery
– Dental expenses, including dental care, deductibles and copayments, braces, x-rays, fillings and dentures

How is an HSA different from a savings account?
The funds in a regular savings account do not have the tax advantages of an HSA.

Can my spouse and I have a joint HSA, like our regular checking account?
No, an HSA is an individual account; only one person can be named the account owner.

HSA Medical Plan Eligibility and Enrollment

Can I have an HSA in addition to an IRA or other qualified retirement plan?
Yes, you can have both an HSA and an IRA. Although HSAs operate under many of the same rules as traditional IRAs, an HSA is not an IRA; it is a tax-advantaged savings account for current and future medical expenses.

My spouse's employer provides low-deductible family coverage at no cost, and I am covered under that plan. Am I eligible to enroll in an IU Health team member HSA-based medical plan?
Yes, you would be eligible to enroll in an IU Health team member HSA-based medical plan, but would not be eligible for the associated HSA as long as you are covered by any other health plan that pays first dollar other than permitted coverage such as for dental, vision or disability.

I am 65 years old, which makes me eligible for Medicare, but I'm still working and have kept my IU Health team member medical plan instead of enrolling in Medicare. Am I eligible for the associated HSA if I enroll in one of IU Health's team member HSA-based medical plans for 2018?
Yes. You are eligible for the associated HSA as long as you are not enrolled in benefits under Medicare—including Medicare (Parts A, B, C and/or D).

On the online enrollment Welcome page, why am I asked if I will be covered by Medicare (Parts A, B, C and/or D), Medicaid, CHAMPVA, TriCare or another non-HSA-based medical plan (i.e.. through spouse or parent's employer)in 2018; covered under my spouse's PPO medical plan through his/her employer in 2018; or if my spouse will be enrolled in a traditional health care flexible spending account (HCFSA) in 2018 or in a Health Reimbursement Arrangement (HRA) or Health Incentive Account (HIA) through his/her employer, that may be used to pay for my eligible expenses in 2018 to determine my eligibility for enrollment in an HSA?

Per federal regulations, HSA-based medical plan members are not eligible for the associated HSA if they have first-dollar coverage. If you answer no, you would be eligible for the associated HSA. If you answer yes to this question, you would be eligible to enroll in a traditional health care FSA in order to use pretax dollars to pay for eligible medical, dental and vision expenses.

If I turn 65 during 2018, can I have an HSA until I enroll in Medicare later in the year?
Yes. You should answer "no" to the HSA eligibility question on the online enrollment Welcome page. However, you will need to request to have your HSA per-pay contributions stopped the first of the month in which your Medicare coverage is effective.

If I am over 65, enrolled in an IU Health HSA-based medical plan with the associated HSA, and decide in 2018 to enroll in Medicare A, B, C and/or D, can I still contribute to my HSA?
No. If you are planning to enroll in Medicare during the year, you should stop contributing to your HSA prior to your Medicare coverage becoming effective.

What is "first-dollar" coverage, and what first-dollar benefits make me ineligible for the associated HSA if I enrolled in an IU Health team member HSA-based medical plan?
First-dollar coverage means that you may receive a reimbursement for expenses immediately, without first meeting a deductible. First-dollar benefits paid for "permitted insurance" expenses (such as vision and dental paid through a Limited-Purpose FSA) or preventive care do not disqualify you from participating in the associated HSA plan.

However, first-dollar reimbursements for covered expenses from the following would make you ineligible for the associated HSA if enrolled in an IU Health team member HSA-based medical plan:

- You are enrolled in Medicare (Parts A, B, C and/or D), Medicaid, CHAMPVA, TriCare or another non-HSA-based medical plan (i.e. through spouse or parent's employer)
- Your spouse is enrolled in a traditional Health Care Flexible Spending Account (FSA) through his/her employer
- Your spouse is enrolled in a Health Reimbursement Account (HRA) or Health Incentive Account (HIA) through his/her employer that may be used to pay for your eligible expenses

Are there any age restrictions regarding opening an HSA?
The only age-related restriction for HSAs is that once an HSA account owner enrolls in Medicare, contributions to the account must stop. Generally this means at age 65. If, however, you become disabled and entitled to Medicare earlier, contributions to the HSA account must stop beginning with the month in which you enroll in Medicare. If you can be claimed as a dependent on someone else's tax return, you are ineligible to open an HSA. In addition, although this is not an age restriction, generally you cannot open an HSA for your child if you or someone else claims them as a dependent.

Does how much I contribute to my IRA limit how much I can contribute to my HSA?
No. Your HSA contributions are limited to an annual maximum adjusted each year by the IRS. Your contributions to an IRA have no bearing on your HSA and vice versa.

How much can I contribute to my HSA?
For 2018, the combined maximum contributions to your HSA, including any made by IU Health or a prior employer, are $3,450 if you have individual coverage and $6,900 if you have family coverage. If you turn age 55 or older in 2018, you may add up to $1,000 more as a "catch up" contribution.

If I elect a dental plan and the vision plan offered by IU Health, along with one of the HSA-based medical plan options, can I contribute to an HSA?
Yes. As long as you are covered by one of the IU Health HSA-based medical plans, you also may be covered for any benefit provided by "permitted insurance" as defined by IRS code. Permitted insurance includes insurance policies that provide coverage for accidents, disability, dental care, vision care or long-term care.

Can anyone enrolled in one of the IU Health team member HSA-based medical plans make catch-up contributions to an HSA?
No. If you turn 55 or older in 2018, you can make additional catch-up contributions each year until you are enrolled in Medicare benefits. The individual maximum annual catch-up contribution for 2018 is $1,000. If both spouses have HSAs, then each is permitted full catch-up contributions, provided they are covered by a qualified medical plan for the entire year.

How are my HSA contributions taxed?
Contributions to your HSA are not subject to federal taxes or state tax (for most states) unless used to pay for non-qualified expenses. Contributions may be made either directly by you to your HSA or through payroll deduction. Either way, your contributions are not subject to federal income tax, FICA (Social Security and Medicare) tax and for most states, state income tax. If you make your contributions through payroll deduction, the amount is taken before taxes are calculated. If you make deposits directly to your account, you may take an "above the line" deduction when filing your annual tax return. "Above the line" means you reduce your taxable income regardless of whether you itemize or use the standard deduction on your income tax form. You may deduct the contribution amount, subject to the maximum annual contribution limits, from your taxes at filing time. You do not take a deduction for contributions made by IU Health to your account, but they are excluded from your gross income.

How are contributions made by a family member or anyone else to my HSA taxed?
If a family member or anyone else makes a contribution to your HSA, the tax advantages apply to you and not the person making the contribution. You may deduct the contribution amount when filing your annual income taxes in the same way you would if you had deposited the post-tax contribution on your own. IU Health will make contributions to your account as well; while you do not take a deduction for these contributions, they are excluded from your gross income. All contributions to the account are combined and subject to maximum annual contribution limits.

Can I make one lump-sum contribution to my HSA early in the year or spread my contributions throughout the year?
Contributions for the taxable year can be made in one or more payments at your convenience. The IRS determines maximum annual contributions by your coverage type (single or family). The annual total of all contributions to your account, from all sources, cannot exceed the IRS maximum annual contribution.

What happens if I contribute more than my maximum annual contribution to my HSA?
If you contribute more than your maximum annual contribution to your HSA, you may withdraw the excess without penalty until April 15 of the following year. After that, the funds are subject to both ordinary income taxes and an excise tax.

If I make contributions to my HSA through pretax payroll deductions (Section 125 cafeteria plan), can I change the per-payroll deduction at any time?
You may increase, decrease, start or stop your HSA contributions at any time, but remember that you are still restricted to your maximum annual contribution.

What is the last date I may make a deposit toward my maximum annual contribution and still take an "above the line" deduction for the year?
You have until April 15, 2019 for contributions to your 2018 HSA coverage.

Using your HSA

What healthcare expenses does my HSA cover?
Your HSA funds can be used tax-free to pay for out-of-pocket qualified medical expenses, even if the expenses are not covered by your HSA-based medical plan. This includes expenses incurred by your family. There are hundreds of qualified medical expenses, including many you might not expect, such as dental visits, orthodontics, glasses, long-term care insurance premiums, cost of COBRA coverage, medical insurance premiums while receiving federal or state unemployment compensation and post-age-65 premiums for coverage other than Medigap or Medicare supplemental plans.

Amounts paid for over-the-counter drugs are not eligible for reimbursement from your HSA unless prescribed by a doctor.

Expenses for over-the-counter items such as insulin and diabetic supplies, bandages, band-aids and contact lens supplies are reimbursable from your HSA without a prescription. Refer to IRS Publication 502 for a more complete list of qualified medical expenses.

How do I prove my HSA claims/payouts are qualified?
While Health Care Flexible Spending Accounts (HCFSAs) require substantiation of your transactions, this is not necessary for HSAs. It is, however, **highly recommended** that you keep your receipts so you can prove your claims were qualified if you are audited by the IRS.

My doctor just prescribed a medication. Do I have to meet my plan deductible before I can be reimbursed for any of my medications?
Prescription medications are covered expenses under IU Health HSA-based medical plans, but you must meet the deductible before you will be reimbursed by the insurance plan for these expenses, except for certain specific preventive medications. You may use tax-free HSA funds for reimbursement before the deductible is met.
*Note: If enrolled at the family coverage level—Employee & Spouse, Employee & Child[ren] or Family—you must meet the **full family deductible** before the plan begins to pay.)*

If I am enrolled in an IU Health HSA-based medical plan and I see a doctor for treatment (not a preventive visit), am I charged the typical copayment for the visit, or am I responsible for paying the full charge?
You are responsible for the **full** amount charged until you have met your deductible. Only then will copayments and coinsurance apply. You may use your HSA funds to be reimbursed for these qualified medical expenses.

*Note: If enrolled at the family coverage level—Employee & Spouse, Employee & Child[ren] or Family—you must meet the **full family deductible** before the plan begins to pay.)*

How do I use my HSA to pay my physician when I'm at the physician's office?
If you have not met your HSA-based medical plan policy deductible, you will be responsible for 100 percent of the amount agreed to be paid by your insurance policy to the physician (except for specified preventive care services and preventive prescriptions). Your physician may ask you to pay for the services provided before you leave the office. You may use your HSA debit card to pay your physician directly from the account. Alternatively, 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 its 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 percent of this negotiated amount. If you have not already made a payment to the physician for the services provided, the physician may then send you a bill for payment.

Can I pay out-of-pocket covered expenses with after-tax dollars instead of using my HSA funds?
Yes, you may pay for qualified medical expenses with after-tax dollars, allowing your HSA balance to grow tax-free. Many HSA participants elect to pay smaller expenses with after-tax dollars while allowing their HSA balances to grow for the future.

Can I pay for my spouse's/dependent children's qualified medical expenses from my HSA even if they are not covered under my IU Health HSA-based medical plan?
Your HSA funds can be used to pay for out-of-pocket qualified medical expenses, even if the expenses are not covered by your plan. This includes expenses incurred by your family members who qualify as your dependents for tax purposes.

Are dental and vision care qualified expenses under an HSA?
Yes. Dental and vision care expenses are qualified expenses, as long as these are deductible from your income tax under the current IRS rules. For example, glasses, contacts and braces are deductible; cosmetic procedures, like cosmetic dentistry, generally are not deductible and would not be considered qualified expenses.

How soon can I withdraw funds from my HSA for qualified expenses? For example, what if I incur a medical expense in January that costs more than I have in my account?
Just like a checking account, you can only access funds once they are posted to your account. So, in this case, you would have to pay any charges in excess of your HSA balance yourself, then as additional funds are added to your account via your deposits, you can reimburse yourself for qualified medical expenses paid for out-of-pocket, so long as those expenses occur after the date of the establishment of your HSA.

What happens if I take a non-medical distribution or a distribution for a non-qualified expense?
If you take a non-qualified distribution, you are subject to ordinary income tax and a 20 percent penalty tax. If you are age 65 or older, disabled, or your estate pays bills subsequent to your death, the 20 percent penalty may not apply. The IRS requires confirmation that your distributions are for qualified medical expenses. It is your responsibility to keep all documents (such as receipts) that show how you used your HSA, including any for non-qualified transactions, and self-report accordingly on your annual tax return.

How are distributions from my HSA taxed?
Distributions from your HSA that are used exclusively to pay for qualified medical expenses for you, your spouse or tax-qualified dependents are excludable from your gross income. Your HSA funds can be used for qualified medical expenses and will continue tax-free (from federal taxes and state tax, for most states) even if you are not currently eligible to make contributions to your HSA. If you take a non-qualified distribution, you are subject to ordinary income taxes and a 20 percent penalty tax. The 20 percent penalty may not apply if you are age 65 or older, disabled, or for the year in which you die.

Managing Your HSA

What happens if my medical expenses do not reach my deductible?
There are no "use it or lose it" rules with regard to your HSA. Unused funds roll over from year to year. The money in your HSA is all yours. The less money you spend, the more money you have that may earn interest or be invested.

Who has control over the money invested in my HSA?
You have full control over the assets in your HSA. When the total funds in your IU Health HSA reach $2,000, you have the option to invest excess monies. You may choose from among any of the investment options offered.

What happens to my HSA in the case of divorce?
In case of divorce, an HSA can be transferred between spouses without taxation. This is not considered a taxable distribution. All HSA rules regarding tax-free status of contributions and distributions apply. Consult your personal tax advisor for information regarding how these rules may apply to your personal tax situation.

If I am on my spouse's HSA- based medical plan offered by his/her employer, we divorce and split the HSA funds, am I allowed to enroll in an IU Health traditional PPO medical plan?
Yes, you would be eligible for the PPO plan; however, you wouldn't be eligible to make additional HSA contributions.

What happens to my HSA if I become disabled?
If you become disabled and enroll in Medicare, contributions to your HSA must stop as of the first of the month in which you enroll in Medicare. You may use your HSA funds to pay Medicare Part A and/or B premiums. Payment of Medicare premiums is a qualified expense and a tax-free distribution. HSA distributions used for non-qualified expenses will be subject to ordinary income taxes but exempt from penalty.

What happens to my HSA if I quit my job or otherwise leave my employer?
Your HSA is portable, meaning you can take your HSA with you when you leave and continue to use the funds you have accumulated. Funds left in your account continue to grow tax-free. If you are covered by a qualified high-deductible health plan, you can even continue to make tax-free contributions to your HSA.

Do I need to elect COBRA to continue my HSA if I leave my current employer?
Your HSA is not subject to COBRA provisions. It is your account to take with you and to maintain as you choose.

Reaching age 65 with an HSA

What happens to the money in my HSA after I reach age 65?
At age 65 and older, your funds continue to be available without federal taxes or state tax (for most states) for qualified medical expenses; for instance, you may use your HSA to pay certain insurance premiums or your share of retiree medical coverage offered by a former employer. Funds cannot be used tax-free to purchase Medigap or Medicare supplemental policies.

If you use your funds for qualified medical expenses, the distributions from your account remain tax-free. If you use the monies for non-qualified expenses, the distribution becomes taxable, but exempt from the tax penalty.

With enrollment in Medicare, you are no longer eligible to contribute to your HSA. If you reach age 65 or become disabled, you may still contribute to your HSA if you have not enrolled in Medicare.

HSA Tax Considerations

Is there a limit on how much I may contribute to my HSA and deduct from my taxes each year?
For 2018, the combined maximum contributions to your HSA, including any made by IU Health to your account, are $3,450 if you have individual coverage and $6,900 if you have family coverage. If you turn age 55 or older in 2018 or after and are covered by a qualified HDHP (high-deductible health plan), you may add up to $1,000 more as a "catch-up" contribution until you are enrolled in Medicare benefits. The maximum annual catch-up contribution is $1,000.

The IRS determines these maximum contribution limits annually.

How are distributions from my HSA taxed?
Distributions from your HSA that are used exclusively to pay for qualified medical expenses for you, your spouse or tax-qualified dependents are excludable from your gross income. Your HSA funds can be used for qualified expenses and will continue to be free from federal taxes and state taxes (for most states) even if you are not currently eligible to make contributions to your HSA.

If you take a non-qualified distribution, you are subject to ordinary income taxes and a penalty tax. The penalty may not apply if you are age 65 or older, disabled, or for the year in which you die.

How are distributions from my HSA taxed after I am no longer eligible to contribute?
If you are no longer eligible to contribute because you are enrolled in Medicare benefits, or are no longer covered by a qualified medical plan, distributions used exclusively to pay for qualified medical expenses continue to be free from federal taxes and state taxes (for most states) and excludable from your gross income.

Are there tax penalties if I close my HSA?
There are no tax penalties for closing an HSA. However, if you use your HSA funds for other than qualified medical expenses, those distributions will be subject to ordinary income taxes, and in some cases, a 20 percent penalty.

What about taxes on the money in my HSA not used for medical expenses?
All the dollars in your HSA, including earnings on those dollars, are completely free of federal taxes and state taxes (for most states) while in your account. IU Health offers you the option of selecting your own investment options for savings above the minimum required for your transactional HSA account.

The only time tax is ever owed on principal or interest from your HSA is if the money is distributed for non-qualified expenses prior to your reaching age 65, becoming disabled or upon your death. Even if you use the funds for non-qualified expenses after you are 65 or disabled, you will only be subject to tax on the money you withdraw without penalty. You can always withdraw funds to pay for qualified medical expenses at any time without tax or penalty.

Rollovers/Transfers, FSAs and HSAs

Can I roll over or transfer funds from my pre-existing HSA into my IU Health HSA?
Yes. Pre-existing HSA funds may be rolled into your IU Health HSA and will continue their tax-free status.

Can I roll over or transfer funds from my HSA to my IRA?
No. You can only roll over or transfer your HSA funds into another HSA.

What is the difference between a rollover and a transfer between HSA accounts?
A rollover or transfer may be used by an individual to move HSA funds from one HSA to another. Generally, a transfer does not result in the receipt of funds by the account holder; rather, the funds are transferred directly from one HSA to another HSA. In a rollover, the account holder may actually receive the distributed funds from the HSA and then deposit those funds into a new HSA. Other differences between a rollover and transfer include:

> **Frequency:** The IRS limits rollovers to one every 12 months, but there is no such limitation for transfers. When using a rollover to move funds, the amount will be included on the 1099-SA from the distributing HSA. The account holder will demonstrate the completion of the rollover to the new account on his or her tax filing. With a transfer, no 1099-SA reporting is generated.
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> **Timing:** The account holder controls the timing when using a rollover, as the account holder writes a check for the rollover amount and submits it for deposit in the new HSA. In a transfer situation, the account holder submits the transfer request to move the funds from one account to another.
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> **Cost:** The costs associated with a rollover are those the individual incurs related to writing and presenting a check for payment. A transfer may have a transaction processing fee detailed in the rate and fee schedule for the old account.

Investing HSA Funds

May I invest my HSA dollars?
Unlike health care flexible spending accounts, the HSA has no provision insisting you "use or lose" your account dollars at the end of the year. Any funds you do not use in a given plan year remain in your interest-bearing account for future healthcare expenses. Over time, you can build a nest egg of savings. You can elect to move some of your HSA dollars into an HSA Investment Account once you reach a minimum level of $2,000.

Is the interest earned from my HSA Investment Account taxable income?
No. Contributions, interest, investment earnings and withdrawals (for qualified medical expenses) are not taxed as long as account holders meet IRS eligibility requirements. Current taxes and IRS penalties may apply to nonqualified withdrawals. (For a list of qualified medical expenses, visit the IRS website at www.irs.gov.)

Death and your HSA

How do I designate a beneficiary for my HSA?
You should choose a beneficiary when you set up your HSA by completing a beneficiary form. And as circumstances in your life change, be sure to review your beneficiary designation. You can change your beneficiary by completing a new form located on the secure Optum website at https://www.optumbank.com/.

What happens to my HSA when I die?
Your HSA is an inheritable account. What happens to your HSA when you die depends on who you name as your beneficiary.

> **If your spouse is your designated beneficiary**, the account will be treated as your spouse's HSA after your death. The account will continue to be tax-free for qualified medical distributions. If your spouse is covered by a qualified high-deductible medical plan, contributions to the account may also be made tax-free, up to maximum annual contribution limits.
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> **If you designate someone other than your spouse as the beneficiary** of your HSA:
> – the account stops being an HSA on the date of your death;

– the fair market value of the HSA becomes taxable (without penalties) to the beneficiary in the year in which you die; and
– the amount taxable to a beneficiary (other than your estate) is reduced by any qualified medical expenses you incurred prior to your death that are paid from the HSA by the beneficiary within one year after the date of your death.

If your estate is the beneficiary of your HSA, the value of your account is included on your final income tax return.

If you do not have a beneficiary on file, the funds are payable to the account holder's estate.