

About HSAs – Q & A for Employees

Q: How is money deposited to my HSA?

A: Money may be deposited to your [HSA](#) through payroll deduction, if your employer participates in such a program, or you may make deposits directly to your account. Deposits may be made periodically or in a lump sum.

If you make deposits to your account with after-tax dollars, you may take a deduction on your taxes equal to that amount.

Q: I can choose a low-deductible health plan with higher employee contributions and once I've met the HSA deductible my covered expenses will be paid for by the health plan. Why should I choose a high-deductible plan with lower employee contributions and have to pay for what is covered by the other health plan until I meet the higher deductible?

A: Unless you have a large, catastrophic-type medical claim, it is highly unlikely that you will recoup the amount of money you pay in employee contributions today for health insurance.

For example, assume you contribute \$550 a month for family coverage, which is \$6,600 per year (12 x \$550). Now assume that your family has only three doctor visits during the year at \$200 each (\$600 total) plus 4 prescriptions at an average of \$75 (\$300 total). That's a total of [covered expenses](#) for the year of \$900. Assuming the co-payment for each doctor visit was \$20 (3 x \$20 = \$60) and each prescription was \$30 (4 x \$30 = \$120), that's a total in of \$180 you paid. When you subtract the total expenses from the co-pays, you get a total of \$720. This means you paid \$6,600 in contributions for just \$720 in covered charges.

A [qualified HDHP](#), with an [HSA](#), may make sense for you because these types of plans allow you to be fully covered for large expenses, while self-insuring yourself for smaller ones with [tax free](#) dollars. Also, you save on contributions for coverage. These savings can be deposited to your HSA and used to pay for expenses now or at a later date.

Q: How do I open an HSA?

A: To open and make tax-deductible contributions to an [HSA](#), you must be covered by a [qualified high-deductible health plan \(HDHP\)](#). The account must be established and maintained by a financial institution (such as a bank) that has been approved by the IRS to offer HSAs. You may open an account at any approved financial institution regardless of which insurance company provides your high-deductible plan or where you live.

Q: Who, in addition to me, can contribute to my HSA?

A: Contributions can come from multiple sources. As long as you are covered by a [qualified HDHP](#), you, your employer, family members, or anyone else may contribute to your HSA.

- You can deposit after-tax contributions to your HSA using personal check, cash or money order, and take an [above the line](#) deduction for the contributions when filing annual income taxes.
- If your employer offers payroll deductions, your contributions will be [pre-tax](#). If your employer contributes to your account, those funds will be excluded from your total income and are therefore [tax free](#).
- If a family member or anyone else makes a contribution to your account, the tax advantages apply to you and not the person making the contribution. You can take an above the line deduction for the contribution amount when filing your annual income

taxes, in the same way you would if you had made a post-tax contribution on your own.

The total of all contributions to the account are combined and subject to your maximum annual contribution limit.

Q: What are the advantages of having an HSA?

A: HSAs are:

- **Tax-advantaged:** Contributions, earnings and withdrawals for qualified expenses are excluded from federal income tax, FICA (Social Security and Medicare) tax and state income tax, in most states.
- **Flexible:** The money is yours and 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 expenses tax free. The funds in the account can be used for non-qualified expenses, but are then subject to ordinary tax, plus a 10 percent penalty if you are under age 65. The 10% penalty does not apply if the distribution occurs after you reach age 65, become disabled or pass away.
- **Portable:** Accounts move with you when you change medical plans, change employers or retire.
- **Savings mechanism for future health needs:** Unused funds can grow through interest and investment earnings and can be "banked" for future medical expenses.
- **Contributions can come from multiple sources:** As long as you are covered by a qualified HDHP, you, your employer, family members, or anyone else may contribute to your HSA.
 - You can deposit after-tax contributions to your HSA using personal check, cash or money order, and take an above the line deduction for the contributions when filing annual income taxes.
 - If your employer offers payroll deductions, your contributions will be pre-tax. If your employer contributes to your account, those funds will be excluded from your total income and are therefore tax free.
 - If a family member or anyone else makes a contribution to your account, the tax advantages apply to you and not the person making the contribution. You can take an above the line deduction for the contribution amount when filing your annual income taxes, in the same way you would if you had made a post-tax contribution on your own.

The total of all contributions to the account are combined and subject to your maximum annual contribution limit.

Q: What is a high-deductible health plan (HDHP)?

A: A high-deductible health plan is usually a key component of a consumer-directed health care plan (CDHP).

A qualified high deductible health plan must meet the following requirements:

- A minimum annual deductible
- A maximum limit of out-of-pocket expenses

Q: May I have more than one HSA?

A: Yes, you may have more than one [HSA](#) and you may contribute to them all. However, this does not give you any additional tax advantages, as the total contributions to your accounts cannot exceed your [maximum annual contribution](#). Contributions from your employer, family members, or any other person must be included in the total.

New benefits – Beginning January 1, 2009 for 2009 Contributions:

For 2009, the maximum annual HSA amount that can be contributed to your HSA from all sources is \$3,000 for an individual and \$5,950 for a family. If you are not covered by the HDHP for all months of the year, the contribution limit is pro-rated and applied monthly.

An additional “catch-up” contribution is permitted for employees age 55 or older at any time during the calendar year, unless/until they are covered by Medicare. For 2009, the catch-up contribution limit is \$1,000.

Employer contributions to HSAs on your behalf are allowed as a tax deduction to the employer for the taxable year in which contributions are made. Contributions made by the employer or by you through a cafeteria plan are excludable from gross income, are not subject to withholding for income tax, and are not subject to Social Security or Medicare taxes. The employer is required to report the amount of the HSA contribution on your W-2 statement.

If you contribute to the HSA on a post-tax basis, either through payroll deductions or direct deposits into the account, the amount of the contributions may be taken as an income tax deduction. However, in no event may the annual contribution amount exceed the limits stated above.

Eligibility and Enrollment

Q: My spouse's employer provides low-deductible family coverage at no cost. I am covered under my spouse's plan. If I enroll in my employer's qualified HDHP, am I eligible for an HSA?

A: No. You are not eligible for an [HSA](#) if you are covered by any other health plan that is not a [qualified HDHP](#).

Q: Can I have an HSA in addition to an IRA or other qualified retirement plan?

A: Yes. Although [HSAs](#) operate under many of the same rules that apply to traditional IRAs, an HSA is not an IRA. An HSA is not a “retirement” plan_ it is a tax advantaged savings account plan for medical expenses. Unlike an IRA, there are no salary/wage or earnings limitations to what you can contribute!

Q: I am entitled to benefits from Veterans Affairs [VA]. I haven't used these benefits for more than 3 months and I'm currently enrolled in a qualified HDHP. Am I eligible for an HSA?

A: Yes, as long as you haven't received any VA medical benefits during the preceding three months and you are currently enrolled in a [qualified HDHP](#).

Q: I am 65 years old, which makes me eligible for Medicare, but I'm still working and have kept my employer's health plan instead of enrolling in Medicare. If I enroll in the qualified HDHP offered by my employer, am I eligible to open an HSA?

A: Yes. You are eligible for an [HSA](#) as long as you are not enrolled in benefits under Medicare and are covered by a [qualified HDHP](#).

Q: My employer is offering a choice between a low-deductible health plan and a qualified HDHP. If I elect the HDHP, can I contribute to an HSA?

A: Yes. If you choose to be covered by the qualified [HDHP](#), you may contribute to an [HSA](#).

It does not matter what options your employer offers. It matters only which option you elect. If you chose a non-qualified, low-deductible health plan you would be disqualified from contributing to an HSA.

Q: My employer is offering dental and vision plans in addition to a qualified HDHP. If I elect the HDHP, can I contribute to an HSA?

A: Yes. As long as you are covered by a [qualified HDHP](#) you may also be covered for any benefit provided by permitted insurance. Permitted insurance includes insurance for a specified disease or illness, such as cancer, diabetes, asthma or congestive heart failure. Other permitted insurances include policies that provide coverage for accidents, disability, dental care, vision care or long-term care.

Q: I joined my company in mid-June and am eligible for my employer's qualified HDHP effective August 1st. Am I eligible for an HSA this year? How much can I contribute for the plan year?

A: Yes, you may make contributions for this year, provided you are covered by a [qualified HDHP](#) as of the first of any month. You may open an [HSA](#) beginning with the first month of coverage.

Q: What is first-dollar coverage?

A: First-dollar coverage means that you may receive a reimbursement for expenses immediately, without meeting a deductible.

First-dollar benefits may include reimbursement from an [HRA](#) or [FSA](#) for [covered expenses](#) applied to the deductible. So that you may have an [HSA](#) and an HRA and/or FSA, distributions must be restricted. Limited purpose HRA/FSAs are examples of plans that create the necessary restrictions.

First-dollar benefits paid for permitted insurance expenses do not disqualify you from making HSA contributions.

Q: What first-dollar benefits make me ineligible for an HSA?

A: First dollar reimbursements for [covered expenses](#) from the following may make you ineligible for an HSA:

- Medicare
- Medicaid
- Flexible Spending Arrangements ([FSA](#))
- Health Reimbursement Arrangements ([HRA](#))
- Coverage under a spouse's plan, including:
 - Low-deductible insurance coverage
 - FSA or HRA through spouse's employer

Q: Can an HSA have more than one account owner?

A: No, only one person can be named the account owner. If both you and your spouse are covered by qualified HDHPs, you must each have your own account.

Q: Are there any age restrictions regarding opening an HSA?

A: The only age-related restriction for HSAs is that once an HSA account owner becomes enrolled in Medicare, contributions to the account must stop. Generally this means at age 65. If, however, you become disabled and entitled in Medicare, contributions to the account must stop for the month in which you become enrolled.

If the person can be claimed as a dependent on someone else's tax return they are ineligible to open an HSA. Although not an age restriction, generally you cannot open an HSA for your child if you, or someone else, claims them as a dependent.

Q: What happens to my HSA if I become disabled?

A: If you become disabled and enroll in Medicare, contributions to your HSA must stop as of the first of the month in which you become enrolled. 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. Distributions from your HSA used for non-qualified expenses will be subject to ordinary income tax but exempt from the 10 percent penalty

Q: What happens to my HSA if I quit my job or otherwise leave my employer?

A: Your HSA is portable. This means that 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 HDHP you can even continue to make tax free contributions to your HSA.

Distributions from your HSA that are used exclusively to pay for qualified expenses for you, your spouse, or dependents are excludable from your gross income. Your HSA funds can be used for qualified expenses and will continue tax free even if you are not currently eligible to make contributions to your HSA.

Q: Will my application for an HSA be put through any type of screening process?

A: There are no health related screenings or requirements to open an HSA.

Help fight the funding of terrorism and money-laundering activities, the USA PATRIOT Act established requirements for investors as of October 1, 2003. Banks that open HSAs must obtain, verify and record information that identifies individuals and entities that engage in certain transactions with or through the bank. You will be required to complete some paperwork related to the USA PATRIOT Act in order to open your account.

Q: My spouse is contributing to a health FSA that reimburses expenses before the deductible is met. Can I make contributions to my HSA if I participate in a qualified HDHP?

A: No. A general-purpose health FSA or HRA that pays first-dollar benefits is the same as family coverage, because it is available to reimburse the qualified expenses of the employee and the employee's spouse and dependents. Consequently, if either you or your spouse participates in a general-purpose health FSA or HRA, neither of you will be eligible to contribute to an HSA.

Q: My spouse is covered by a self-only Point-of-Service plan (POS) and I have qualified HDHP family coverage. Can I still open and contribute to an HSA?

A: Yes, you can open and contribute to an HSA. If you, as an individual, are eligible for an HSA, you do not fail to be eligible because your spouse has non-HDHP coverage, as long as you are not covered by your spouse's plan. Your maximum annual contribution to your HSA is based on whether you have individual-only or family HDHP coverage.

Q: Is there a maximum salary that prevents me from opening an HSA?

A: No, there are no salary restrictions - minimum or maximum - that that make you ineligible to open and contribute to an HSA.

Q: Do I have to have my HSA with the same company that has my HDHP?

A: No. You may open your HSA with any qualified financial institution, regardless of which insurance company provides your HDHP. However, you should check with your benefits department, as they may not provide the same incentives as with the HSA provider they have selected.

Managing Your HSA

Q: When is my HSA no longer an HSA?

A: Your HSA will no longer be considered an HSA if, upon your death, your estate or someone other than your spouse becomes the beneficiary of your account. Only if the account is transferred to your spouse will it remain an HSA.

Q: Who has control over the money invested in my HSA?

A: You have full control over the assets in your HSA. When the total funds in your account reach certain limits, you have the option to invest excess monies. The investment choices will be yours to select from the options offered.

Q: Do I pay taxes on the fees charged by the financial institution to maintain my account?

A: No - IRS rules consider these to be allowable distributions. These charges are paid tax free.

Q: Is there a time/age by which I must begin withdrawing funds from my HSA?

A: No, you are never required to withdraw funds from your account. Your HSA can continue to earn interest and grow until you decide to use the funds. If you never use your funds, your spouse may inherit your account and continue its tax free status, or your beneficiaries will receive the funds as a taxable event as part of your estate.

Q: Do I need to elect COBRA to continue my HSA, if I leave my current employer?

A: You do not need to continue your qualified HDHP coverage through COBRA, but you must maintain qualified HDHP coverage to continue making contributions. You may pay your COBRA premiums with tax free HSA dollars should you elect.

Your HSA is not subject to COBRA provisions. It is your account to take with you and to maintain as you choose.

Q: If I make contributions to my HSA through pre-tax payroll deductions (Section 125 cafeteria plan), can I change the per payroll deduction at any time?

A: Based on your employer's cafeteria plan rules, you may be allowed to increase, decrease, start or stop your contributions at any time - provided that the change is prospective only. Remember you are still restricted to your maximum annual contribution, based in part on the number of months that you are covered by a qualified HDHP. If the cafeteria plan rules do not permit you to make changes during the plan year, you may still make direct deposits to your HSA and take an above the line deduction when you file your federal tax return.

Distributions

Q: Can I pay for my spouse's/dependent children's expenses from my HSA even if they're not covered by a qualified HDHP?

A: Your HSA funds can be used tax free to pay for out-of-pocket qualified expenses, even if the expenses are not covered by your HDHP. This includes expenses incurred by your family.

Examples of other qualified expenses include: for over-the-counter medications; 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. HSA funds may be used to pay your Medicare parts A and B premiums and for employer-sponsored retiree plans.

All of these expenses may be paid for with your tax free HSA funds. You do not pay income tax or any penalty for these distributions.

Q: My qualified HDHP coverage was effective January 1, but didn't open my HSA until June. Are the expenses I incurred in February and March eligible for tax free distributions from my HSA?

A: No. Expenses incurred before you set up your HSA are not eligible for tax free distribution. You can receive tax free distributions from your HSA for qualified expenses you incur after you establish the HSA. If you receive distributions for other reasons, the amount you withdraw will be subject to income tax and may be subject to an additional 10 percent penalty tax.

Q: If I have a qualified HDHP and an HSA and I see a doctor for treatment - not preventive service - am I charged the typical co-payment for the visit, or am I responsible for paying the full charge?

A: You are responsible for the full amount charged until you have met your deductible, then co-payments and co-insurance apply. You may use your HSA funds to be reimbursed for these qualified expenses tax free.

Q: I took a distribution for a doctor's visit that I didn't know was considered preventive care. The insurance company later paid the expense, which made it a non-qualified expense and made my distribution taxable. If I return the funds to my HSA do I still have to include the distribution as gross income and add the 10 percent penalty when I file my taxes?

A: If there is clear and convincing evidence that this was a mistake, you may repay the mistaken distribution no later than April 15 following the first year that you become aware of the mistake. Under these circumstances the distribution is not included in gross income and the 10 percent penalty does not apply. You will need to keep records that demonstrate the actions you took. You will also receive tax forms from your financial institution that show the distribution, as they will not be able to identify the funds returned as a result of the error. You should follow the instructions on the forms 1099 and 5498, your form 1040 or contact your tax advisor for assistance.

Q: How soon can I withdraw funds from my HSA for qualified expenses? For example, what if I incur a medical expense in January and need \$1,000 for the cost of treatment, before my deductible has been met? Am I able to pay the expenses and immediately receive a reimbursement from my HSA, or do I have to wait until the \$1,000 has accumulated in my account?

A: You have to wait until \$1,000 is accumulated. Just like a checking account, you can only use funds that are already in your account.

Q: I already have an HSA. I am now enrolled in an HMO. Can I use the funds in my HSA to pay for expenses not covered by the HMO, such as when I go out-of-network?

A: Yes. You always have the option to use your HSA funds however you wish. Distributions used exclusively to pay for qualified expenses continue to be tax free. You may not, however, make contributions to your HSA because you are not covered by a qualified HDHP at this time. Should

you enroll in a qualified HDHP at another time, you may then make contributions to your established HSA.

Tax Considerations

Q: If I close my HSA are there any tax penalties?

A: There are no tax penalties for closing an HSA. However, if you use HSA funds for other than qualified expenses, those distributions will be subject to ordinary income tax, and in some cases, a 10 percent penalty.

Q: What is an "above the line" tax deduction?

A: Pre-tax

When you participate in a payroll deduction program through your employer, deductions can be taken from your payroll before calculating your taxable federal income, FICA (Social Security and Medicare) tax and for most states, taxable state income. By taking deductions pre-tax, you reduce the dollars on which you are taxed and, as a result, reduce your total tax bill.

Above the line means you will reduce your taxable income regardless of whether you itemize or use the standard deduction on your income tax form. If you contribute to your HSA with after-tax dollars, you may deduct the contribution amount, subject to the maximum annual contribution limits from your taxes at filing time.

Q: What tax forms will I receive to include with my annual tax filings?

A: Forms 1099 SA or 1099 HSA notify the IRS of distributions made from your HSA during the tax year. Forms 5498, or Form 5498 SA, notify the IRS of contributions made to your HSA during the tax year. Your financial institution will send the appropriate form(s) to you with instructions regarding the forms' use and requirements for filing our annual tax return.

Q: What about taxes on the money in my HSA not used for medical expenses?

A: All the dollars in your HSA, including earnings generated on those dollars, are 100 percent tax free while in your account. You may have the option of selecting your own investment vehicle for savings above the minimum required for your transactional (checking) account. Once you exceed that threshold, you may elect to invest these excess funds in a variety of investment options. Contact your financial institution for specifics related to your HSA.

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 die. Even if you use the funds for non-qualified expenses after you are 65, disabled or die, you will only be subject to tax on the money you withdraw without the 10 percent penalty. You can always withdraw funds to pay for qualified expenses at any time and never pay taxes on those dollars.

Once you are enrolled in Medicare, you can keep the balance in your HSA and use it for future qualified expenses. If you do so, you will never pay the taxes on the interest or the principal. Or, you can start using your HSA like an IRA - *it's always your money, and your choice*.

Q: How is my HSA taxed?

A: Your HSA is exempt from federal income tax, and in most states, state income tax, unless or until it is considered no longer be an HSA.

Contributions, investment earnings, and qualified distributions all are exempt from federal income tax, FICA (Social Security and Medicare) tax and state income taxes (for most states).

Q: How do I report distributions from my HSA on my tax return?

A: How you report your distributions depends on whether or not you use the distribution for qualified expenses.

- If you use a distribution from your HSA for qualified expenses, you do not pay tax on the distribution, but you have to report the distribution on Form 8889. Follow the instructions for the form and file it with your Form 1040.
- If you use a distribution from your HSA for non-qualified expenses, you must pay tax on the distribution. Report the amount on Form 8889 and file it with your Form 1040. You may have to pay an additional 10 percent tax on your taxable distribution. There is no additional tax on distributions made after the date you are disabled, reach age 65, or die.

Q: I took a distribution for qualified expenses, what records do I need to show the IRS so that the distribution remains tax free?

A: You must keep records sufficient to show that:

- The distributions were exclusively to pay or reimburse qualified expenses;
- The qualified expenses had not been previously paid or reimbursed from another source; and
- The medical expenses had not been taken as an itemized deduction in any year.

Do not send these records with your tax return. Keep them with your tax records.

Q: If I contribute more than my maximum annual contribution can I take the full amount as an above the line deduction?

A: No, you cannot take the excess as an above the line deduction. You have until the filing date of your federal tax return to take a distribution of the excess contribution from your HSA without incurring a 6 percent excise tax. The amount of the excess contribution is includable in your gross income for tax purposes.

Q: I opened my HSA with a minimum deposit when I enrolled in my HDHP. I have not yet reached my maximum annual contribution. What is the last date that I may deposit the remainder of my maximum annual contribution and still take an "above the line" deduction for 2006?

A: You have until April 15, 2006 for contributions with respect to 2005 HDHP coverage, and until April 15, 2007 for 2006 contributions.

Q: What happens if I contribute more than my maximum annual contribution to my HSA?

A: If you contribute more than your maximum annual contribution to your HSA, you may withdraw the excess without penalty up until April 15 of the following year. After that time, the funds are subject to ordinary income and an excise tax.

Rollovers/Transfers, FSAs and HRAs

Q: Can I roll over or transfer funds from my HSA to my IRA?

A: No. HSAs are not retirement accounts like 401(k)s, IRAs or employer sponsored pension plans. The government does not allow HSA and retirement funds to be combined. You can only roll your HSA funds into another HSA.

Q: What are Medical Savings Accounts [MSAs], Health Reimbursement Accounts or Health Reimbursement Arrangements [HRAs], and Flexible Spending Accounts [FSAs]?

A:

- **Medical Savings Accounts (MSAs)**, were established before HSAs and are also known as Archer MSAs. They were made available in 1996 to self-employed individuals and employees of smaller businesses. If you have an MSA, you may transfer your funds to your HSA. You may choose to keep both an MSA and an HSA. If you contribute to your MSA, your HSA maximum annual contribution limit will be reduced by the amount of contributions to your MSA each year. At age 65, you may spend your MSA or HSA monies on whatever you choose, penalty free, but you will have to pay tax on non-qualified distributions.
- **Health Reimbursement Accounts or Health Reimbursement Arrangements (HRAs)** are wholly employer-owned accounts and are generally administered by the employer on a "pay-as-you-go" basis. Bookkeeping entries or accounts are established and maintained by employers on behalf of each covered employee for the purpose of paying for unreimbursed medical expenses. Often employers will allow you to roll over any money remaining in your HRA at the end of the year. However, if you leave your employer, your account generally cannot be taken with you and you may not have future access to the remaining balance.
- **Flexible Spending Accounts (FSAs)** are usually funded by you through voluntary pre-tax payroll deductions. No federal income tax, FICA (Social Security and Medicare) tax and in most states, state income tax deductions, are taken from these contributions. FSAs are established to pay for specific health care expenses that are not reimbursed by a group health plan such as eyeglasses, dental work, over-the-counter drugs, deductibles and co-payments. Your expenses and the expenses of your spouse, dependent children, and any other qualified tax dependent can be paid for using your flexible spending account.

Employers may offer FSAs as part of a cafeteria plan and have complete flexibility to offer various combinations of benefits in designing their plan. Based on previous IRS regulations, contributions remaining at the end of the plan year were forfeited under the IRS "use it or lose it" rule. Even though the IRS has extended the allowable period to beyond the end of the plan year, the "use or lose it" rule remains an integral component of any FSA. Employers must amend their plans to include the time extension beyond the end of the plan year now permitted by the IRS. The extension is not automatic. At the end of the extension period, unused funds are still forfeited.

Some employers may even contribute to the FSA, but this is not an IRS requirement. So that requests for reimbursement can be paid, employers must receive verification of the medical claims. You do not have to be covered under the employer/sponsor's health care plan, or any other health care plan to participate in an FSA.

Self-employed persons are not eligible for an FSA.

Caution: *Health care FSAs also are referred to as "tax free spending accounts," "medical reimbursement accounts (MRAs)," and even "health care spending accounts (HCSAs or HSAs)". Don't be confused by the inconsistent terminology.*

Q: Can I have an HSA and an HRA and/or FSA?

A: Yes, provided that the [HRA](#) and/or [FSA](#) do not pay [first-dollar](#) for any benefit that is covered by the HDHP. In addition, there are specific rules for how these may be combined—review the basics here, and talk with your Benefits Department or check the IRS web site for full information.

Q: How does an FSA work in conjunction with an HSA?

A: According to IRS rules, you must first use your [HSA](#) funds to pay for [covered expenses](#) that apply to the deductible in your [HDHP](#). Your FSA may be used to reimburse dental, vision, over-the-counter medications and other expenses not covered by your HDHP and any co-payments required after you have met the deductible and before your HDHP pays 100% of covered expenses.

To be eligible for an HSA, expenses applied to the deductible must be paid by your HSA before you may use FSA dollars.

Q: I already have an HRA established by my employer. Can those funds be transferred to my HSA?

A: No. [HSAs](#) and [HRAs](#) are two different types of accounts. Funds are not transferable from one HRA to another HRA or to an HSA.

Reaching Age 65

Q: What happens to the money in my HSA after I reach age 65?

A: Once you become enrolled 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. Your funds may be used [tax free](#) for [qualified expenses](#), for instance, to pay certain insurance premiums, such as Medicare Parts A and B, Medicare HMO, 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 expenses](#), the distributions from your account remain tax free. If you use the monies for non-qualified expenses, the distribution becomes taxable, but exempt for the 10 percent penalty.

Death

Q: How do I designate a beneficiary for my HSA?

A: You should choose a beneficiary when you set up your [HSA](#). As circumstances in your life change, be sure to review your beneficiary designation. Your financial institution will have a beneficiary designation process for you to follow if you need to make a change. In some instances, naming or changing a beneficiary is as easy as filling out a signature card or updating your current one.

Q: What happens to my HSA when I die?

A: Just like an IRA, your HSA is an inheritable account.

What happens to your HSA when you die depends who you named as your [beneficiary](#).

Spouse designated 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 distributions. If your spouse is covered by a [qualified HDHP](#), contributions to the account may also be made tax free, up to [maximum annual contribution](#) limits.

Other than Spouse designated beneficiary. 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 to the beneficiary in the year in which you die (without penalties); and

- The amount taxable to a beneficiary (other than your estate) is reduced by any [qualified expenses](#) you incurred prior to your death that are paid from the HSA by the beneficiary within one year after the date of death.

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

Investing in Your HSA

Q: How is the money in an HSA invested and what happens to any interest that is earned?

A: The ACS/Mellon HSA Solution includes an FDIC insured, interest-bearing checking (transactional) account; all HSA deposits are first credited to this account. Once your checking account balance reaches \$3,000, you may elect to transfer \$1,000 to an investment account. (We encourage you to maintain a significant balance in your checking account to allow you to pay any health care costs you may incur.) You may make additional deposits to your investment account (in \$100 or more increments) or to open additional funds as your checking account continues to grow.

Your investment account offers multiple Dreyfus mutual fund investment options. Dreyfus Service Corporation, a registered broker-dealer and a subsidiary of Mellon Financial Corporation, will assist you in the establishment and transfer of funds from your checking account to your investment account. Dreyfus Service Corporation is a registered broker dealer, an investment advisor, and a member of NASD*.

* Securities in investment accounts are not FDIC insured, are not guaranteed by any bank, and may lose value.

Q: Is the interest earned taxable income?

A: No. Contributions, earnings and withdrawals (for qualified medical expenses) are not taxed.

Q: Are there any fees (loads) associated with these investment choices?

A: No.

Q: How often can I change investments?

A: You can move your assets among investments daily, subject to the standard limitations to prevent "market timing."

Working with your Healthplan

Q: My doctor just prescribed a medication to treat an infection. Do I have to meet my HDHP deductible before I can be reimbursed for any of my medications?

A: Prescription medications are covered expenses under a [qualified HDHP](#), and you will have to meet the deductible in order to be reimbursed by the insurance plan for these expenses. You may use HSA funds for reimbursement before the deductible is met. Medications generally prescribed because you are experiencing symptoms are not considered preventive and are therefore subject to the deductible.

Q: I take several medications on a daily basis. My doctor says they are "preventive" medications. How do I find out if these medications may be reimbursed before I meet the deductible?

A: Prescription medications are covered expenses under a qualified HDHP, and you will have to meet the deductible in order to be reimbursed by the insurance plan for these expenses. You may use HSA funds for reimbursement before the deductible is met. Some medications, however, are considered preventive and as such may be covered under the preventive care provisions of your HDHP. You should check with your plan customer service representatives to determine if your medication is considered preventive.

Q: How does participating in a HSA affect how I use my health plan?

A: An HSA is just a funding mechanism to pay those qualified health care expenses not covered by your plan and has no impact on the providers you choose. You still follow your health plan's guidelines for receiving care.

With an HSA, you are free to use any doctor and any hospital you choose. However, significant cost savings are available to you when you use providers in your plan's provider network. Provider networks offer a wide variety of physicians and service providers at discounted rates.