HSA FREQUENTLY ASKED QUESTIONS

The following information is intended to assist you with understanding and enrolling in a qualified Health Savings Account (HSA) and compatible health plan.

1. WHAT IS AN HSA?

The Health Savings Account (HSA) has been designed by the federal government to encourage savings for healthcare and offers some significant tax advantages. The HSA includes a tax-favored bank account that is used in conjunction with an HSA-compatible high-deductible health insurance plan to make healthcare more affordable and to save for future medical expenses.

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 are non-forfeitable and portable.
Funds in the account not needed for near term expenses may be invested, providing the opportunity for funds to grow. Investment options include money market accounts, mutual funds, etc.

2. WHO IS ELIGIBLE TO OPEN AN HSA?

To be eligible, you must meet these criteria:

You must be covered by an HSA-compatible health plan, and you cannot be covered by any other medical plan that is not an HSA-compatible health plan. This would include being enrolled in your spouse's plan as secondary coverage. Note: Federal law requires minimum deductible levels for individual and family coverage for HSA-compatible health plans.

You must be enrolled in the plan on the first day of the month (otherwise, your eligibility to make contributions to your HSA begins the first day of the following month). You may make the maximum annual HSA contribution for the year regardless of the month you become eligible.

- You must not be enrolled in Medicare.
- You must not be eligible to be claimed as a dependent on another individual's tax return.
- You must be a U.S. resident, and not a resident of American Samoa.
- If you are a veteran, you may not have received veterans' benefits within the last three months.
- You must not be active military.

3. WHAT IS THE DIFFERENCE BETWEEN AN HSA AND A HEALTH CARE FLEXIBLE SPENDING ACCOUNT (FSA)?

Both HSAs and FSAs can be funded with pre-tax dollars and used to pay for eligible medical expenses. However, the HSA is your personal bank account and the money in your HSA can earn tax-free interest. Your account balance can be used for qualified health care expenses and rolls over from year to year. The FSA is administered by American Fidelity and eligibility is controlled by Fallbrook Union High School District. You have access to your entire annual Health Care FSA election amount any time during the year, even if you have not had all of the money deducted yet from your check. However, you will forfeit any balance you have remaining in your FSA account at the end of the calendar plan year.

4. CAN I HAVE AN HSA AND AN FSA?

Under IRS regulations, HSA participants cannot participate in both an HSA program and a general purpose Health Care Flexible Spending Account (FSA). This applies whether the FSA is through your employer or through your spouse's employer.

5. WHAT TYPE OF EXPENSES CAN THE HSA BE USED FOR?

You can use your HSA to pay for certain additional qualified medical expenses not covered by your Anthem or Kaiser HSA plans (e.g. your deductible, your coinsurance after deductible and prescription co-pays). Qualified medical expenses are defined in section 213d of the IRS code and include medical, dental, vision and prescription drug out-of-pocket expenses. For a list of qualified expenses, please visit the IRS website at www.irs.gov and type “Publication 502” in the search box. When you use the HSA to pay for qualified medical expenses that are not covered by your plan, those expenses will not apply toward your deductible and out-of-pocket maximum.

6. HOW DO I MAKE CONTRIBUTIONS TO MY HSA?

Once you have established an HSA with bank, you may elect to make contribution through direct deposit like any other checking account. You may also contribute directly to your HSA by depositing a check.

7. WILL MY PRIOR YEAR HSA CONTRIBUTION ELECTION AUTOMATICALLY CARRY OVER TO THE NEW PLAN YEAR?

Yes. Your current HSA contribution will be automatically carried over to the new plan year. If you wish to change your contribution to your HSA, you will need to make a new HSA contribution election for the new plan year.

8. CAN I CHANGE MY HSA CONTRIBUTIONS DURING THE PLAN YEAR?

Yes. You may change your HSA contributions on a prospective basis during the course of the year.

9. DOES MY EMPLOYER MAKE CONTRIBUTIONS TO MY HSA?

No.

10. WHAT IS THE MAXIMUM AMOUNT I CAN CONTRIBUTE TO MY HSA?

For 2020, the annual contribution maximum set by the U.S. Treasury and the IRS is $3,550 for individual coverage and $7,100 for family coverage. The total contributions cannot exceed this maximum. The contribution maximums set by the U.S. Treasury and the IRS may be increased for inflation annually.

11. CAN I EVER CONTRIBUTE MORE THAN THE ANNUAL LIMIT?

Yes. Employees age 55 and older who are not enrolled in Medicare are eligible to contribute an additional $1,000 above the regular limits (called a catch-up contribution). These individuals can make catch-up contributions each year until they enroll in Medicare. Only the account holder (employee) can make catch-up contributions and amounts allowed may be prorated if you are enrolled in the plan less than 12 months.

12. WHAT IF I CONTRIBUTE TOO MUCH TO MY ACCOUNT DURING A YEAR AND EXCEED THE ANNUAL MAXIMUM?

If you contribute too much to your account, IRS rules will require you to pay regular income tax plus a 6% excise tax in 2020 on the excess amount you contributed. (Note: Different rules apply if you contributed too much because you left the plan during the year.)

13. HOW MUCH MAY I CONTRIBUTE IF I JOIN THE PLAN AFTER THE START OF THE PLAN YEAR?

Employees may enroll in the HSA plan only during open enrollment or when they begin employment. If you join the plan mid-year as a newly hired employee, you can generally contribute up to the annual contribution maximum. However, to be eligible to contribute up to the full amount, you must have enrolled in the plan by December 1st, and you must stay in the plan and remain eligible to contribute to an HSA for the entire 12 months of the following year.

14. WHAT IF MY FAMILY STATUS CHANGES DURING THE YEAR?

You may make certain changes to your benefit coverage during the course of the year if you experience a qualified status change (for example, your spouse has a loss or gain in coverage through his/her employer). If you move from family to single coverage during the calendar year, you have two possible options available to ensure you do not exceed the IRS annual contribution limit.

Option 1: You may pro-rate your contributions in accordance with the IRS limit, based on the period of time you have family coverage versus single coverage.

Option 2: You may withdraw some or all of the excess contributions to ensure your account does not exceed the IRS single limit of $3,550.

15. WHAT IF I TERMINATE COVERAGE PRIOR TO THE END OF THE YEAR?

If you end employment with Fallbrook Union High School District, you can continue contributing to your HSA only if you continue participating in an HSA-compatible health plan. If you leave during the year and do not enroll in another HSA-compatible plan, the annual contribution maximum is prorated based on the number of months that you were enrolled. If you fund your account for the entire year then leave the plan and do not join another HSA-compatible health plan, you will need to withdraw excess contribution dollars before the end of the tax year and treat these funds as taxable income. Otherwise, you may face tax penalties.

16. WHAT IF I HAVE MONEY LEFT IN MY HSA AT THE END OF EACH PLAN YEAR?

Whatever you don't spend remains in your HSA, and is yours to save year after year. Your HSA can help you pay for future medical expenses.

17. WHERE CAN I GET MORE INFORMATION ON HSA REGULATIONS?

You can visit the U.S. Treasury website at treas.gov and type "HSA" in the search box or speak with your tax adviser.

18. IF I LEAVE THE PROGRAM, CAN I USE MY HSA FUNDS FOR MY COBRA PAYMENT?

Yes. Certain types of insurance premiums are considered qualified medical expenses under an HSA, including:

- Health care continuation coverage under COBRA
- Health care coverage while receiving unemployment compensation under federal or state law
- Medicare and other health care coverage if you are 65 or older (other than premiums for a Medicare supplemental policy, such as a Medigap policy)
- Long-term care insurance

19. CAN I INVEST MY HSA?

Yes, depending on your bank, you may have to maintain a minimum balance in your account.

20. DO I STILL HAVE ACCESS TO THESE FUNDS I INVEST FOR MY ELIGIBLE HEALTH CARE EXPENSES?

Yes. Once the funds have been transferred to an investment account, you will have the option to transfer money out of the investment unit to liquidate funds and transfer back to your HSA cash account.

21. ARE THE INTEREST AND INVESTMENT EARNINGS IN MY HSA TAX-FREE?

Yes, interest and investment earnings grow federal tax-deferred in the account. Several states have not enacted legislation to allow pre-tax treatment of HSA contributions or earnings for state taxes. The following states have these tax considerations: Alabama, California, New Jersey and Wisconsin.

22. ARE ANY ADMINISTRATIVE FEES CHARGED TO MY HSA?

Yes, depending on your bank, any typical banking fees will apply, such as charges for new checks, overdraft charges or charges for replacement debit cards. Please review your banking institution's "Adoption Agreement" for a full disclosure of bank fees.

23. IF I LEAVE THE HSA PLAN, WHAT HAPPENS TO MY HSA?

You own your HSA. So, if you leave the plan or even leave your employer, you can take the account with you. You can even use it after you retire — for example, to pay Medicare supplement premiums. You may choose to keep the funds in your account or roll the funds into a different account. If you leave the funds in your account, maintenance fees may apply. Note: If you keep your HSA after leaving the plan, you cannot continue to contribute to it unless you enroll in another HSA-compatible plan

24. CAN I ROLL FUNDS FROM MY HSA OVER TO ANOTHER HSA?

Yes. You may have an HSA with any qualified financial institution. There are various ways to move your funds from one HSA custodian to another.

25. DO I HAVE TO USE FUNDS FROM MY HSA TO PAY FOR MEDICAL EXPENSES AND PRESCRIPTIONS?

No. You may pay out-of-pocket with after-tax dollars and let your HSA balance grow tax-free.

26. WHAT IF I DO NOT HAVE ENOUGH MONEY IN MY HSA TO COVER MY OUT-OF-POCKET MEDICAL EXPENSES?

If you incur an expense and do not have a balance in your HSA, you will need to pay the expense up front and you may reimburse yourself at a later date once you have sufficient funds in your account. Keep in mind the HSA functions as a regular checking account and provides access to funds that have been deposited in your account.

27. MAY I USE HSA FUNDS FOR PRIOR YEAR ELIGIBLE MEDICAL EXPENSES AND PRESCRIPTIONS?

Yes. You can use your current year funds for prior year expenses as long as the expenses were incurred after the HSA was established. There is no time limit on when an HSA distribution must occur. An HSA holder can choose to delay taking an HSA distribution to pay or reimburse qualified medical expenses incurred in the current year and can use a current-year HSA distribution to pay or reimburse qualified medical expenses incurred in any prior year. If the HSA distribution is being taken on a tax-free basis, however, the HSA holder must keep records sufficient to prove that the expense was a qualified medical expense, that it was not previously paid or reimbursed by another source, and that it was not taken as an itemized income tax deduction in any prior taxable year.

28. WHAT IF I USE HSA FUNDS TO PAY FOR NON-QUALIFIED MEDICAL EXPENSES?

The amount you spend on the non-qualified expense will be considered part of your taxable income. You will also owe a 20% tax penalty on any amount spent for non-qualified expenses. Non-qualified expenses do not apply toward your medical plan's calendar year deductible or annual maximum out-of-pocket.

29. WHAT ARE THE TAX BENEFITS OF AN HSA?

There are several benefits:

- The money you contribute to your HSA is not counted as taxable income (federal) for the year. This could save what you owe for taxes, depending on your tax status.
- Withdrawals from the account for qualified medical expenses are (federal) tax-free.
- Any investment and interest earnings in your account are (federal) tax-free.
- Depending on the state where you live, you may save on your state tax as well.

30. WHAT SHOULD I DO WITH MY RECEIPTS?

You should keep your receipts for services you've received. Since you own the HSA, you are responsible for providing documentation to the IRS, if you ever need to, for the expenses charged to your HSA.

31. WHAT HAPPENS TO MY HSA ACCOUNT AFTER I DIE?

If your spouse is the designated beneficiary of your HSA, it will be treated as your spouse's HSA after your death. If your spouse is not the designated beneficiary of your HSA, the account stops being an HSA, and the fair market value of the HSA becomes taxable to the beneficiary in the year in which you die.

If your estate is the beneficiary, the value is included on your final income tax return. The amount taxable to a beneficiary, other than the estate, is reduced by any qualified medical expenses for the decedent that are paid by the beneficiary within 1 year after the date of death.

32. MY SPOUSE ALSO HAS AN HSA. CAN WE EACH COVER EACH OTHER UNDER OUR HSAS?

No. Under IRS regulations, the employee cannot be covered under any other health insurance plan (including a full purpose FSA). Therefore, if you enroll in Anthem or Kaiser's HSA, you would not be able to enroll your spouse and your spouse would need to drop you from her/her medical coverage.

33. WHAT IS THE MAXIMUM AMOUNT WE CAN CONTRIBUTE IF BOTH MY SPOUSE AND I HAVE HSAS?

If you and your spouse have single coverage under your respective employers' HSA, you will each be subject to the maximum contribution of $3,550 in 2020 regardless of how your file your personal income taxes. If either spouse has family coverage under a qualified health plan and HSA, both spouses are treated as having family coverage and are subject to the 2020 family maximum contribution limit of $7,100. You and your spouse will need to take into consideration that you cannot exceed your total family maximum in 2020. Normally, the family contribution limit is split equally between the spouses unless you agree on a different division. The rules for married people apply only if both spouses are eligible individuals.

Catch-Up Provision for Age 55 or older and not enrolled in Medicare: If your and your spouse have single coverage under your respective employers' HSA, you are both eligible to contribute an additional $1,000 (e.g. $2,000 total) to each of your HSAs. If either spouse has family coverage, the total contributions under family coverage cannot be more than $8,100. Each spouse may make the additional contribution to his or her own HSA, as long as the total between both spouses does not exceed $1,000.

You must also take into consideration any HSA contributions made by your spouse's employer for the 2020 calendar year.

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