Health Savings Account
Understanding Your HSA

MJ INSURANCE
The HSA Concept

HSAs are tax-advantaged savings accounts that accompany consumer driven high deductible health plans (HDHPs).

You have...

Health Insurance
High Deductible Health Plan (HDHP)

This helps pay the medical bills once the deductible and out of pocket has been met

Health Savings Account (HSA)

Your tax-free account to pay current medical expenses (OOP) or save for future ones.
HSAs and Your Insurance

- HSAs are **separate** from your health insurance

- Expenses **processed** through your health insurance provider will track towards your deductible and out-of-pocket expenses and will be eligible to be paid from your HSA
  - Doctor and Hospital visits
  - Prescriptions

- Expenses that are **not processed** through your health insurance provider do not track towards your deductible and out-of-pocket expenses but are still eligible to be paid from your HSA
  - Dental
  - Vision
Advantages of an HSA

> **TRIPLE TAX SAVINGS**
  > Contributions are pre-tax or tax deductible
  > Earnings are non-taxable
  > Qualified medical withdrawals are tax-free

> **This is a stand alone account.**
  > You own it.

> **Funds accumulate year-to-year.**

> **HSAs are portable.**
  > You keep your account and 100% of its funds when you change jobs or retire.
Tax Savings Example

- Assuming 15% Federal tax rate, 3.4% State tax rate and 7.65% FICA
- Individual Savings will vary depending on tax rate
Planning for Retirement

- HSA dollars can be saved and used for current and future medical expenses tax-free
- The amount that can be saved (HSA Limits) continues to increase annually as medical costs also increase
- Employees’ share of claims responsibility continues to increase while employed and into retirement (Medicare)
- Higher net retirement income by using tax-free money for medical needs

*Did you know...?*
On average, 25% of retirement income at age 75 will be needed for medical expenses?
Planning for Retirement

- TRF/PERF
- 403 (b)
- 401 (a)
- 401 (k)
- Other Investments

+ Health Savings Account (HSA)

\[ \text{GREATER NET RETIREMENT INCOME} \]
HSA Eligibility

- Must be enrolled in a High Deductible Health Plan (HDHP)
- May not be enrolled in any other non-HDHP
- Cannot be claimed as a dependent on another person’s taxes
- May not be enrolled in Medicare
HSA & Medicare

Once enrolled in Medicare, you cannot contribute to your HSA.

> Includes Medicare Part A which is normally automatic at age 65 if receiving Social Security benefits

> If only one spouse is enrolled in Medicare, the spouse not enrolled is still eligible to contribute based on their level of insurance coverage.

> For more information, contact your local Social Security office.
Spouse’s Medical Plan or FSA

> If you are covered by your spouse’s traditional medical plan, you cannot participate in an HSA

> Spouses can be enrolled in any type of insurance plan
  > This will not affect your eligibility to contribute

> If you are covered by your spouse’s medical Flexible Spending Account (FSA), you cannot contribute to an HSA
  > Limited purpose FSA (limited to vision, dental or dependent care) is allowable.
Qualified Medical Expenses

> In general, you can spend **tax-free dollars** from your Health Savings Account on all medical, prescription drug, dental and vision expenses.

> IRS.gov has complete listing of all Qualified Medical Expenses

> 20% penalty for using your HSA funds for non-eligible expenses until age 65 and used funds will be included as taxable income.

> After age 65, HSA funds can be used for non-qualified medical expenses without a penalty but will be taxed.
Qualified Medical Expenses, continued

> These insurance premiums are eligible...

> Cobra premiums
> Qualified long-term care insurance premiums
> Premiums for medical insurance while receiving federal or state unemployment benefits
> Medicare Premiums and other health care premiums after age 65 (with the exception of Medicare supplemental policies such as Medigap)
Non-Eligible Expenses

> Costs associated with **non-medically necessary** treatments
  > Cosmetic Surgery
  > Improve Appearance
  > Teeth Whitening

> Items meant to improve general health, **but not due to illness, injury or disease**
  > Health club dues
  > Non-prescription vitamins
  > Nutritional supplements
HSA Distributions

> You can use your HSA funds for...

> Yourself and spouse
> All dependents claimed on your tax returns
  
  • even if they are not covered under your HDHP and/or have other coverage
HSA Contributions

> IRS annual contribution limits (from all sources)

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<th>Insurance Coverage Level</th>
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<td>Individual</td>
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<tr>
<td>Family</td>
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> If one or both spouses are age 55 or older, the additional $1,000 catch-up contribution may be made on behalf of each eligible spouse.
> Must be placed in separate accounts
Managing Your Contributions

> The IRS imposes a 6% penalty plus tax on excess contributions.

> YOU, the account holder, are responsible to track your contributions to ensure that you do not over-contribute to your HSA

> Mistake distributions can be returned to your HSA by April 15 of the following year. You must provide clear evidence that the distribution was a mistake.
Record Keeping

> You are responsible for keeping documentation to verify all withdrawn funds were eligible expenses.

> If audited by the IRS, you may be asked to provide records.

> Details can be found in IRS Publications or consult a professional tax advisor.