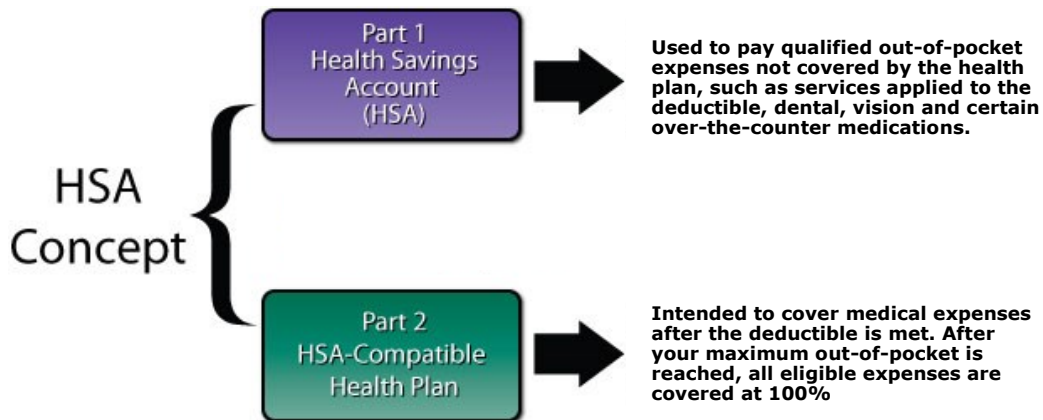


What is a Health Savings Account?

Health Savings Accounts (HSAs) are tax-exempt accounts where funds grow to pay for medical expenses. They were created to help give control back to consumers and lower healthcare costs. HSAs provide a financial incentive for consumers to select an HSA-compatible health plan. These plans have lower monthly premiums than traditional plans. The combination of the two provides consumers with more incentive to shop carefully for healthcare services.



An HSA is your account. If you switch jobs, the HSA goes with you. Your money rolls over every year. *There is no "use it or lose it" requirement.*

HSA-Compatible Health Plans - Contribution Limits & IRS Guidelines

In order to open an HSA, you must have a qualified HSA-compatible health plan. The IRS determines the guidelines for these plans and they are as follows:

IRS Limits for 2019		
	Single Plan	Family Plan
Minimum Deductible	\$1,350	\$2,700
Maximum Out-of-Pocket	\$6,750	\$13,500
Contribution Limit	\$3,500	\$7,000
Catch-Up Contribution (55 or older)*	\$1,000	\$1,000

* If a spouse is also 55 or older until enrolled in Medicare, a second HSA may be established in spouse's name and a second contribution of \$1,000 could be made to that account.

IRS Limits for 2020		
	Single Plan	Family Plan
Minimum Deductible	\$1,400	\$2,800
Maximum Out-of-Pocket	\$6,900	\$13,800
Contribution Limit	\$3,550	\$7,100
Catch-Up Contribution (55 or older)*	\$1,000	\$1,000

* If a spouse is also 55 or older until enrolled in Medicare, a second HSA may be established in spouse's name and a second contribution of \$1,000 could be made to that account.

HSA-Compatible Health Plans - Contribution Limits & IRS Guidelines

HSA-compatible Health Plans

The IRS sets annual requirements for the minimum deductible and maximum out-of-pocket expense for HSA-compatible health plans. Verify with your health plan representative that your health plan is compatible.

Catch-up Contributions

Individuals age 55 and over can make catch-up contributions directly through Internet Banking or by mailing a personal check.

Excess Contribution Removal

If you exceed the maximum contribution amount for a given year, you can remove the excess funds by your tax filing deadline, typically April 15, without tax penalty. To remove an excess contribution, please complete your Bank's Excess Contribution Removal Form and mail it to your HSA Bank Account Contact.

If excess funds are not removed by your tax filing deadline, you may be subject to tax penalties and/or IRS fees.

Transfer or Rollover Funds to Your HSA

A one-time rollover from an IRA to an HSA is allowed up to the annual HSA contribution maximum. Please contact your tax advisor to discuss the benefits and tax reporting requirements.

Why Open an HSA?

Flexible Options

- Even if your HSA-compatible coverage ends, you can still use your HSA funds tax-free for eligible medical dental, & vision care expenses.
- Contributions can come from employers, accountholders or third parties.
- There is no "use it or lose it" philosophy. If you don't use it, save it for next year. Or better yet, for retirement.
- You can fund your HSA with an existing HSA, MSA, or IRA.
- You're in control. You choose when to use your HSA or pay out-of-pocket.
- After age 65, HSA funds can be used for non-qualified expenses and only income tax is assessed.

Tax Advantages

- HSA contributions are tax-free or tax-deductible.
- Withdrawals are tax-free when used to pay for qualified medical, dental, & vision care expenses. See Internal Revenue Code Section 213(d) list attached.
- Earnings grow tax-deferred.

Long-term Investment Opportunities

- HSA funds can be invested for greater earning potential.
- Choose from a wide variety of stocks, bonds and mutual funds.

Discover the Tax Advantages of an HSA

There are plenty of advantages to a Health Savings Account. Funds rollover each year, there's no "use it or lose it" and the account is FDIC insured. But the biggest advantage is the tax savings.

Contribution Tax Benefits

If your employer offers a payroll deduction through a Section 125 Cafeteria Plan, you can make contributions to your HSA on a pre-tax basis. The deduction is removed from your paycheck prior to taxes being applied and deposited into your HSA. Ask your employer if they facilitate pre-tax deductions.

Contributions can also be made post-tax as an "above-the-line" deduction. This means you can reduce your taxable income by the amount you contribute to your HSA. Your HSA Bank will send you all the documents you need to complete your HSA-related tax filing.

Distribution Tax Benefits

Eligible medical expenses such as prescriptions or dental and vision care can be purchased tax-free when you use your HSA. You can also pay out-of-pocket for eligible medical expenses and then reimburse yourself from your HSA.

Earnings Tax Benefits

The interest on HSA funds grows on a tax-deferred basis. And, unlike most savings accounts, interest earned on an HSA is not considered taxable income when the funds are used for eligible medical expenses.

When do you Pay Taxes on your HSA?

The only time you may pay taxes or penalties on your HSA funds is if you make a non-eligible purchase, or if you contribute more than the yearly maximum contribution limit. However, both misuses can be corrected free of tax penalties by April 15th of the following calendar year.

Healthcare Reform & HSAs

On March 23, 2010, President Obama signed into law far-reaching healthcare financing legislation. We wanted to provide you with an overview of the impacts to Health Savings Accounts (HSA). Here are some of the changes that were effective January 1, 2011.

- » **Qualified Medical Expenses:** You are no longer able to pay for over-the-counter medications from your HSA as a qualified medical expense.
- » **Non-qualified expense penalty:** Under the new law, if you use your HSA funds for non-qualified expenses, you will face a 20% penalty, (which is an increase from 10% in 2010).
- » **Mandated insurance coverage:** Effective January 1, 2019, the individual mandate under federal law was effectively repealed. As a result, beginning with tax year 2019, a federal tax penalty no longer applies to individuals without health insurance coverage. Some states (District of Columbia, Massachusetts, and New Jersey) have state resident specific minimum essential or creditable coverage requirements or pay a tax penalty, plus states of Vermont, California, ... will generally apply beginning in 2020. Check with your accountant.
- » **Transitional Relief for HDHPs and HSAs providing certain benefits for Male Sterilization or Male Contraceptives:** IRS Notice 2018-12 when state mandated prior to periods before 2020 without deductible or with deductible below minimum for an HDHP.

HSA Tips

Save your receipts

You aren't currently required to substantiate purchases upfront, but it's important to have documentation in case of an audit.

Cover your deductible

If you choose to invest your HSA dollars, keep enough in your account to cover your deductible.

Contribute what you save on healthcare premiums

To build your HSA, calculate what you would have spent on premiums and put the difference in your account.

Save as you spend

Even if you can't afford to save your HSA funds, use them for medical expenses to collect the tax savings.

Contributions

When you have a qualifying HDHP, the following contribution guidelines apply.

- Anyone can contribute to your HSA.
- Your contributions are tax deductible.
- If your employer contributes to your HSA, that contribution is done on a pre-tax basis.
- Any pay-roll deductions made through Section 125 for your HSA are also on a pre-tax basis.
- You may contribute the annual maximum amount as determined by the IRS, regardless of your plan's deductible. The maximum for 2019 is \$3,500 for individuals and \$7,000 for families.
- You may contribute the annual maximum amount determined by the IRS, regardless of when your coverage begins, if you maintain coverage for the 12 month period beyond the calendar year in which you first became eligible. The maximum for 2019 is \$3,500 for individuals and \$7,000 for families.
 - Example: if you have individual coverage that begins in November 2019, you may contribute \$3,500 for 2019, when you maintain coverage through the end of 2020.

Distributions

Here are some key points about distributions:

- You can use your money tax-free at any time for eligible medical expenses.
- When you turn 65, you can use the money for non-eligible medical expenses. The money is subject to income tax, and there are no IRS penalties.
- If you are under age 65 and use your money for non-eligible medical expenses, you will be subject to income tax and a 20% tax penalty.

Frequently Asked Questions

Q. Are there limits to how much I can contribute to my HSA?

A. Yes. The IRS determines the maximum amount that can be contributed to an HSA for a calendar year. The 2019 limits are \$3,500 for an individual plan and \$7,000 for a family plan. In addition, account holders who are age 55 or older until enrolled in Medicare are allowed to make an annual \$1,000 Catch-Up Contribution. Those who enroll in Medicare mid-year should pro-rate contributions.

Q. May a husband and wife have a joint HSA?

A. No. Each spouse who is an "eligible individual" and wants to make contributions to an HSA must open a separate HSA. Thus, only one person may be the account beneficiary of an HSA (Notice 2004-50, Q:A-63). To provide access to a spouse, you may designate them as an authorized signer on the account.

Q. How does an eligible individual establish an HSA?

A. An eligible individual can establish an HSA with a qualified HSA trustee or custodian. No permission or authorization from the IRS is necessary to establish an HSA. (Notice 2004-2, Q-A #8) An HSA is considered established based on state tax law. In many states, the account must be funded before it is considered established. The establishment date is used to determine when distributions can be reimbursed from the HSA for tax purposes.

Q. Are health insurance premiums qualified medical expenses?

A. Generally, health insurance premiums are not qualified medical expenses, except for the following: qualified long-term care insurance, COBRA health care continuation coverage, and health care coverage while an individual is receiving unemployment compensation. In addition, for individuals over 65, premiums for Medicare Part A, Part B, Part D, Medicare HMA, and the employee share premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance can be paid from an HSA. Premiums for Medigap policies are not qualified medical expenses. (Notice 2004-2, Q-A #27)

Q. Are contributions prorated by the number of months the health plan is in place?

A. Pro-rating of contributions occurs when the status of an HSA changes from family to single, or if the HSA qualified health plan is terminated.

Example 1: Coverage Beginning Mid-year

If you have a new HSA-compatible health plan and coverage begins in July 2019 you will be eligible to contribute the maximum amount as determined by the IRS (\$3,500 for individual coverage and \$7,000 for family coverage.)

Example 2: Health Plan Status Change

If you have family coverage beginning January 1, 2019 and switch to single coverage July 1, 2019, you will be eligible to contribute 6/12 of \$7,000 plus 6/12 of \$3,500 or \$5,250.

Example 3: HSA Qualified health plan terminated

You have a qualified family health plan January 1, 2019 and terminate coverage April 1, 2019. You are eligible to contribute 3/12 of \$7,000 or \$1,750.

Frequently Asked Questions continued...

Q. How does healthcare reform impact Health Savings Accounts?

A. Starting January 1, 2011 the new law removed over-the counter drugs not prescribed by a physician from being paid from an HSA, FSA, or HRA on a tax-free basis.

Q. Can I roll over unused funds from an FSA or HRA?

A. No for unused fund from HRA. Yes for FSA with restrictions, Funds may be rolled from a general purpose FSA to a limited purpose FSA (Dental/Vision) (if offered by the employer) to allow for contributions to be made to an HSA. If a participant waives the rollover funds prior to the new plan year beginning, they may contribute to an HSA during the new plan year, please discuss with your employer and tax advisor.

Q. Can I transfer funds from an IRA to my HSA?

A. Yes, regulations allow a one-time rollover from an IRA to an HSA, up to the annual HSA contribution maximum. Prior to transferring funds, please consult your tax advisor to discuss the benefits and tax reporting requirements.

Q. Are there any exceptions regarding HSA Contributions?

A. Yes. If an individual does not stay in the HSA-eligible plan 12 months following the last month of the year of the first year of eligibility.

Example:

You established a qualified health plan in December 2018 and contributed the maximum allowed for 2018. Then in January 2019 you contributed the maximum contribution for that tax year. Then, you ended coverage May 1, 2019. Eleven-twelfths of the December 2018 contribution must be treated as income, plus a 20% penalty on that amount must be paid. Eight-twelfths of the funds deposited in January must be taken out of the account as an excess contribution (and treated as income) but no 20% penalty is incurred if completed by April 15, 2020

Comparing HSAs, HRAs, and FSAs

Question	HSA	HRA	FSA
Do the funds belong to the employee?	YES	NO	YES
Can the money be invested and the employees earn interest?	YES	NO	NO
Can the employees use the funds for things other than medical expenses?	YES	NO	NO
Can the employee take the money with them if they switch employers?	YES	NO	NO
Do the funds rollover year-to-year?	YES	Generally, NO	NO
Who can contribute to the account?	Employers and/or Individuals	Employers	Employee

- Health Savings Accounts (HSAs) are employee controlled and employee funded.
- Health Reimbursement Accounts (HRAs) are employer owned.
- Flexible Spending Accounts (FSAs) have a "use it or lose it clause". Money has to be spent by the end of the calendar year's Grace Period or a Roll-Over limit, else it is forfeited.

Eligible Medical Expenses

An eligible expense is defined as an expense for certain healthcare services, equipment, and medications as described in Section 213(d) of the Internal Revenue Code. Below are two lists which may help determine whether an expense is eligible.

Eligible Medical Expenses (for HSA Distributions)

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> • Acupuncture • Alcoholism Treatment • Ambulance • Artificial Limb • Artificial Teeth • Bandages • Birth Control Pills (by prescription) • Breast Reconstruction Surgery (mastectomy) • Car Special Hand Controls (for disability) • Certain Capital Expenses (e.g. for the disabled) • Chiropractors • Christian Science Practitioners • COBRA premiums • Contact Lenses • Cosmetic Surgery (if due to trauma or disease) • Crutches • Dental Treatment • Dermatologist • Diagnostic Devices • Disabled Dependent Care Expenses • Drug Addiction Treatment (inpatient) • Drugs (prescription) • Eyeglasses • Fertility Enhancement • Guide Dog • Gynecologist • Health Institute (if prescribed by physician) • H.M.O. (certain expenses) • Hearing Aids • Home Care • Hospital Services • Laboratory Fees • Lasik Surgery • Lead-Based Paint Removal • Learning Disability Fees (prescription) • Legal Fees (if for mental illness) • Life-Care Fees | <ul style="list-style-type: none"> • Lodging (for out-patient treatment) • Long-Term Care (medical expenses) • Long-Term Care Insurance (allowable limits) • Meals (associated with receiving treatments) • Medical Conferences (ill spouse/dependent) • Medicare Deductibles • Medicare Premiums • Mentally Retarded (specialized homes) • Nursing Care • Nursing Homes • Obstetrician • Operating Room Costs • Operations - Surgical • Ophthalmologist • Optician • Optometrist • Organ Transplant (incl. donor's expenses) • Orthodonture • Orthopedic Shoes • Orthopedist • Osteopath • Out-of-pocket expenditures and deductibles for our spouse or dependent even if insured under a non-HSA health plan • Oxygen and Equipment • Pediatrician • Personal Care Services (for chronically ill) • Podiatrist • Post-Nasal Treatments • Prenatal Care • Prescription Medicines • Prosthesis • PSA Test • Psychiatric Care / Psychiatrist • Psychoanalysis / Psychoanalyst • Psychologist • Qualified Long-Term Care Services • Physician monitored weight loss program | <ul style="list-style-type: none"> • Radium Treatment • Smoking Cessation Programs • Special Education for Children (ill / disabled) • Specialists • Spinal Tests • Splints • Sterilization • Surgeon • Telephones & TV for the Hearing Impaired • Therapy • Transportation Expenses for Health Care Treatment • Vaccines • Vitamins (if prescribed) • Weight Loss Programs • Wheelchair • Wig (hair loss from disease) • X-Rays • Antacids • Allergy Medications • Pain relievers • Cold Medicine |
|--|---|---|

Over-the-Counter Drugs**

- Anti-diarrhea medicine
- Cough drops and throat lozenges
- Sinus medications and nasal sprays
- Nicotine medications and nasal sprays
- Pedialyte
- First aid creams
- Calamine lotion
- Stop-smoking programs
- Wart removal medication
- Antibiotic ointments
- Suppositories and creams for hemorrhoids
- Sleep Aids
- Motion sickness pills

****If Prescribed by a Physician Eff. 1/1/11**

Ineligible Medical Expenses

- | | |
|--|--|
| <ul style="list-style-type: none"> • Baby Sitting, Childcare, and Nursing Services for a Normal, Healthy Baby • Controlled Substances • Cosmetic Surgery • Dancing Lessons • Diaper Service • Electrolysis or Hair Removal • Flexible Spending Account • Funeral Expenses • Future Medical Care • Hair Transplant • Health Club Dues • Health Coverage Tax Credit • Health Savings Accounts | <ul style="list-style-type: none"> • Household Help • Illegal Operations and Treatments • Insurance Premiums • Maternity Clothes • Medical Savings Account (MSA) • Medicines and Drugs From Other Countries • Nonprescription Drugs and Medicines • Nutritional Supplements • Personal Use Items • Swimming Lessons • Teeth Whitening • Veterinary Fees • Weight-Loss Program |
|--|--|

Over-the-Counter Drugs

- Toiletries (including toothpaste)
- Acne Treatments
- Lip balm (including Chapstick or Carmex)
- Suntan lotion
- Medicated shampoos and soaps
- Vitamins (daily)
- Fiber supplements
- Dietary supplements
- Weight loss drugs for general well being
- Herbs
- Any Non-Prescription medication starting January 1, 2011

These lists are not comprehensive but are meant to serve as a quick reference. They have been provided to you with the understanding that Keystone Insurance & Benefits Group is not engaged in rendering tax advice. This information can not be used to avoid federal tax penalties. For more detailed information please refer to IRS Publication 502 titled "Medical and Dental Expenses". Publications can be ordered directly from the IRS by calling 1-800-TAX-FORM or by visiting www.irs.gov. If tax advice is required, you should seek the services of a qualified professional.