Qualified High Deductible Health Plan and Health Savings Account Overview

A Qualified High Deductible Health Plan (QHDHP) operates much like a traditional preferred-provider organization (PPO) plan, only with a high annual deductible. Generally, after the employee's medical expenses meet the deductible, some services require a co-pay and others are covered at 100 percent of the cost of covered services.

For both plans, some preventative services are not subject to the annual deductible. These include annual physicals, vaccines, and cancer screenings under specified guidelines – all of which are covered at 100 percent outside of the annual deductible.

For family/dependent coverage, PPOs and QHDHPs differ on how the annual deductible is reached.

1. PPO – individuals can satisfy an individual deductible before the family satisfies the full family deductible. For example:
    a. Individual deductible is $350 and family deductible is $700
    b. Person A has $400 in claims, $350 of that claim is subject to their deductible and the last $50 of that claim is not subject to a deductible. Person A deductible is met and $350 of family deductible is met.
    c. Person B in the family then has a $200 claim, all of which is subject to the individual deductible. $550 of family deductible now met.
    d. Person C in the family then has a $225 claim. $150 is applied to the family deductible which is then met. Since the family deductible is met, individual deductibles no longer need to be met, therefore the remaining $75 of that claim is not subject to a deductible.
    e. Once a deductible is met for an individual or a family, the PPO plan covers 90% of the cost of the medical care until they reach the individual/family coinsurance out-of-pocket limit. No individual would be required to pay more than $1,250 in coinsurance payments, and no family's combined coinsurance claims can exceed $2,500 (not including deductible or copays). The employee is then responsible just for provider and prescription drug copays. If an individual family member's in-network out-of-pocket costs would ever reach $6,850 (including individual deductible, coinsurance, and provider/prescription drug copays), then all further medical costs for that family member are covered 100% by the plan (provider and prescription drug copays no longer apply). If the family's combined in-network out-of-pocket costs reach $13,700 (including family deductible, coinsurance, and provider/prescription drug copays), then all further medical costs for any covered family member that year are covered 100% by the plan (provider and prescription drug copays no longer apply).

2. QHDHP – the entire family deductible must be met before any claims are paid. For example:
    a. Individual deductible is $1,500 and the family deductible is $3,000.
    b. Person A has $1,600 in claims, that entire amount is subject to the family deductible.
    c. Person B in the family then has $2,000 in claims. The first $1,400 is subject to the family deductible and the remaining $600 is not subject to a deductible.
    d. Once the family deductible is met, the QHDHP plan covers 100% of the cost of the medical care, except for provider and prescription drug copays.
    e. The employee is then responsible just for provider and prescription drug copays. If an individual family member's in-network out-of-pocket costs reach $3,000 (including individual deductible and copays),

then all further medical costs for that family member are covered 100% by the plan (provider and prescription drug copays no longer apply). If the family's combined in-network out-of-pocket costs reach $6,000 (including family deductible and copays), then all further medical costs for any covered family member that year are covered 100% by the plan (provider and prescription drug copays no longer apply).

"Once the family deductible is met, the QHDHP plan covers 100% of the cost of the medical care, except for provider and prescription drug copays."

Participation in a QHDHP allows the employee to participate also in a Health Savings Account (HSA). The Internal Revenue Service regulates how HSA's operate. The following is a list of frequently asked questions about Health Savings Accounts.

General Questions

1. What is an HSA?

A health savings account (HSA) is a tax-favored savings account created for the purpose of paying medical expenses.

- **Tax-deductible -** contributions to the HSA are 100% deductible (up to the legal limit).
- **Tax-free -** withdrawals to pay qualified medical expenses are not taxed.
- **Tax-deferred -** interest earnings on the funds in the account accumulate tax-deferred, and if used to pay qualified medical expenses, are tax-free.
- **HSA money is yours to keep -** unlike a flexible spending account (FSA), unused money in your HSA isn't forfeited at the end of the year; it continues to grow, tax-deferred.

2. How does an HSA plan work?

An HSA works in conjunction with a qualified high deductible health insurance plan (QHDHP).

Your HSA dollars can be used to help pay the health insurance deductible and any qualified medical expenses, including those not covered by the health insurance, like dental and vision care.

Any funds you withdraw for non-qualified medical expenses will be taxed at your income tax rate, plus 20% tax penalty.

3. **Do HSA plans work with physician and provider networks?**

Yes. You are still accessing Highmark's provider network, and they provide discounts on health care. The discounts apply to all care — even prior to meeting the health insurance deductible. So, your HSA plan savings goes further.

4. **What are the tax benefits?**

There are three major tax advantages to your HSA.

- Cash contributions to an HSA are 100% deductible from your federal gross income (within legal limits).
- Interest on savings accumulates tax deferred.
- Withdrawals from an HSA for "qualified medical expenses" are free from federal income tax.

5. **What happens to my HSA when I die?**

Your HSA will be treated as your surviving spouse's HSA, but only if your spouse is the named beneficiary. If there is no surviving spouse or your spouse is not the beneficiary, then the savings account will cease to be an HSA and will be included in the federal gross income of your estate or named beneficiary.

6. **If I leave my job, what happens to my HSA?**

Your HSA belongs to you regardless of your employment. The account is portable, you take it with you wherever you go. If you leave your job and elect to retain your QHDHP under COBRA you may even pay the COBRA premiums from your HSA. Note that you must have QHDHP coverage in order to make additional contributions to your HSA.

7. **Will my account be protected?**

An HSA is a trust or custodial account that can hold many different types of assets; including, both FDIC insured investments and others. If your money in your HSA is placed into an FDIC insured deposit account, an FDIC checking account for instance, then it will enjoy FDIC insurance.

8. **May an eligible individual have more than one HSA?**

Yes. An eligible individual may establish more than one HSA, and may contribute to more than one HSA. The same rules governing HSAs apply.

Eligibility Questions

9. **Who can have an HSA?**

You must be:

a. Covered by a "qualified" high deductible health insurance plan;
b. Not covered under other health insurance;
c. Not enrolled in Medicare; and
d. Not another person's dependent.

Exceptions: other health insurance does not include coverage for the following: accidents, dental care, disability, long-term care, and vision care. Workers' compensation, specified disease, and fixed indemnity coverage is permitted.

10. **Can Adult Children up to age 26 be covered under the HSA?**

    Health plans offer coverage for adult children up to age 26 under a parent's family health plan. While they may qualify as a dependent for insurance purposes, adult children might not qualify as tax dependents on the parent's tax return. If that is the case, their medical expenses cannot be covered by a parent's HSA.

    However, an adult child who is covered under a parent's family HSA-eligible QHDHP and is not a tax dependent can open his or her own HSA and contribute up to the full family maximum.

11. **Are Same-Sex Spouses covered under an HSA?**

    For Federal tax purposes, HSAs can be used to pay medical expenses of same-sex spouses.

12. **Are Domestic Partners covered under an HSA?**

    For Federal tax purposes, domestic partners are not considered spouses and HSAs cannot be used to pay for the medical expenses of domestic partners.

13. **May an otherwise eligible individual who is eligible for Medicare, but not enrolled in Medicare Part A or Part B, contribute to an HSA?**

    Yes. An individual ceases to be an eligible individual starting with the month s/he is entitled to benefits under Medicare. However, under this provision, mere eligibility for Medicare does not make an individual ineligible to contribute to an HSA. Rather, the term "entitled to benefits under" Medicare means both eligibility and enrollment in Medicare. Thus, an otherwise eligible individual who is not actually enrolled in Medicare Part A or Part B may contribute to an HSA until the month that individual is enrolled in Medicare.

    See the Medicare section below for more information.

14. **If an otherwise eligible individual is eligible for medical benefits through the Department of Veterans Affairs (VA), may he or she contribute to an HSA?**

    An otherwise eligible individual who is eligible also to receive VA medical benefits, but who has not actually received such benefits during the preceding three months, is an eligible individual. An individual is not eligible to make HSA contributions for any month, however, if the individual has received medical benefits from the VA at any time during the previous three months. (*Note: this rule has recently been amended to state that individuals receiving medical services through the VA for a service-related disability would still be eligible to contribute to an HSA*).

15. **May an otherwise eligible individual who is covered by a QHDHP and also receives health benefits under TRICARE (the health care program for active duty and retired members of the uniformed services, their families and survivors) contribute to an HSA?**

    No. Coverage options under TRICARE do not meet the minimum annual deductible requirements for a QHDHP. Thus, an individual covered under TRICARE is not an eligible individual and may not contribute to an HSA.

16. **May an otherwise eligible individual who is covered by both a QHDHP and also by insurance contracts for one or more specific diseases or illnesses, such as cancer, diabetes, asthma or congestive heart failure, contribute to an HSA if the insurance provides benefits before the deductible of the HDHP is satisfied?**

Yes. An eligible individual covered under a QHDHP may also be covered "for any benefit provided by permitted insurance." The term "permitted insurance" includes "insurance for a specified disease or illness." Therefore, an eligible individual may be covered by a QHDHP and also by permitted insurance for one or more specific diseases, such as cancer, diabetes, asthma or congestive heart failure, as long as the principal health coverage is provided by the QHDHP.

17. **May an individual who is covered by a QHDHP and also has a discount card that enables the user to obtain discounts for health care services or products, contribute to an HSA?**

Yes. Discount cards that entitle holders to obtain discounts for health care services or products at managed care market rates will not disqualify an individual from being an eligible individual for HSA purposes if the individual is required to pay the costs of the health care (taking into account the discount) until the deductible of the QHDHP is satisfied.

18. **Does coverage under an Employee Assistance Program (EAP), disease management program, or wellness program make an individual ineligible to contribute to an HSA?**

An individual will not fail to be an eligible individual solely because the individual is covered under an EAP, disease management program or wellness program if the program does not provide significant benefits in the nature of medical care or treatment, and therefore, is not considered a "health plan."

19. **My spouse has a health policy through her employer, am I eligible to have an HSA?**

If your spouse has an individual policy and no other insurance and you are otherwise qualified (see above), you are eligible to have an HSA. However, if your spouse participates in an FSA for which you are an eligible dependent, you would not be eligible for an HSA if your spouse can use the FSA for your general health expenses. This is because you are not eligible for an HSA if you are covered by "other insurance". Even though you are not covered by your spouse's health insurance, the IRS has determined that your spouse's FSA is considered "other insurance" thus rendering you ineligible for an HSA. An exception to this rule exists for limited purpose FSAs (those that cover vision and dental expenses only) and you would be eligible for an HSA if your spouse had a limited purpose FSA.

20. **If my spouse has a non-HDHP, would that prohibit me from getting an HDHP?**

Generally, no. As long as your spouse's non-HDHP does not cover you, you remain an eligible individual and can participate in an HSA. If your spouse has a family non-HDHP and you were not exempted from that coverage then you would not be an eligible individual and would not be able to participate in an HSA. However, if, for example, your spouse had a family non-HDHP to cover himself and your two children only, then you would still be eligible to open an HSA.

21. **Can I have an HSA and an IRA?**

Yes, having an HSA in no way restricts your ability to have an IRA.

Medicare and HSA Eligibility Questions

22. What are the different parts of Medicare?

Part A: Hospital insurance; covers hospital expenses Part B: Medical insurance; covers doctor visits
Part C: Medicare Advantage – a combination of Part A and B administered by an insurance carrier
Part D: Covers prescription drugs
Medigap: Supplemental Medicare coverage

If you need more detailed information on the different Medicare Plans call the Social Security Administration at 1-800-772-1213 or visit www.medicare.gov.

23. What are the differences in eligible, entitled, and enrolled in Medicare?

Eligible: You have met the requirements to qualify for Medicare part A, but have not yet applied.

Entitled: Eligible for Medicare, filed to receive Medicare Part A, and your name is in the system – or – application is processed and you have received a card indicating your Medicare coverage start date.

Enrolled: You have chosen to sign up for Medicare Part B – or you are one of the few people who pay premiums for Medicare Part A.

24. How does this impact the HSA?

Eligible: If you are eligible for Medicare *but have not filed an application for either Medicare or Social Security Benefits*, you need to do nothing. You can continue to contribute to your HSA past age 65 and postpone applying for Social Security and Medicare until you stop working. There is no penalty for this delay as long as you maintain your current health coverage.

Entitled: If you are entitled to Medicare because you signed up for Medicare Part A at age 65 or later *and have applied for Social Security Benefits* you cannot continue to contribute to an HSA. You can continue to withdraw any remaining funds in your account.

If you are entitled to Medicare because you signed up for Medicare Part A at age 65 or later *but have not yet applied for Social Security Benefits*, you can withdraw your application for Part A. (To do so contact the Social Security Administration at 1-800-772-1213.) There are no penalties or repercussions and you are free to reapply for Part A at a future date. This will allow you to continue to contribute to the HSA until you decide to reapply for Part A. Please note that there may be penalties for late enrollment into Part B.

Enrolled: If you have applied for, or are receiving, Social Security Benefits – which automatically entitles you to Part A – you cannot continue to contribute to an HSA. You can continue to withdraw any remaining funds in your account.

***Premium-free Part A coverage begins 6 months back from the date you apply for Medicare. TO AVOID A TAX PENALTY, YOU SHOULD STOP CONTRIBUTING TO YOUR HSA AT LEAST 6 MONTHS BEFORE YOU APPLY FOR MEDICARE.

25. **I have heard that when I turn 65 I will automatically be enrolled in Medicare Part A. Is this true?**

If you already get benefits from the Social Security Administration or the Railroad Retirement Board, you are automatically entitled to Medicare Part A (Hospital Insurance) and Part B (Medical Insurance) starting the first day of the month that you turn 65. You do not need to do anything to enroll.

If you are not receiving Social Security, Railroad or disability benefits, you can enroll in Medicare and a Medicare drug plan up to 3 months before your 65th birthday and no later than 3 months after the month of your birthday. This is called the initial enrollment period. You will need to submit an application to the Social Security Administration. Social Security can answer any questions about your application.

26. **I am turning 65 in April and will be enrolled in Medicare at that time. How much can I contribute to the HSA for the year?**

Once you, as the account holder, are enrolled in Medicare you must pro-rate the contributions for the year the coverage begins. Coverage will begin on the first of the month in which you turn 65. In this case you would take the allowed contribution for the year (including any catch up contribution) and divide it by 12. Since you are eligible to contribute from Jan – Mar, multiply the monthly amount by three to get your maximum allowed contribution amount.

27. **Does this contribution need to be made prior to my birthday?**

No, contributions can be made up until your tax filing deadline, typically April 15th.

28. **I am married, covered by a family QHDHP with an HSA. My spouse is enrolled in Medicare but also covered under the family QHDHP. Can I still contribute to the HSA?**

Yes, being eligible to contribute to the HSA is determined by the status of the HSA account holder not the dependents of the account holder. Your spouse being on Medicare does not disqualify you from continuing contributions to the HSA up to the family limit, even if they are also covered by the HDHP.

29. **I am married, covered by a family QHDHP with an HSA. My spouse is enrolled in Medicare but also covered under the family QHDHP. Can I use my HSA funds for uncovered medical expenses for my spouse?**

Yes, you can use the HSA funds for your spouse's uncovered medical expenses.

30. **I am married, covered by a family QHDHP with an HSA. My spouse enrolled is in Medicare. At that time our QHDHP changed from family to single coverage. Can I still contribute to the HSA?**

Yes, you may still contribute to the HSA, but changing from family QHDHP coverage to single will impact the amount you may contribute. You may contribute 1/12 of your family contribution (including any catch up contribution) for each month you had family QHDHP coverage + 1/12 of the single contribution (including any catch up contribution) for each month you have single coverage based on your status on the first of the month.

31. **I am enrolled in Medicare and still have money left in my HSA account. What happens to these funds?**

HSA funds can continue to be spent on a tax free basis for eligible medical expenses for you and any eligible tax dependents. If you, as the account holder, are over 65 and the money is drawn for other than medical expenses it is subject to income tax, but no other penalties apply.

32. **I am enrolled in Medicare but also still covered under the QHDHP through my employer. Who should my claims be submitted to?**
Since you are still enrolled in the QHDHP, the claim should be submitted there first, then to Medicare. If there is any patient responsibility after Medicare processes the claim that can be submitted to your HSA account.

Please note that crossover will stop working once you turn 65, so these claims will need to be submitted manually.

33. **Are Medicare premiums eligible to be drawn from the HSA account?**
Being eligible to claim Medicare premiums from the HSA is determined by the status of the HSA account holder not the dependents of the account holder. Premiums for Medicare Part A, B, C and D can be reimbursed from the HSA as long as the account holder is at least 65 years old. These can be Medicare premiums for the account holder or any eligible dependents.

Premiums for Medicare supplement insurance are not eligible for reimbursement.

34. **I received Medicare Part A through disability, but will be retuning to work and my payments will stop. Can I resume contributing to an HSA at that time?**
You become entitled to Medicare after the 25^{th} disability check from Social Security. In other words, you automatically go into the Medicare system. Even after you return to work your Medicare entitlement continues for up to 93 months from the time you first applied for disability. This makes you ineligible to resume contributing to an HSA account.

The only way you can opt out of Part A is to repay Social Security for any disability payments you received, even if you never used Part A for medical services, and to repay Medicare if you did utilize Part A during the disability.

HSA Contribution Questions

35. **How much may be contributed to an HSA in calendar year 2017?**
Includes both employee and employer contributions:

Individual Coverage	$3,400
Family Coverage	$6,750

To avoid possible tax consequences, the tax payer must be enrolled in the QHDHP through the end of the year and must remain in the HDHP for at least 12 months.

36. **Are contributions to my HSA taxable?**
Employer contributions are not taxable to the employee. Employee contributions can be made with pre-tax dollars through a Section 125 salary-reduction cafeteria plan.

37. **My employer funded only a portion of my HSA, can I still contribute to it?**
Yes. You may fully fund your HSA up to the contribution limit.

38. **Can I fund my account at the family level if I have single coverage?**
No, if you have single coverage you are limited to the individual HSA contribution limit. You may use your HSA funds to pay for the qualified medical expenses of family members however, the amount you may contribute to your HSA is limited by the level of your insurance coverage.

39. **Are lump-sum deposits permitted?**
Under the law, yes, but make sure your financial institution accepts lump-sum deposits. You may also be required to continue minimum monthly deposits. Lump-sum deposits may not exceed the maximum annual contribution limit.

40. **Can I transfer my IRA into an HSA?**
Yes, the law allows a one-time transfer of IRA assets to fund an HSA. The amount transferred may not exceed the amount of one year's contribution and individuals must be otherwise eligible to open an HSA. Transfers are not taxable as IRA distributions however; amounts transferred into an HSA from an IRA are not deductible.

41. **What about "catch up" contributions for those 55 and older?**
Individuals aged 55 and over may contribute an additional $1,000 above the maximum for each tax year.

42. **How often can an employee adjust their HSA contribution?**
Employees contributing to an HSA may make adjustments to their monthly contributions prospectively at any time. In addition, employees can elect to make lump sum contributions annually.

43. **What can I invest the funds in my HSA account in?**
You can invest the funds in bank accounts, money markets, mutual funds and stocks. You may not invest in collectibles, art, automobiles or real estate. As the initial funds in your HSA may need to be used to for medical expenses we recommend you maintain a small balance in your checking account and consider more liquid investments until you have a good estimate of your needs.

44. **Is the tax treatment of an eligible HSA contribution the same if it is not processed through a Section 125 plan?**
Yes, for federal income taxes, an eligible individual may deduct "off the top" from their adjusted gross income the total amount that individual contributed to their HSA for that calendar year. This tax savings is allowed regardless of whether or not the individual itemizes their deductions. However, medical expenses deductions under Section 123 cannot also be deducted.

45. **Is there a deadline for contributions to an HSA for a taxable year?**
Like an IRA, contributions (made outside of a Section 125 plan) for a calendar year may be made at any time following the beginning of that calendar year and prior to the deadline for taxes for that year. For those who file their taxes annually, this deadline is generally April 15th of the following year.

46. **If both spouses have coverage under separate HSA-compatible health plans, how is the contribution limit determined?**

In a situation where each spouse has individual or family coverage under separate HSA-compatible high deductible health plans, the combined contribution for each cannot exceed $6,750.

However, if in this scenario one or both spouses are 55 or older, the additional catch-up contribution may be made on behalf of each eligible spouse.

47. **How much can you contribute if you add a new spouse or baby?**

If you are changing from an individual plan to family coverage, your allowable HSA contribution will change on the first day of the first full month, after which you become covered by a family-coverage HDHP, which will allow you to contribute more to your HSA.

You may choose to make a pro-rated increase in your contributions for the year, or contribute the family maximum for the year if you believe you will stay in a family plan through the testing period.

48. **How much can you contribute if you get divorced or become legally separated?**

If you made the maximum family contribution to your HSA and kept your family coverage after the divorce or legal separation, you will not run into any issues with excess contributions. However, if you and your spouse were covered by a family HSA-qualified QHDHP and you change to single coverage after your divorce, you may need to adjust your contributions to ensure you do not over-contribute for the year.

You may have made an excess contribution if you divorce and change your QHDHP coverage to a single plan, have contributed more than $3,400 to your HSA during 2017, and you have not used the full-contribution rule—where the entire yearly contribution is made on the first day of the last month of the tax year. Excess contributions are considered income and subject to an additional six percent federal excise tax. Excess employer contributions are also subject to income tax and excise tax.

You may withdraw some or all of the excess contributions and not pay the excise tax—you are still liable for income tax on the amount—if you meet the following conditions:

- You withdraw the excess contributions by the due date of your tax return for the tax year during which the contributions were made.
- You withdraw any interest income earned on the withdrawn contributions and include the earnings as other income on your tax return for the tax year you withdraw the contributions and earnings.

If you made a maximum annual contribution for a family under the full-contribution rule, divorced mid-year, and changed your coverage to single under your health plan's QHDHP, you will have failed the testing period for eligibility under family coverage.

You will have to include the excess contribution amount in your gross income for the current tax year and pay a 10 percent penalty on the amount.

49. Are Contributions to an HSA included in the Excise Tax of 40% (Cadillac Tax)?

Yes, all employer and employee contributions to the HSA are included.

50. What if I am only eligible part of the year?

If this is your first year of coverage under a HDHP and you start mid-year, you can contribute up to the full applicable federal limit; including a full catch-up amount if between ages 55–65, so long as you start your QHDHP coverage no later than December 1 of that year. In this case; however, you will be subject to a testing period. The testing period requires that you maintain HSA eligibility for a period beginning on December 1 of the year you started and ending on December 31 of the next year.

If this is not your first year of the HSA and you stop your HSA eligibility mid-year, you are only allowed to contribute 1/12 of the applicable federal limit times the number of months you were eligible.

HSA Reimbursement/Distribution Questions

51. Can my HSA be used for dependents, whether or not they are covered by the health insurance?

Generally, yes. Qualified medical expenses include unreimbursed medical expenses of the accountholder, her/his spouse, or dependents (any family member reported as a dependent on your tax return). Note that although adult children up to age 26 may be eligible to remain on the insurance coverage, they are NOT eligible for reimbursement of expenses from the HSA unless they are a dependent on the parent's tax return.

52. Are Nonmedical withdrawals permitted from an HSA?

Nonmedical withdrawals from your health savings account are taxable income and subject to a 20% tax penalty.

Exception:

This tax penalty does not apply if the withdrawal is made after the date you:

1. Attain age 65;
2. Become totally and permanently disabled; or
3. Die.

53. Can my HSA be used to pay premiums?

No, this would be a nonmedical withdrawal, subject to taxes and penalty.

Exceptions:

No penalty or taxes will apply if the money is withdrawn to pay premiums for:

1. Qualified long-term care insurance; or
2. Health insurance while you are receiving federal or state unemployment compensation; or
3. Continuation of coverage plans, like COBRA, required under any federal law; or
4. Medicare premiums.

54. What is a qualified medical expense?

A qualified medical expense is one for medical care as defined by Internal Revenue Code Section 213(d). The expenses must be primarily to alleviate or prevent a physical or mental defect or illness, including dental and vision. Most expenses for medical care will fall under IRC Section 213(d).

However, some expenses do not qualify. A few examples are:

- Surgery for purely cosmetic reasons
- Health club dues
- Illegal operations or treatment
- Maternity clothes
- Toothpaste, toiletries, and cosmetics

HSA money cannot generally be used to pay your insurance premiums.

**See IRS Publications 502 ("Medical and Dental Expenses") and 969 ("Health Savings Accounts and Other Tax-Favored Health Plans") for more information.*

55. **When can I start to use the funds in my HSA?**
Once your account is open, a deposit has been made to your account and funds are available, you can start using your HSA. You are 100 percent vested as soon as the funds are deposited and you have total control over the funds.

56. **Can I use the funds in my HSA even if I am no longer enrolled in an HSA-compatible health plan?**
Yes, provided the funds are used exclusively for qualified medical expenses as defined by the Internal Revenue Service, the distributions will not be taxed.

57. **Is it true that individuals 65 or older can take out funds from their HSA plan for any reason without a penalty?**
If an individual is age 65 or older, regardless of whether the individual has been enrolled in Medicare, there is no penalty to withdraw funds from the HSA. As always, normal income taxes will apply if the distribution is not used for unreimbursed medical expenses (expenses not covered by the medical plan).

58. **Must distributions begin at age 70 1/2?**
The law is silent on this point at the present time.

59. **Is the employer responsible for reviewing medical expenses?**
No, the employer is not responsible for policing the employee's HSAs. The individual account holder is responsible for determining that their account funds are being properly used and would be required to provide supporting evidence on the use of their funds if requested under IRS audit.

60. **When must a distribution from an HSA be taken to pay or reimburse, on a tax-free basis, qualified medical expenses incurred in the current year?**
An account beneficiary may defer to later taxable years distributions from HSAs to pay or reimburse qualified medical expenses incurred in the current year as long as the expenses were incurred after the HSA was

established. There is no time limit on when the distribution must occur. However, to be excludable from the account beneficiary's gross income, he or she must keep records sufficient to later show that the distributions were exclusively to pay or reimburse qualified medical expenses, that the qualified medical expenses have not been previously paid or reimbursed from another source and that the medical expenses have not been taken as an itemized deduction in any prior taxable year.

61. **May an individual who is under age 65 and has end stage renal disease (ESRD) or is disabled receive tax-free distributions from an HSA to pay for health insurance premiums?**

No. health insurance may not be paid by an HSA. However, payment of health insurance premiums are qualified medical expenses, but only in the case of an account beneficiary who has attained the age specified in the Social Security Act (*i.e.*, age 65).

62. **If a retiree who is enrolled in Medicare receives a distribution from an HSA to reimburse the retiree's Medicare premiums, is the reimbursement a qualified medical expense?**

Yes. Where premiums for Medicare are deducted from Social Security benefit payments, an HSA distribution to reimburse the Medicare beneficiary equal to the Medicare premium deduction is a qualified medical expense.

63. **How are Duplicate Reimbursements Handled?**

If you pay directly from the HSA and then receive a duplicate reimbursement from the insurance company, the reimbursed amount must be returned to the HSA administrator as a mistaken distribution. If you do not return the duplicate reimbursement, you will have to pay a penalty to the IRS. This also applies to any refunds you receive from health providers for over-payment.

Mistaken distributions from an HSA can be repaid by April 15—or another date designated by the IRS—of the following year without penalty or tax, provided this is permitted by the trustee, and there is "convincing evidence that the amounts were distributed from an HSA because of a mistake of fact due to reasonable cause"