

Health Savings Account Frequently Asked Questions

These questions and answers are designed to give you the basic concepts of a Health Savings Account. It is not intended to provide all the information you need in order to make a decision on whether or not an HSA is right for you. You may want to consult with your tax advisor.

What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is an account that works in conjunction with a High Deductible Health Plan (HDHP). The account allows you to put money aside and reimburse yourself for medical expenses on a tax-deductible basis (see the next question on how an HSA works). Unspent funds accumulate tax-free and roll over from year-to-year (there's no "use it or lose it" rule as with flexible spending accounts).

You can set up an HSA at any financial institution that provides HSA account services. As long as you are enrolled in a compatible High Deductible Health Plan, you can continue to contribute to your HSA until you reach age 65.

An HSA gives you the freedom to spend the funds today or save them for the future. Your HSA is your account. You own it. You fund it. And you can take it with you wherever you go.

How does an HSA work?

Contributions you make to your HSA are tax-deductible. You contribute to the account during the year and deduct the contributions on your Federal income tax return. Funds you withdraw to pay for qualified medical expenses, as defined by Section 213(d) of the IRS Tax Code, are tax-free. If you use your HSA funds to pay for non-health related expenses, the amount will be taxable and you will pay an additional 10% tax penalty. The tax penalty does not apply if you are over age 65 or enrolled in Medicare, but is treated as gross income for tax purposes.

Are my HSA contributions invested?

Depending on the institution, your HSA may be a simple interest bearing account or an account that allows you to invest your contributions.

How much can I contribute to an HSA?

In **2009**, the HSA maximum annual contribution is \$3,000 for an individual or \$5,950 for a family.

In **2010**, the HSA maximum annual contribution is \$3,050 for an individual or \$6,150 for a family.

Does my HSA contribution have to be made in equal amounts each month?

You can contribute the total amount in a lump sum at the beginning of the year, or you can choose to contribute in any amount or frequency you wish depending on your financial institution's rules. Your account trustee/custodian (for example, bank or credit union) can impose minimum deposit and balance requirements. HSAs have a contribution deadline similar to an Individual Retirement Account (IRA). To claim contributions for your 2009 tax return, the deadline is April 15, 2010.

I am over age 55, am I allowed to make additional contributions like I've done with my Stanford Retirement Plan (SCR)?

Yes, individuals age 55 and older who are enrolled in the Blue Shield High Deductible PPO Plan can make additional contributions, called "catch-up" contributions. The additional catch-up contribution in 2010 is \$1,000. This amount is in addition to the HSA maximum annual contribution.

My spouse and I are both over age 55 – can both of us make catch-up contributions?

Your Stanford HSA account will be in your name. If you both want to make catch-up contributions, then you must establish separate accounts.

Do I need to keep any records when I use my HSA?

Although some financial institutions track the use of the HSA for you, it's a good idea to keep your own records. When you use your HSA, you should track all your expenditures. It is your responsibility to track the use of your HSA account and you may be required to show proof of your expenditures to the IRS. We recommend you designate a place to store all your receipts so they are available when you need them.

Is an HSA the same as a Health Care Flexible Spending Account?

There are similarities, but here's what makes an HSA different:

- You choose which financial institution you want to use, and establish the account yourself.
- Your HSA rolls over each year – there is no "use it or lose it" rule – so you can accumulate funds for future health expenses.
- Your HSA is portable – it's your own account, so you use the same account from one employer to the next.
- Interest or investment earnings on the HSA funds are tax-free.
- You can spend the funds on non-health purposes, but those funds will be taxed and additional penalties may apply.

What medical expenses can be paid from an HSA?

Some examples of qualified medical expenses include:

- Unreimbursed medical expenses including chiropractic visits and acupuncture for yourself and your dependents (*if* they are covered by the plan).
- Dental expenses, including braces for you or your dependents.
- Vision expenses, including lasik eye surgery.
- Out-of-pocket expenses such as your deductible and copays, regardless of whether or not you are covered by Medicare.
- Medical insurance premium if you are unemployed and collecting Federal Unemployment Benefits, or if you have COBRA continuation coverage through a former employer.
- Long term care expenses and insurance.

You can find a complete list of allowable expenses for an HSA by checking IRS Publication 502. This list can be found at <http://www.irs.gov/pub/irs-pdf/p502.pdf>

Who is eligible for an HSA?

You are eligible for an HSA if you are covered by a compatible High Deductible Health Plan (HDHP). At Stanford, that is the Blue Shield High Deductible PPO Plan.

Other rules and restrictions apply, including:

- You are not covered by other health insurance.
- You are under age 65.
- You are not eligible for Medicare.
- You are not listed as a dependent on someone else's tax return.
- You do not participate in Stanford's Health Care Flexible Spending Account.
- Your spouse is not enrolled in a Health Care Flexible Spending Account.
- Your spouse is not part of a joint HSA.

Can I use my HSA funds for my domestic partner?

The HSA is a Federal program and covered by the Family Protection Act. This Act does not recognize domestic partnerships even if the state of residency does. For example, in California you could cover your domestic partner on the Blue Shield High Deductible plan and you can contribute to the HSA up to the family maximum. However, please note that you cannot use your HSA funds for your domestic partner's expenses (even if qualified) without being taxed. The only way a domestic partner can be recognized for Federal tax purposes is if the partner qualifies as a legal tax dependent.

Where can I open an HSA?

Banks, credit unions and other financial institutions offer these accounts. Depending on the institution, your HSA may be a simple interest bearing account or investment account. Some institutions offer debit cards to make accessing your HSA funds easier, and checks or direct deposit services may also be available.

Here is a partial list of banks that offer individual HSA services. These institutions are listed for your convenience only and are not endorsed by Stanford University. You may want to contact your bank and ask if they offer HSA accounts.

Bank of America	(866) 791-0250	www.bankofamerica.com/hsaaccts/index.cfm
The Bancorp Bank	(800) 555-9316	https://secure.thebancorpha.com
OptumHealth Bank	(866) 234-8913	www.optumhealthbank.com
HSA Bank	(800) 357-6246	www.hsabank.com
Stanford Credit Union	(650) 723-2509 or (888) 723-7328	www.sfcu.org/home/deposits/savings/hsa/
Sterling HSA	(800) 617-4729	www.sterlinghsa.com
Wells Fargo Bank	(866) 890-8313	www.wfhs.com/shieldca

Can I fund an HSA using Stanford payroll deductions?

No. However, once your paycheck is deposited you may be able to direct your bank to automatically transfer funds to your HSA.

How soon can I open my HSA?

Your account can be established as early as the effective date of your coverage in a High Deductible PPO plan, or on the first of any month after coverage starts. If you enroll in the Blue Shield High Deductible PPO Plan during Open Enrollment, you can use your printed enrollment summary from the benefits enrollment site, or use your enrollment confirmation statement as evidence of enrollment, and then work with your bank to establish your HSA to start January 1.

Will it cost me anything to open an HSA?

Ask your bank about setup fees, maintenance fees, or other fees that may be associated with your HSA.

What happens to my HSA if I change medical plans or leave Stanford University?

Your HSA is portable, which means you can keep your HSA even if you:

- Change jobs.
- Change your medical coverage.
- Become unemployed.
- Move to another state.
- Change your marital status.

We strongly encourage you to check with your financial institution if any of these changes might impact your ability to contribute to or access funds tax-free from your HSA.

What happens to my HSA when I reach age 65?

You are no longer eligible to contribute to your HSA, but you can continue to withdraw the funds and use them to pay for expenses such as Medicare premiums and out-of-pocket expenses (including Part A and Part B deductibles, copays and coinsurance, and long term care insurance premiums). You also can use these funds to pay medical expenses for your spouse and your dependent children.

What happens to my HSA when I die?

If you are married, your spouse becomes the owner of the account and can use it as his/her own HSA. If you are not married, the account will no longer be treated as an HSA. Instead the account will pass to your beneficiary or become part of your estate.

You can find additional information on Health Savings Accounts at the Department of Treasury Web site at <http://www.ustreas.gov/offices/public-affairs/hsa/> .

Health Savings Accounts (HSA) vs. Flexible Spending Accounts (FSA)

	Health <i>Savings</i> Account* (HSA)	Health Care <i>Spending</i> Account*	Dependent Day Care Spending Account
Can I enroll?	Only if you enroll in the new Blue Shield High Deductible PPO Plan*	Yes – all employees can enroll*	Yes – all employees can enroll
How much can I put in the account?	In 2010, the HSA annual maximum contribution is \$3,050 for an individual; or \$6,150 for a family.	Annual maximum of \$5,000 per employee.	Annual maximum of \$5,000 per employee, <i>but</i> may not exceed \$5,000 for all family members who can enroll in this type of account.
Is the money taxed?	Money you deposit in the account is <i>tax-deductible</i> .	Money goes into the account <i>before taxes</i> .	Money goes into the account <i>before taxes</i> .
How do I sign up for an account?	Go to a bank, credit union or other financial institution at any time.	Can only enroll during open enrollment.	Can only enroll during open enrollment.
How does the money get into the account?	You make arrangements directly with the bank or credit union.	Payroll deducts the money from your paycheck before taxes are calculated.	Payroll deducts the money from your paycheck before taxes are calculated.
What can I use the money for?	To pay for health care expenses not covered by any benefit plan, cost of COBRA coverage if you stop working, and long term care expenses and insurance.	To pay for health care expenses not covered by any benefit plan.	To pay for dependent day care so that you can work. Only covers dependents up to age 13 or disabled adults that you claim on your tax records as a dependent.
What happens if I don't use the money in my account?	You may keep the account and add to it each year as long as you are in a medical plan that allows you to have an HSA. You must stop contributing at age 65 but may continue to use the money in the account until it is exhausted.	You lose any money left in the account at the end of the year. (<i>Note:</i> You can file claims for reimbursement until April 30 of the following year. Claims must be for services you received during the year you were enrolled.	You lose any money left in the account at the end of the year. (<i>Note:</i> You can file claims for reimbursement until April 30 of the following year. Claims must be for dependent day care during the year you were enrolled.

* You *may not* enroll in both the Health Savings Account (HSA) and Health Care Spending Account during the same year. Note: Answers assume you are eligible for benefits and enroll during open enrollment.

HSA vs FSA