EXCHANGE BANK OF NORTHEAST MISSOURI

Health Savings Account FAQs

What is a Health Savings Account?

A Health Savings Account (HSA) is an account that you can put money into to save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment. You must have coverage under an HSA-qualified "high deductible health plan" (HDHP) to open and contribute to an HSA. You can use the money in the account to pay for any "qualified medical expense" permitted under federal tax law. This includes most medical care and services, dental and vision care, and also includes over-the-counter drugs such as aspirin.

Who can have a HSA?

Any adult can contribute to an HSA if they:

- Have coverage under a HSA-qualified HDHP
- Have no other first-dollar medical coverage (other types of insurance like disability, dental care, vision care, or long-term care insurance are permitted)
- Are not enrolled in Medicare
- Cannot be claimed as a dependent on someone else's tax return

What is a HSA-qualified high deductible health plan (HDHP)?

Generally, this is health insurance that does not cover first dollar medical expenses. Federal law sets the minimum health insurance deductible requirements; the minimum deductible is adjusted annually for inflation. In addition, annual out-of-pocket expenses under the plan (including deductibles, co-pays, and co-insurance) cannot exceed the federal law requirements; the maximum annual out-of-pocket expense is adjusted annually for inflation.

The deductible must apply to all medical expenses (including prescriptions) covered by the plan. However, plans can pay for "preventive care" services on a first-dollar basis (with or without a co-pay). "Preventive care" can include routine prenatal and well-child care, child and adult immunizations, annual physicals, mammograms, pap smears, etc.

How much can I contribute to my HSA?
How much can my employer contribute to my HSA?

Contributions to your HSA can be made by you, your employer, or both. However, the total contributions are limited annually. Federal law sets the contribution limit and it is adjusted annually for inflation. Individuals age 55 and older can also make additional "catch-up" contributions; federal law sets the "catch-up" contribution limits. You can contribute the maximum amount for the year as long as you have qualified HDHP coverage for December.

What kinds of tax savings are possible?

A HSA provides you with the possibility of triple tax savings:

- Tax deductions when you contribute to your HSA account
- Tax-free earning through investments
- Tax-free withdrawals for qualified medical expenses

Consult your tax advisor to see if you are eligible for these tax advantages.

Why should I have high deductible health plan (HDHP) and HSA?

- Security - Your high deductible insurance and HSA protect you against high or unexpected medical bills.
- Affordability - You should be able to lower your health insurance premiums by switching to health insurance coverage with a higher deductible.
- Flexibility - You can use the funds in your account to pay for current medical expenses, including expenses that your insurance may not cover, or save the money in your account for future medical needs.
- Saving - You can save the money in your account for future medical expenses and grow your account through investment earnings.
- Control - You make all the decisions about: how much money to contribute, whether to save the account for future expenses or pay current medical expenses, which medical expenses to pay from the account, and which investments to make.
- Portability - Accounts are completely portable, meaning you can keep your HSA even if you change jobs, change your medical coverage, become unemployed, move to another state, change marital status, etc.
- Ownership - Funds remain in the account from year to year, just like an IRA. There are no “use it or lose it” rules for HSAs.
- Tax Savings - Tax deductions for contributions, tax-free investment earnings and tax-free qualified medical expense withdrawals.

What happens to my HSA when I die?

Your spouse can become the owner of the account and use it as if it were their own HSA. If you are not married, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate (and be subject to any applicable taxes).

If you have any additional questions about a Health Savings Account, or would like to open a Health Savings Account, please call your local Exchange Bank of Northeast Missouri and one of our Financial Service Specialists will be happy to assist you.