BenefitWallet®

Health Savings Accounts: Frequently Asked Questions

What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a tax-advantaged savings account, similar to a traditional Individual Retirement Account (IRA), but designated for qualified medical expenses. An HSA allows you to pay for current qualified medical expenses and save for future expenses on a tax-favored basis.

HSAs provide triple-tax advantages: contributions, interest and investment earnings, and qualified distributions — all are exempt from federal income tax, state income tax (for most states) and, when contributions are made through your employer's payroll, FICA payroll taxes (Social Security and Medicare).

Unused HSA dollars roll over from year to year, making HSAs an easy way to save and invest for future qualified medical expenses. You own your HSA and can take it with you when you change medical plans, change jobs, or retire. This means the funds in your account, contributed by you and your employer, are yours to keep.

Funds in your account not needed for short-term expenses may be invested, providing the opportunity for funds to grow. Investment options include a broad range of mutual funds, similar to what is available in a 401(k) account.

To be eligible to set up an HSA and contribute, you must be covered by an HSA-qualified health plan and not be covered by another health plan.

How does an HSA work?

HSAs are very simple to use. You build your balance by making contributions to your HSA, ideally with payroll contributions made through your employer — or directly through BenefitWallet. You can then pay for any qualified expense from your HSA by using your health care payment card or a check.

You may use your HSA funds to pay for expenses under your health plan that you incur before you have met your deductible, for coinsurance or copayments you owe after meeting your deductible, or for any other qualified medical expenses. These typically include dental, vision, chiropractic, and many more day-to-day health care expenses.

The funds in your account can be used for other non-medical expenses, but distributions used for non-medical expenses are subject to ordinary income taxes, plus a 20% penalty if you are under age 65. The 20% penalty does not apply if the distribution occurs after you reach age 65; however, ordinary income tax may still apply.

Funds remaining in your account at the end of the year roll over and accumulate for your future qualified medical expenses. You may choose not to spend your HSA dollars, instead using after-tax dollars for your qualified medical expenses and leaving your HSA dollars to grow for the future. Choosing which expenses to pay with out-of-pocket, after-tax dollars and which to pay with your HSA is entirely up to you.

What happens to my HSA if I quit my job or otherwise leave my employer?

Your HSA is portable. This means that you can take your HSA with you when you leave and continue to use the funds you have accumulated. Funds left in your account continue to grow tax-free. If you are covered by an HSA-qualified health plan after leaving your employer, you can continue to make tax-free contributions to your HSA.

Distributions from your HSA that are used to pay for qualified medical expenses for you, your spouse, or tax dependents are not taxed. Your HSA funds can be used for qualified expenses even if you are not currently eligible to contribute to your HSA.

What does it mean to have my HSA checking account FDIC insured?

The custodian of the BenefitWallet HSA is The Bank of New York Mellon (BNY Mellon). Deposits to the HSA checking account are FDIC insured up to the FDIC coverage limit.

The Federal Deposit Insurance Corporation, or FDIC, is an independent agency of the United States government. The FDIC insures your deposits up to a specified limit in the unlikely event of the failure of the insured bank or savings institution. Please visit the FDIC website at www.fdic.gov for more details.

The FDIC does not insure the money in your HSA investment account, should you choose to invest within your account.

What health care expenses does my HSA cover?

Your HSA funds can be used tax free to pay for out-of-pocket qualified medical expenses — including your deductible, doctor visits, prescriptions, hospitalizations, and more — even if the expenses are not covered by your health plan. This includes expenses incurred by your spouse or dependents.

There are hundreds of qualified medical expenses, including:

- Over-the-counter medications for which you have a prescription from your doctor
- Dental visits
- Orthodontics
- Glasses

All of these expenses may be paid for with distributions from your HSA , free from federal income tax or state income tax (for most states).

Refer to IRS Publication 502 for a more complete list of qualified medical expenses.

What happens to the money in my HSA if I become disabled?

Building an account balance in preparation for expenses associated with a disability or increasing medical usage in retirement is one of the great benefits of an HSA.

If you become disabled and enroll in Medicare, contributions to your HSA must stop as of the first of the month in which you become enrolled. However, you can continue to use your funds to pay for qualified medical expenses, including payments for Medicare Parts A and B.

If you use your funds for qualified medical expenses, the distributions from your account remain tax free (i.e., free from federal income taxes or state income tax (for most states)). If you use the monies for non-qualified expenses, the distribution becomes taxable, but due to your disability, are exempt from the 20% penalty.

What happens to the money in my HSA after I reach age 65?

If you choose not to accept Medicare coverage at age 65 and remain in an HSA-qualified health plan you can continue to contribute to and use your HSA just as you did prior to age 65. If you do enroll in Medicare, you are no longer eligible to contribute to your HSA but you may continue to use your HSA funds to pay tax free for the same qualified medical expenses. Additionally, you may use your HSA to pay certain insurance premiums, such as Medicare Parts A and B, Medicare HMO, or your share of retiree medical coverage offered by a former employer. Funds cannot be used tax-free to purchase Medigap or Medicare supplemental policies.

If you use your HSA funds for non-qualified expenses after age 65, the distribution becomes taxable, but is exempt from the 20% penalty these non-qualified distributions trigger prior to age 65.

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