

Top 20 Questions about Health Savings Accounts

These are answers to some of the most commonly asked questions about health savings accounts (HSAs).

General Questions

Q1: What is a Health Savings Account (HSA)?

A1: An HSA helps you set aside money for current *and* future health care expenses that are not paid by your medical plan. City of St. Joseph contributes to the account if you are enrolled in Preferred Care Blue High Deductible Health Plan (HDHP) employee only coverage. You also can make contributions to your HSA, up to IRS limits. For 2020, the maximum contribution amount from all sources—your contributions, your employer’s contributions and any other sources—is \$3,550 for individual coverage and \$7,100 for family coverage.

Q2: What type of medical plan is compatible with an HSA?

A2: To contribute to an HSA, you must be enrolled in a Qualified High-Deductible Health Plan (HDHP). An HDHP is a health plan that meets two requirements as specified by the U.S. Treasury Department. First, it must have an annual deductible that meets the minimum deductible amount, which is published annually. Second, the annual out-of-pocket expenses—such as deductibles, copayments and other expenses paid for by the participant—associated with the HDHP may not exceed the specified out-of-pocket maximums. Premiums (the amount you pay each month for coverage) do not count as out-of-pocket expenses.

Q3: How do HSAs work?

A3: You choose how much you’d like to save in your HSA each year and contributions are automatically made from your paycheck to your account. City of St. Joseph also contributes to your account if you are enrolled in the Preferred Care Blue HDHP and elect employee only coverage.

You can choose to pay for current eligible medical expenses with your HSA. Or you can choose to pay for current expenses out of your pocket and save the money in your HSA to pay for future medical expenses. How you use your account and when you use it are entirely up to you.

Q4: Is my money safe in an HSA?

A4: Yes. Your HSA deposit account balance is at Nodaway Valley Bank is FDIC insured. Once you have \$500 saved in the HSA, you will begin to receive interest on the account.

Q5: Why should I consider enrolling in the HDHP with an HSA?

A5: If one or more of the following are true for you, you may want to consider making a change to the Preferred Care Blue HDHP with an HSA:

- You are paying for insurance you're not using.
- You want an option to save for current *and* future medical expenses.
- You want to save on monthly premiums and take more control over how you use your health care benefits.
- You anticipate major health expenses such that you would reach the out-of-pocket maximum associated with the Preferred Care Blue HDHP.

Eligibility and Opening an Account

Q6: Who can open an account?

A6: If you are enrolled in a high-deductible health plan, you are eligible to open an HSA as long as:

- You cannot establish an HSA if you or your spouse also have a medical FSA, unless it is a Limited Purpose FSA.
- You cannot be enrolled in Medicare or TRICARE due to age or disability.
- You cannot set up an HSA if you have insurance coverage under another plan, for example your spouse's employer, unless that secondary coverage is also a qualified high deductible health plan.
- You cannot be claimed as a dependent under someone else's tax return.

Q7: How do I open my account?

A7: Opening the account is easy! Simply enroll online or in person at Nodaway Valley Bank. <https://www.nvb.com/business/accounts/health-savings/>, the Promo Code is 1868.

Q8: Why do I need to verify my identity to open an HSA?

A8: An HSA is an individual bank account. Banking regulations, implemented as a result of Section 326 of the USA Patriot Act, require us to verify the identity of each person applying to open an account. When you open an HSA, you must provide your name, street address, date of birth, Social Security number, US government-issued photo ID and employment details.

Account contributions

Q9: Does City of St. Joseph contribute? If so, how much?

A9: Yes, the City contributes to your account when you are enrolled in the Preferred Care Blue HDHP—**\$43.84 per month** if you have employee-only coverage.

Q10: How often will City of St. Joseph contribute to my account?

A10: The City will make contributions to your HSA monthly. You will see these contributions on your pay statement.

Q11: How much can I contribute?

A11: You can choose how much to contribute to your HSA, up to IRS limits that are set each year. For 2020, the maximum contribution amount from all sources—your contributions, your employer's contributions and any other sources—is \$3,550 for employee-only coverage and \$7,100 for family coverage.

Q12: How do I contribute to the account?

A12: The Welcome Kit you will receive from Nodaway Valley Bank once you open your account outlines the different ways you can contribute to your account. The simplest way is through pretax payroll contributions, but you may also write a check or transfer money from your bank account to make a lump sum contribution to your HSA. If the money comes from your bank account instead of through payroll contributions, you may deduct the amount you contribute on your taxes since those contributions would be made with after-tax money. Your family members or others can also contribute to the account on your behalf.

Q13: I'm nearing retirement. Can I make catch-up contributions like I do to my retirement savings plan?

A13: People age 55 and older can make a catch-up contribution each year that is over and above the allowable limit for the individual year. The catch-up contribution for 2020 is \$1,000. You are able to make catch-up contributions until you become Medicare active.

Using Your HSA

Q14: What can I spend my HSA balance on?

A14: You can use your balance to pay for qualified medical expenses for you or your covered dependents (shown in IRS Publication 502). Some examples include:

- Your deductible
- Dental treatments, exams or cleaning costs
- Prescription drug costs
- Vision expenses such as contact lenses or glasses
- Chiropractic or acupuncture fees
- Crutches
- Eye surgery

They don't include insurance premiums other than premiums for long-term care insurance, premiums on a health plan during any period of continuation coverage required by federal law (for example, "COBRA" coverage) or premiums for healthcare coverage while you receive unemployment compensation.

You can find a full list of qualified expenses at www.irs.gov.

Q15: How do I pay for medical expenses?

A15: You'll receive a HSA debit card that you can use to pay for qualified expenses not covered by the high-deductible health plan. Simply swipe the card at the pharmacy or for other health-related services and the associated cost will be debited from your HSA balance. Or use your card to pay doctor's visit bills once the claim has been submitted to your insurance carrier so that you will receive the negotiated rates for services. Save your receipts, since you may need them if the IRS requests that you show proof of how you used your tax-free money. If you cannot use your debit card, you will pay for the expense out of your own pocket, and then reimburse yourself from your HSA.

If you don't have enough money in your account to pay for the entire amount of an expense (for example, if you just opened the account or the City hasn't made its full contribution yet), you can pay for a portion of that expense with your account and cover the rest with personal funds. Once the HSA funds build and are available in the account, you can reimburse yourself from the HSA.

Q16: How does my HSA track with my deductible?

A16: You may use your HSA to pay for qualified expenses including your deductible. Or you can let the HSA build up for future expenses. The choice is yours. The HSA is not a method to determine if you've met your deductible; that information is available on your medical plan provider's website or on any explanation of benefits (EOBs) that you receive from your plan.

Q17: If I open an HSA, can I also enroll in a health care Flexible Spending Account (FSA)?

A17: No, you cannot enroll in both. If you are married, you may not have coverage under your spouse's Flexible Spending Account (FSA). You can only have a "limited purpose" FSA. Eligible expenses with a limited purpose FSA include most unreimbursed dental, vision and/or hearing care expenses (including expenses for your dependents), and out-of-pocket medical expenses you paid after you met your plan deductible.

Q18: What are the tax implications for participating in an HSA?

A18: The money you save in your HSA is tax free. The money you contribute isn't taxed, nor is the money taxed as your balance grows. As long as you use the money to pay for qualified expenses, you won't pay taxes when you withdraw it either.

Q19: I have an HSA already set up through my former employer. Can I contribute to that HSA instead with payroll contributions?

A19: No. However, you may transfer the balance from that HSA into your Nodaway Valley Bank HSA and continue to make pretax contributions and receive free money from City of St. Joseph. First, open your Nodaway Valley Bank HSA. Then decide how you'd like to transfer the funds. You have two options:

1. A direct transfer of all or part of the balance from one trustee to a Nodaway Valley Bank HSA.
2. A distribution of funds with a rollover of all or part of the HSA balance into a Nodaway Valley Bank HSA.

Q20: If I don't use my balance by the end of the year, will I lose it?

A20: No, the money in your account rolls over from year to year, so you won't lose unused money at the end of the year like you would with a Flexible Spending Account (FSA). Best of all, your HSA balance is yours to keep even if you change health plans or leave City of St. Joseph.