Establishing Health Savings Accounts for Your Brooklyn HealthWorks High Deductible Plan

If your business or organization chooses one of our two high deductible plan options, your employees may voluntarily establish a health savings account (HSA). An HSA is a savings account used to pay for current and future medical expenses such as deductibles, co-payments and over-the-counter medications that have been prescribed by a doctor.

Who can establish an HSA?

An adult with coverage under an HSA-qualified high deductible health plan (including Brooklyn HealthWorks high deductible plans) who does not have other medical coverage (other than specified disease insurance, disability, accident, dental or vision care or long-term care insurance) can establish an HSA. To be eligible to establish an HSA, the adult cannot be Medicare-eligible or be declared as a dependent on someone else's tax return.

Who owns an HSA account?

Individual employees own HSA accounts. Thus, if an employee leaves a Brooklyn HealthWorks employer, the employee takes the HSA with him or her.

Who can contribute to an HSA?

Contributions to your HSA can be made by you, your employer, or both. In addition, family members and others may contribute to your HSA. You and others may contribute to last year's HSA through April 15 of the following year.

Contributions to the account must stop once an account holder enrolls in Medicare or when he or she no longer has a high deductible plan. However, employees with HSAs can keep the money in their accounts and use it to pay for medical expenses tax-free.

How much can I contribute each year?

For 2012, you can contribute up to $3,100 into the HSA account if you have single coverage or up to $6,250 if you have family coverage. Individuals age 55 and older can also make additional "catch-up" contributions (up to $1,000 for 2012). You can put money into the account in one lump sum or at any frequency that is convenient for you. You can take advantage of the full contribution amount, regardless of what month you opened the account. However, there may be a tax penalty if you terminate your HDHP coverage too soon.

What are the tax advantages of an HSA?

HSAs have several tax advantages when they are used with a high deductible health plan. Contributions made by the employer are not taxable. In addition, the money that you, your employer, or others contribute to an HSA is tax-deductible, and it can earn tax-free interest. As long as the money in the HSA is used for qualified medical expenses, it will never be taxed. You may also be able to make a one-time rollover of funds from your individual retirement account (IRA), flex spending account (FSA), or health reimbursement arrangement (HRA).

How is an HSA used?

Funds deposited into an HSA may be used for any "qualified medical expense" under federal law, including dental and vision care and over-the-counter drugs prescribed by a doctor. The funds generally may not be used to pay for health insurance premiums, except for COBRA continuation coverage, health plan coverage while receiving federal or state unemployment benefits, long-term care insurance, and Medicare premiums and associated out-of-pocket expenses. You can pay for qualified medical expenses of your spouse and dependent children—even if they do not have Brooklyn HealthWorks coverage. There is a 20% penalty for using HSA funds for nonmedical expenses before age 65 (after age 65, the penalty no longer applies). If you become disabled and/or enroll in Medicare, the account can be used for other purposes without paying the additional 20% penalty.

HSA distributions can be used to reimburse prior year's expenses as long as they were incurred on or after the date the HSA was established.

Unspent balances in accounts remain in the account until spent. There are no "use it or lose it rules" like flexible spending arrangements (FSAs).

Should the HSA account holder keep receipts?

Yes! You may need to prove to the IRS that distributions from a HSA were for medical expenses and not otherwise reimbursed. Also, GHI may need medical receipts to prove the high deductible was met for the year. You must keep records sufficient to show that:

- The distributions were exclusively to pay or reimburse qualified medical expenses,
- The qualified medical expenses had not been previously paid or reimbursed from another source, and
- The medical expenses had not been taken as an itemized deduction in any year.

How can you open an HSA?

An HSA must be opened with a bank or other financial institution, and there may be fees associated with it. To find a local bank, go to the Brooklyn Chamber's online Membership Directory (www.ibrooklyn.com) and click on banks/credit unions.

What annual tax reporting obligations do I have?

You will receive Form 1099 SA from your HSA bank or financial institution. Account holders must file Form 8889 as part of their annual tax return (Form 1040 or Form 1040NR).

Where can I get more information on HSAs?

For additional information on HSAs, please visit the U.S. Department of the Treasury web site at www.treas.gov or http://www.treasury.gov/offices/public-affairs/hsa/ or contact your accountant.