Health Savings Accounts

Quick Reference Guide
for AIMS Health Plan Members
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HSA Account Eligibility

You may be eligible to open and contribute to an HSA if:

- You are enrolled in a Qualifying High Deductible Health Plan (HDHP).
  *Note: All AIMS Benefit Trust High Deductible Health Plans are considered Qualified Plans*

- You are not covered by any other non-HDHP health plan, such as a spouse's plan, that provides any benefits covered by your HDHP plan.

  *Exceptions include permissible coverage, such as specific injury insurance or accident, disability, dental, vision or long-term care insurance, worker’s compensation and cancer or other specific disease coverage.*

- You or your spouse are not covered by a general purpose health care flexible spending account (FSA) or health reimbursement account (HRA).

  *Alternative plan designs, such as a post deductible or limited-purpose FSA or HRA, may be permitted.*

- You are not enrolled in Medicare. See Pages 4 through 8 for important information regarding Medicare eligibility and HSA accounts.

- You do not receive health benefits under TRICARE.

- You have not received Veterans Administration (VA) benefits within the past three months. However, there is an exception for services received by an individual who has a disability rating from the VA.

- You cannot be claimed as a dependent on another person's tax return.

*Health care reform legislation passed in 2010 allows adult children up to age 26 to be covered by parents’ health plans, including high deductible plans. The tax laws regarding HSAs have not changed, however an adult child must still be considered a tax dependent in order for an adult child’s medical expenses to qualify for payment or reimbursement from a parent’s HSA. If you are under age 26 and covered by a parent’s HSA-eligible, high deductible health plan, you may be able to open and fund an HSA yourself. The criteria above still apply. Consult a knowledgeable benefits consultant or tax advisor.*

*Information in this guide should not be considered legal advice. It is important to consult your Accountant or Tax Advisor for information specific to your individual circumstances.*
Eligibility for Medicare Excludes Contributions to an HSA Account

An individual who is entitled to Medicare is not eligible to contribute to an HSA. However, he/she may enroll in a High Deductible Health Plan at any time.

- IRS Notice 2004-50 and IRS Notice 2008-59 clarify that mere eligibility for Medicare does not make an individual ineligible to contribute to an HSA.

- So, a Medicare-eligible individual who is not receiving Social Security benefits and is not actually enrolled in Medicare Part A, Part B, Part D, or any other Medicare benefit, may contribute to an HSA until the month that he or she is enrolled in Medicare. See Delaying Medicare section on page 5 for important information regarding contributions.

Social Security & Medicare Part A

It is important to note that entitlement to Medicare Part A is automatic for individuals who are receiving Social Security or Railroad Retirement Act benefits. However, it is not unusual for a working older person to delay receiving Social Security benefits until he/she terminates employment.

- While an individual does not have to enroll in Medicare when they turn 65; under the Social Security Act, it is not possible to receive Social Security benefits for age (or disability) without receiving Medicare Part A.

- Medicare doesn’t permit individuals to retain Social Security benefits and waive Medicare. This means that an employee would need to waive both Medicare and Social Security to contribute to an HSA.

- You may delay enrollment in Medicare Part A only if you delay taking Social Security. You may delay taking Social Security up until age 70 and one-half years old.

- Once enrolled, the only way to withdraw from Medicare Part A is to submit a Request for Withdrawal of Application to the Social Security Administration, pay back all the Social Security benefits ever received, plus any money paid on hospitalization coverage under Medicare A. See The Social Security Administration's HI00801.002 “Waiver of HI Entitlement by Monthly Beneficiary.”

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Health Savings Accounts & Medicare

**Delaying Medicare**

- IMPORTANT: If you do not take Medicare when you first qualify, you must take special precautions if and when you do decide to collect Social Security benefits (either while working or when you retire). Depending on when you enroll in Medicare Part A and whether you are required to pay a premium, the coverage could be made effective retroactively 6 months. In this case, you would need to be mindful of the HSA contributions you made in the previous six months. If you do not stop contributing the six months before you apply for Social Security, you may have a tax penalty. The penalty is because you were not supposed to put money into your HSA while you had Medicare.

- For more information on Medicare, HSAs and Social Security, visit:
  - [http://www.aarp.org/health/medicare-insurance](http://www.aarp.org/health/medicare-insurance)
  - [https://www.socialsecurity.gov/planners/retire/otherthings.html#&a0=0](https://www.socialsecurity.gov/planners/retire/otherthings.html#&a0=0)

- To confirm your SS and Medicare status contact your local SSA office:
  - [https://secure.ssa.gov/apps6z/FOLO/fo001.jsp](https://secure.ssa.gov/apps6z/FOLO/fo001.jsp)

**Medicare Eligible Spouse**

- An employee would be eligible to contribute the full family contribution to an HSA as long as he/she is the HSA account holder and is not enrolled in Medicare, and enrolled in HDHP coverage other than self-only.
  - It does not matter if the spouse is enrolled in Medicare - the maximum contribution remains the same. (Example 1 of Q/A-31, [IRS Notice 2004-50](https://www.irs.gov/pub/irs-pdf/n04050.pdf)).

- Even though the Medicare-entitled spouse cannot have an HSA in his/her name, the employee’s HSA can reimburse qualified medical expenses for his/her spouse and any tax dependents.

- The money in the HSA cannot be used to pay Medicare premiums until the **accountholder** is aged 65 or older. ([IRS Notice 2008-59](https://www.irs.gov/irm/pdf/42932f.pdf), Q/A 29)

- Thus, the only requirements for the employee to reimburse his/her Medicare-entitled spouse’s medical expenses through the HSA are
  1) that the individual is a tax dependent or spouse or employee;  
  2) the expense is a qualified medical expense, and  
  3) that the expense is not reimbursed by any other arrangement. ([IRS Notice 2004-2](https://www.irs.gov/irm/pdf/51128f.pdf), Q/A 26).

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**HSA Contributions**

Eligible Individuals may contribute up to the Annual contribution limits set by the IRS. Contribution limits for 2018:

- $3,450 for individuals
- $6,900 for families

An individual who is HSA eligible on December 1 may contribute the total allowable amount for that year. To take advantage of the tax savings, however, you must:

- Stay enrolled in a qualifying high deductible health plan for the following 12 months.
- Not have other health care coverage that would make you ineligible to contribute to an HSA.

**Contributions above the annual limit are subject to income taxes and a 20% penalty.**

Anyone can make a contribution to one’s HSA- an employer, a spouse, an unrelated person (such as a hospital). But it is not recommended that the employer/school allow a pre-tax contribution from the employee’s paycheck for the spouse’s HSA. So, if the employer wanted to take the deduction on a taxable basis and commit to forwarding to the spouse’s HSA- it could do so. But it could not do so on a pre-tax basis.

Please see [IRS Notice 2008-59](https://www.irs.gov/irSNotice200859), Q/A 26, which states:

- “Q-26. Are employer contributions to the HSA of an employee’s spouse (who is not an employee of this employer) excluded from the employee’s gross income and wages?

- A-26. No. The exclusion under § 106(d)(1) is limited to contributions by an employer to the HSA of an employee who is an eligible individual. Any contribution by an employer to the HSA of a non-employee (e.g., a spouse of an employee or any other individual), including salary reduction amounts made through a § 125 cafeteria plan, must be included in the gross income and wages of the employee.”

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HSA Contributions

Allowable “Catch-Up” Contributions

- Each spouse age 55 or older can contribute up to the maximum “catch-up” amount. The catch up amount for 2018 is $1,000.00.
  - If you did not have HDHP coverage for the full year, you must pro rate your “catch-up” contribution for the number of full months you were “eligible,” i.e., had HDHP coverage.
  - If you had HSA-qualified HDHP coverage for the entire year, you can deposit the entire “catch-up” amount starting with the year you turn 55, regardless of when you turn 55 during the year.
  - If both spouses want to make “catch-up” contributions, each spouse must have a separate HSA.
  - It is not recommended that the employer/school allow a pre-tax contribution from the employee’s paycheck for the spouse’s HSA. Please see page 6 for more information.

- In the year you enroll in Medicare, you must prorate your “catch-up” contribution for the number of months you had HSA-qualified HDHP coverage, prior to the month your Medicare enrollment is effective.

- Once either spouse enrolls in Medicare, that spouse can no longer contribute any funds, including “catch-up” amounts, to their HSA. If you are not enrolled in Medicare, you can contribute to your HSA and continue to make “catch-up” contributions.

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HSA Distributions

If you are no longer enrolled in an HSA-qualified HDHP, you cannot contribute to your HSA, but you can maintain and spend the already deposited funds as stipulated by law.

If a distribution from your HSA is used for purposes other than a qualified medical expense as defined in IRS Publication 502, then the amount withdrawn is subject to both income tax and a 10% penalty, unless the person who makes such a withdrawal from their HSA is over the age of 65.

If 65 years old or older, the amount withdrawn for non-medical purposes is treated as retirement income, and is subject to normal income tax, but is not subject to the 10% penalty.

Other qualified expenses payable from an HSA include:

- Out-of-pocket healthcare expenses while enrolled in Medicare, including Medicare premiums, deductibles, coinsurance and co-pays.
  - Medicare Supplemental insurance is NOT an eligible expense.
- Employee share of health insurance premiums for employer-based coverage (for employees over age 65 only). Provided premiums are paid on a post-tax basis. Premiums paid via a pre-tax payroll deduction would NOT be eligible for reimbursement.
- Premiums for COBRA continuation health insurance coverage from a former employer,
- Premiums for qualified long-term care insurance coverage subject to the age limits in the Internal Revenue Code, and
- Medical services provided in other countries.

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