Health Savings Accounts FAQ's

OVERVIEW

Q: What are Health Savings Accounts (HSAs)?
A: HSAs are tax exempt accounts created to help individuals save and pay for current and future healthcare expenses. You may be entitled to a tax deduction on your contribution amount or your employer may make pre-tax contributions. Accounts are portable which means you can move the money to other financial institutions with no penalty. And lastly, money in your account does not need to be disbursed each year which allows you to grow the account for future medical needs.

Q: What are the requirements to open an HSA?
A: The most important requirement is that you are covered by a High Deductible Health Plan (HDHP) through your employer. If you're not sure, ask your employer. Other requirements include: You have no other health coverage except what is permitted under "Other Health Coverage", you are not enrolled in Medicare, and you cannot be claimed as a dependent on someone else's tax return. See a tax advisor and the IRS Publication 969 regarding HSAs for additional information.

Q: How is an HSA different from a Flexible Spending Account (FSA)?
A: An FSA is funded at the beginning of every year by your employer, you are currently allowed to contribute up to $2,850, you must "use it or lose it", and with an FSA and the account is not portable. HSA's allow for higher contribution amounts, don't need to be used during the year so balances can accumulate over time, and can be moved to other financial institutions.

Q: Why do I need to participate in a HDHP to open an HSA?
A: HDHPs have higher annual deductibles and lower premiums. An HSA account gives consumers a savings vehicle to save and plan for potentially higher out of pocket costs today and in the future. Possible HSA account tax advantages encourage consumers to better plan for their health care costs.

Q: My employer wants me to use another bank for my HSA account. Do I have to use their preferred bank?
A: No. HSA accounts are tied to the employee, not the employer. While they may prefer you work with their bank, there is no requirement to do so.

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OPENING AN ACCOUNT

Q: Can I open an account with a $0 balance?
A: Yes. In fact, most clients will open an account with a $0 balance. Most employers have a benefits sign up period during the 4th quarter which is when you review your health care options. If you'll use a HDHP in the upcoming year, we'd encourage you to open an HSA account. This will ensure the account is set up and ready to receive contributions in your new plan year.

Q: Do I need to provide proof that I'm using a HDHP with my employer?
A: We do not need to receive proof of your healthcare coverage. You are responsible for ensuring you can contribute to an HSA, what contribution limits apply, and to ensure all distributions are for qualified medical expenses.

Q: Do I need to provide any documentation to Monona Bank regarding my distributions?
A: You do not. It is up to you, when you file taxes, to ensure all distributions are for qualified medical expenses. We'll report the total dollar amount of contributions and distributions. We encourage you to keep all of your receipts.

Q: What information must I provide to my employer to fund my HSA?
A: You will provide our bank routing number 075912712 and your account number.

Q: Can I have more than one HSA account?
A: Yes, as long as you don't exceed your yearly contribution limit.

CONTRIBUTIONS

Q: What are the current HSA contribution limits?
A: The 2022 limits are $3,650 for self-only and $7,300 for family. There is also a catch-up limit of $1,000 for those individuals age 55 and older.

Q: Does each spouse have to open an account?
A: No. The $7,300 limit is a family limit. The amount may be contributed under one spouse's name or each spouse can open an account, as long as the total contributions don't exceed $7,300. Remember, an account opened in one spouse's name can be used for qualified medical expenses by the other spouse. However, the spouse not listed on the account won't have direct access or use of a debit card.

Q: What if my spouse has a non-HDHP?
A: You can contribute to an HSA provided you are not covered by your spouse's plan and meet the HSA qualifications.

Q: Can I make contributions in addition to my employer's contributions?
A: Yes, as long as you don't exceed the yearly limits.

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Q: Can I make catch up contributions with HSAs?
A: Yes! If you are an eligible individual who is age 55 or older at the end of your tax year, your contribution limit is increased by $1,000. A married couple, who are both eligible, could contribute $9,300 in 2022. ($7,300 for the standard limit, plus an additional $1,000 per person.) However, each spouse must make the additional $1,000 contribution into his or her own HSA.

Q: How much can I contribute if I join a HDHP during the calendar year?
A: Review IRS Publication 969's description of "Last Month Rule" to learn about your prorated contribution limit.

Q: Do I need to contribute the full amount up to the annual limits?
A: There is no requirement to reach the limits each year. You may contribute any amount up to the annual limits and each contribution can be the same amount or different.

DISTRIBUTIONS

Q: What types of expenses are considered "qualified medical expenses"?
A: Qualified Medical Expenses are any costs that would generally qualify for the medical, vision and dental deduction. The IRS Publication 502 and your tax advisor provides extensive details.

Q: Are prescription medications covered?
A: Generally, yes. Medication typically must meet one of three descriptions to be considered qualified. See IRS Publications to see what qualifies.

Q: Can I claim expenses for services incurred before I set up an HSA account, but paid after the account was established and funded?
A: No, you may only claim expenses incurred after you set up your HSA account.

Q: Can I claim expenses I have late in the year, but have not been billed for until the next year?
A: Yes, as long the expenses are incurred after you establish your HSA account you can claim and report the expense in the following year. You may also make contributions after your incur an expense and later use these funds to pay your bill.

Q: Do I have to pay all my medical expenses with my HSA?
A: No! You can pay medical expenses with an HSA or out-of-pocket. The benefit to paying out-of-pocket is to allow your HSA account to grow faster over time. You can pay expenses from your HSA or let the account grow for larger expenses in future years or expenses in retirement.

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Q: Who can incur qualified medical expenses?
A: The most common would include you and your spouse and any dependents you claim on your tax return. See IRS Publication 969, and your tax advisor, for more detailed options.

Q: Do I have to use my entire balance each year?
A: No. One of the biggest benefits of an HSA is that you don't have to use any of the contributions you've made and you can move your account to another provider. You may choose to use your HSA for qualified medical expenses throughout the year. You might also decide to pay out-of-pocket for your qualified expenses instead of using HSA funds. The benefit of not using your HSA account this year is the longer term growth for unforeseen medical expenses or medical expenses in retirement.

Q: I have a large medical expense early in the year, but haven't saved enough to pay for it. What should I do?
A: These situations will arise with HSAs. Two common solutions are to pay the cost out-of-pocket early in the year. Then, after you've accumulated enough money to meet that cost, transfer money to your non-HSA account. As long as the total distributions in a calendar year are equal to or less than your contributions (or contributions plus any accumulated balance from previous years). You could also check with the organization that's billing you and potentially work out a payment plan that coincides with your HSA contributions.

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