How Health Savings Accounts (HSAs) Work

An HSA allows you to take the savings you receive on premiums when switching to a higher deductible plan and deposit them into a tax-free account to use for expenses that are under your deductible. If you don’t spend this money, you keep it. It won’t go to an insurance company. It’s your money.

Who has control over the money invested in a Health Savings Account?
The account holder controls all decisions over how the money is invested. You can choose not to invest your funds.

Can I use funds from my IRA, 401(k) or other retirement plan to fund my HSA?
You cannot directly roll funds from a 401(k) or other retirement plan into an HSA. You can withdraw funds from one of these accounts, pay applicable taxes (and penalties) on the amount withdrawn, and then use the remaining funds to make a contribution to your HSA. However, the amount you contribute to your HSA is still limited by the annual contribution limits. You can make a one-in-a-lifetime rollover from an IRA to a Health Savings Account.

What happens to the money in my HSA when I die?
If married, your spouse becomes the owner of the HSA. If unmarried, the HSA becomes part of your taxable estate.

What happens if I don’t use the money in the HSA for medical expenses?
If the money is used for other than qualified medical expenses, the amount withdrawn is taxable income plus a 20% penalty.

Do unused funds in a Health Savings Account roll over year after year?
Yes, the unused balance in a Health Savings Account automatically rolls over year after year. You won’t lose your money if you don’t spend it within the year.

Who can help me establish my account?
Contact your HR representative to obtain application information. An HSA Education Coordinator from Union Bank & Trust is available to answer any questions.

Do my contributions provide any tax benefits?
Your personal contributions offer you an “above-the-line” deduction. An “above-the-line” deduction allows you to reduce your taxable income by the amount you contribute to your HSA up to the annual limit. You do not have to itemize your deductions to benefit. Contributions can also be made to your HSA by others (e.g., relatives). However, you receive the benefit of the tax deduction.

How is an HSA funded?
This account can be funded with your pre and post-tax dollars, by your employer, or by friends or family.

Who is eligible for an HSA?
• Anyone covered by a Qualified High Deductible Health Plan (QHDHP)
• Anyone not covered under another medical plan that is not a QHDHP
• Anyone not entitled to Medicare benefits
• Anyone not eligible to be claimed on another person’s tax return

How much can I contribute to an HSA?
The Internal Revenue Service (“IRS”) has established the following annual contribution limits for 2011:
• $6,150 for family coverage
• $3,050 for individual coverage
• $1,000 “catch up” for individuals age 55 or older

How do my HSA dollars work in conjunction with my health plan?
You can request your provider submit your claim to your health plan. Once the medical claim has been processed, if applicable, out-of-pocket expenses will be billed. At this time you may choose to use your HSA dollars to pay for any out-of-pocket expenses, or choose to write a personal check and reimburse yourself at a later date. You should always ask that your medical claim be submitted to the health plan before you seek reimbursement from your HSA. This will ensure that provider discounts are applied. Also, remember to keep all medical receipts and EOB’s as proof your HSA dollars were used for qualified medical expenses.

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HSA Qualified Medical, Dental & Vision Expenses

Effect of New Over-the-Counter (OTC) Rules:
Beginning January 1, 2011, only drugs and medicines that are prescribed drugs will become eligible expenses under your Health Savings Account. This does not mean that all items that are available OTC will be ineligible expenses. In fact, only one-third of the OTC categories will be affected. Below are the key points regarding the impact on Health Savings Accounts with respect to OTC items.

- The provision applies on a calendar year basis for all HSA accounts regardless of plan year dates effective January 1, 2011.
- Drugs and medicines that are available OTC will be considered INELIGIBLE unless accompanied by a prescription from a physician.
- This provision will change how account owners use their HSA dollars to purchase OTC items. While not all inclusive, below are OTC drugs and medicines that may no longer be purchased with your HSA dollars.

### Ineligible Medical Expenses
- Acid Controllers
- Allergy & Sinus
- Antibiotic Products
- Antihistamines
- Anti-Gas
- Antidiarrheals
- Anti-Acne & Insect Bites
- Anti-parasitic Treatments
- Baby Rash Ointments/Creams
- Cold Sore Remedies
- Cold, Cough & Flu
- Digestive Aids
- Feminine Anti-Fungal/Anti-itch
- Hemorrhoid Preps
- Lasatives
- Motion Sickness
- Pan Relief
- Respiratory Treatments
- Sleep Aids & Sedatives
- Stomach Remedies

### Eligible Medical Expenses
- Abdominal supports
- Acupuncture
- Air conditioner (when necessary for relief from difficulty breathing)
- Alcoholic treatment
- Ambulance
- Anesthetist
- Arch supports
- Artificial limbs & teeth
- Autoette (when used for relief of sickness or disability)
- Birth control pills (by prescription)
- Blood tests
- Blood transfusions
- Braces
- Cardiograms
- Chiropractor
- Contact lenses
- Contraceptive devices (by prescription)
- Convalescent home (for medical treatment only)
- Crutches
- Dental treatment, except for teeth whitening
- Dental X-rays
- Dentures
- Dermatologist
- Diagnostic items/services
- Diathermy
- Drug addiction therapy
- Drugs (prescription)
- Elastic hosiery (prescription)
- Eyeglasses
- Eye Exams
- Fainting treatment
- Doctor
gum treatment
- Hearing aids
- Hospital Services
- Medical Services
- Medicine
- Nursing Services
- Operations
- Oxygen
- Psychoanalyst
- Psychologist
- Psychotherapy
- Radiation therapy
- Registered nurse
- Special school costs for the handicapped
- Spinal fluid test
- Stints
- Sterilization
- Surgeon
- Telephone or TV equipment to assist the hard-of-hearing
- Therapy equipment
- Transportation expenses (relative to health care)
- Vaccines
- Vasectomy
- Vitamins (if prescribed)
- Wheelchair/Wheelchair Maintenance
- Wigs
- X-rays
- Acne Creams (Clearasil, OXY)
- Antifungal (foot) (Lamisil, Lotrimin)
- Antiseptics & Wound Cleansers (Alcohol, Peroxide)
- Baby Electrolytes & Dehydration (Pedialyte)
- Baby Toothpaste (Baby Orajel)
- Contact Lens Solution/Supplies
- Denture Adhesives & Cleaners (Poligrip)
- Denture Pain Relief (Benzocain)
- Diabetic Supplies
- Fiber Lasatives (Benefiber, Fibercon)
- First aid burn remedies (Thermoskin, Solarzine)
- First aid dressing & Supplies (Band Aid, JM)
- Glucosamine &/or Chondroitin
- Osteo-Bi-Flex, Cemarist)
- Incontinence Protection & Treatment Products
- Nasal Sprays, Drops & Inhalers
- Prenatal Vitamins
- Skin Treatments
- Smoking Deterrents (Nicoderm, Nicorette)

For more information on how an HSA can work for you, contact:
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