

Health Savings Account (HSA) FAQ's

1. What is a Health Savings Account? (Also known as an HSA)

A Health Savings Account (HSA) combines a high deductible health plan with a savings account to help pay for qualified medical expenses. An HSA is a tax-favored savings account created for the purpose of paying for eligible health care expenses. Employees enrolled in a high deductible health plan are allowed to have an HSA. The money in the HSA is:

- Tax-deductible: Contributions to the HSA are 100% deductible (up to the legal limit)
- Tax-free: Withdrawals to pay qualified medical expenses are not taxed.
- Tax-deferred: Interest earnings accumulate tax-free, and if used to pay qualified medical expenses, remain tax-free.
- Yours to keep: Unlike a flexible spending account (FSA), unused money in your HSA carries over year to year.

2. What contributions are made to the Health Savings Account?

To be eligible for the HSA, the employee must be enrolled in the high deductible plan option. Employees are responsible for the employee portion of the premium amount (employee contribution.) You may also contribute to the health savings account on a payroll deduction basis. In addition, Elon will contribute the following on an annual basis to your HSA account:

- Employee-only-\$500
- Family-\$1,000

Additional features include:

- HSA funds are 100% vested and balances may be carried over year to year
- Maximum annual contribution to an HSA (employer and employee) for 2025:
 - Individual-\$4,300
 - Family-\$8,550
- Catch-up contributions (Age 55 or older) are allowed per year - \$1,000

3. How does a Health Savings Account work?

Each time you seek medical care under the high deductible health plan, you pay for 100% of medical and pharmacy services up to the deductible using funds from your HSA, or out of your own pocket. Once the deductible is met, you will be responsible for 30% of the discounted charges up to out-of-pocket limit. Once the limit is reached, expenses are covered at 100%. You may use available funds in your HSA to pay out-of-pocket expenses after reaching the deductible as well.

- There are no medical or pharmacy co-pays under an HSA plan.
- Employees may use the Health Savings Account to reimburse for deductible and out of pocket expenses.

- There are certain preventive pharmacy drugs which are approved to be paid at 100% under an HSA plan. Please contact OptumRx if you have any questions.
- Preventive Services are covered at 100%.

4. Is a Health Savings Account right for me?

Like any health care option, HSAs have advantages and disadvantages. As you weigh your options, think about your budget and what health care you are likely to need in the next year.

If you are generally healthy and want to save for future health care expenses, an HSA may be an attractive choice. Or if you are near retirement, an HSA may make sense because the money in the HSA can be used to offset costs of medical care after retirement.

On the other hand, if you think you might need expensive medical care in the next year and/or require high-cost maintenance medications, require expensive prescription medications, diagnostic services (mammograms, colonoscopies, x-rays, ultrasounds, MRI, MRA, CT scans, PET scans) and would find it hard to meet a high deductible, an HSA might not be your best option. Diagnostic medical care involves treating or diagnosing a problem you're having by monitoring existing problems, checking out new symptoms or following up on abnormal test results.

Examples of diagnostic medical care include:

- Colon cancer screening (colonoscopy) to evaluate rectal bleeding
- Mammogram to follow up on a breast lump

Consider the following example:

- Bob is a 57-year-old employee who is beginning to think about his retirement needs at 65. He is not expecting any major health related expenses and has elected employee-only coverage on Elon's health savings account. He has elected to deduct \$2,500 from his paycheck to be deposited into his health savings bank account. Bob plans to pay for his minimal medical expenses out of his own out of pocket so he can grow his health savings bank account. His goal is to use the money accumulated in his health savings bank account to pay Medicare premiums and expenses when he retires at age 65.

5. From the perspective of the accountholder, what are the advantages and disadvantages of HSAs versus Health FSAs?

Advantages:

- The "Use-it-or-Lose it" Rule does not apply to HSAs. Unlike Health FSAs, accountholders own their HSAs and the funds in the HSA roll over from year to year, which means that even if the accountholder does not use the money deposited in one year, it is still available for future use.
- Accountholders can use their HSAs to pay qualified medical expenses, including COBRA and Medicare premiums, after they have left employment or retire.
- A change in status is not required in order to change an election to contribute to an HSA on a pre-tax basis through a cafeteria plan.

- HSA funds can be invested in a variety of financial products, such as mutual funds and stocks.
- Amounts in an HSA can be rolled over or transferred to another HSA.
- An accountholder can make a one-time transfer from his or her IRA to his or her HSA.
- The HSA contribution limits are higher than the \$3,200 limit that applies to a Health FSA.

Disadvantages:

- Medical expenses can be unpredictable, which may make it difficult to accurately predict health care expenses.
- Due to IRS requirements of a High Deductible Health Plan, if you elect to participate in Health Plan C with the HSA, the services you can receive at Elon University's Faculty/Staff Health and Wellness Clinic may be limited and a \$40 copay may be charged based on Plan C cost guidelines.
- An employee can use a Health Flexible Spending Account (FSA) to reimburse health care expenses of his or her adult children (up to age 26). This is not the case under an HSA unless the adult child qualifies as a tax dependent for HSA purposes. The adult child, if otherwise eligible, must establish his or her own HSA.
- For the HSA to be effective on January 1, 2025, all funds in your Health FSA must be reduced to zero.
- If you take money out of your HSA for nonmedical expenses, you'll have to pay taxes on it.

6. Who qualifies for an HSA (i.e., who is eligible to establish an HSA)?

An eligible individual is anyone who:

- is covered only by an HDHP;
- is not also covered by any other health plan that is *not* a High Deductible Health Plan;
- is **not enrolled** in benefits under Medicare; and
- may not be claimed as a dependent on another person's tax return.

7. Who qualifies as a dependent for HSA purposes?

An accountholder can use his or her HSA funds to pay his or her medical and prescription drug expenses as well as the medical and prescription drug expenses of his or her spouse and dependents (e.g., children). A person generally qualifies as a dependent for HSA purposes if he or she can be claimed as an exemption on the accountholder's federal income tax return (i.e., the person must be a tax dependent to be claimed as an exemption). However, for HSA purposes a person can qualify as a dependent even though the person fails to satisfy all of the requirements to be a federal tax dependent, if the sole reason for such failure is that the person's gross income exceeds the personal exemption amount. If the person does not qualify as a dependent for HSA purposes, the accountholder cannot spend his or her HSA funds to pay medical and prescription drug expenses for that person even if the person is eligible to be covered under the HDHP (e.g., a domestic partner that does not qualify as the accountholder's tax dependent).

NOTE: While the Affordable Care Act allows parents to cover their adult children (up to age 26) under their health care plans, including an HDHP, the IRS has not changed the definition of a dependent for HSA

purposes. This means that an accountholder could have his or her 24-year-old child covered under the HDHP, but not be eligible to use his or her HSA funds to pay medical and prescription drug expenses for that 24-year-old because he or she does not qualify as a tax dependent (i.e., the parent cannot claim the child as an exemption). (A child who is a student and who **has not** yet attained the age of 24 as of the close of a calendar year qualifies as a tax dependent.) The 24-year-old must establish his or her own HSA. The parent can make contributions to the adult child's HSA.

Consider the following example:

- Jill has elected coverage under an HDHP for herself and her two children. Jill's spouse has self-only coverage under his employer's health care plan, which is not a HDHP. Jill qualifies as an eligible individual and establishes an HSA to pay qualified medical expenses. Jill's daughter is 19 and is a student. Jill's son, who is 23, graduated from college and is now working and supporting himself. Jill can use the funds in her HSA to pay her qualified medical expenses as well as the qualified medical expenses of her spouse and her daughter. Although her son can be covered under the HDHP as an adult child, Jill cannot use funds in her HSA to pay her son's qualified medical expenses because he no longer qualifies as her tax dependent. Assuming Jill's son has no other coverage that will make him ineligible, he can establish his own HSA. Jill's spouse cannot establish his own HSA because he is not covered under an HDHP. Jill's daughter cannot establish her own HSA because she is claimed as a dependent on Jill's tax return.

8. What are the limits on contributions to an HSA?

The employee may also contribute to the HSA if they elect Plan C, up to the annual IRS limit which is \$4,300 for individual and \$8,550 for family. Please note, these maximums include the employer contributions. Plan participants age 55 and older may make an additional \$1,000 (maximum) catch up contribution. When calculating your annual contribution maximum, be sure to subtract the university's contribution.

9. Can “catch-up” contributions be made to an HSA?

Yes. If an accountholder will reach age 55 by the end of the taxable year, the HSA maximum annual contribution limit is increased by \$1,000 for 2025 and thereafter.

10. Are there special rules that apply to spouses?

Yes. The special rules apply only where both spouses are eligible individuals (See Q/A-3). Joint HSAs for the two eligible spouses are not allowed. To maximize contributions each spouse must have their own HSA. If either spouse has family HDHP coverage, both spouses are treated as having family HDHP coverage. If each spouse has family coverage under a separate HDHP, the annual contribution limit remains at \$8,550.

If both spouses are age 55 or older and not enrolled in Medicare:

- Each spouse is entitled to make a \$1,000 catch-up contribution.
- Their maximum total contributions under family HDHP coverage cannot be more than \$10,550 ($\$8,550 + [\$1,000 \times 2] = \$10,550$). This rule applies regardless of whether each spouse's family coverage covers the other spouse.
- The annual contribution limit (\$8,550) must be divided between the spouses by agreement. If there is no agreement, the annual contribution limit is split equally between the spouses.
- The \$1,000 catch-up contribution must be made by each spouse to his or her own HSA.

11. Do the special rules that apply to spouses apply to domestic partners?

Generally, no unless the domestic partners are legally married. The special rules that apply to spouses do not apply to opposite-sex domestic partners or to same-sex domestic partners that are not legally married. Opposite-sex domestic partners and same-sex domestic partners that are not legally married are considered two unattached individuals who, if otherwise eligible, can open separate HSAs and each have their own contribution limit. If the domestic partner can be claimed as an exemption on the accountholder's tax return (i.e., the domestic partner is a tax-qualified dependent of the accountholder), the domestic partner is not eligible to establish his or her own HSA, but the accountholder can use his or her HSA to pay the qualified medical expenses of the domestic partner. If the domestic partner cannot be claimed as an exemption on the accountholder's tax return (i.e., the domestic partner is not a tax-qualified dependent of the accountholder), the domestic partner can establish his or her own HSA assuming he or she is covered under a HDHP and does not have other disqualifying coverage. We would recommend you consult with your tax or legal counsel if you have additional questions.

12. Will Elon make any employer contributions to employees' HSAs?

The university will fund the HSA with an annual contribution of \$500 for individual coverage and \$1,000 for family coverage for employees who elect Plan C. The employee may also contribute to the HSA if they elect Plan C, up to the annual IRS limit which is \$4,300 for individual and \$8,550 for family. Please note, these maximums include the employer contributions. Plan participants age 55 and older may make an additional \$1,000 (maximum) catch up contribution. When calculating your annual contribution maximum, be sure to subtract the university's contribution.

13. What are the consequences if either the employer or the employee over contributes to an HSA for any year?

If an individual contributes over the stated limits for the taxable year, these contributions are not deductible. Contributions made by an employer over the limits are included in the employee's income, but not returned to the employer.

In addition, an excise tax applies to contributions in excess of the maximum annual contribution limit. The excise tax is imposed on the accountholder and is generally equal to 6% of the cumulative amount of excess contributions that are not distributed from the HSA to the contributor. We would recommend you consult with your tax or legal counsel if you have additional questions.

14. Can funds from the accountholder's IRA be transferred to an HSA?

Yes. An individual is allowed a one-time contribution from his or her IRA(s) to his or her HSA(s). The contribution must be made in a direct trustee-to-trustee transfer. The IRA transfer will not be included in income or subject to additional tax due to early withdrawal. The transfer is limited to the maximum HSA contribution for the year and the amount contributed is not allowed as a deduction. Penalties may apply if HDHP coverage does not continue for 12 months after the month of the transfer. Funds cannot be transferred directly from a tax-qualified retirement plan (e.g., a 401(k) plan) to an HSA.

15. When can distributions be made from an HSA?

Distributions from an HSA can be made at any time. However, with an HSA, the accountholder only has access to the funds actually deposited in the account. While the HSA funds are growing, the accountholder may pay for qualified medical expenses out-of-pocket and then be reimbursed later out of the HSA once there is enough money in the account to cover the expenses.

16. How are distributions from an HSA taxed?

Distributions from an HSA which are used to pay for qualified medical expenses of the accountholder, his or her spouse and dependents are generally excludable from gross income. In addition, administrative and account maintenance fees withdrawn from HSAs are treated as non-taxable distributions. Please contact Health Equity or your tax counsel if you have specific questions relating to distributions.

17. If distributions are made from the HSA for reasons other than the reimbursement or payment of qualified medical expenses, what are the tax consequences?

Distributions from an HSA that are not for qualified medical expenses are includible in the accountholder's gross income. Distributions includible in gross income are also subject to an additional 20% penalty tax unless made after death, disability, or after the accountholder attains the age of Medicare eligibility (currently age 65).

Note: The accountholder determines whether a distribution is taxable or nontaxable by reporting the treatment of the amount on Form 8889, an attachment to the accountholder's Form 1040 for the taxable year. We would recommend you consult with your tax or legal counsel if you have additional questions.

18. What are the consequences if an HSA accountholder receives a distribution as the result of a mistake of fact due to reasonable cause and repays the distribution to the HSA?

If there is clear and convincing evidence that amounts were distributed from the HSA because of a mistake of fact due to reasonable cause, the accountholder may repay the mistaken distribution no later than the April 15th following the first year that he or she knew or should have known the distribution was a mistake.

In this situation, the distribution is not subject to income tax or the 20% penalty tax, and the repayment is not subject to excise tax on excess contributions. The HSA trustee or custodian is not required, however, to allow such repayment. If it does allow such repayments, the trustee or custodian may rely on the accountholder's representations that the distribution was, in fact, a mistake. We would recommend you consult with your tax or legal counsel if you have additional questions.

19. What are qualified medical expenses?

Qualified medical expenses generally are defined under Internal Revenue Code Section 213(d) and include expenses for diagnosis, cure, mitigation, treatment, or prevention of disease, including prescription drugs, transportation primarily for and essential to such care, and qualified long term care expenses but only to the extent that the expenses are not covered by insurance or otherwise.

Qualified medical expenses do not include premiums for insurance coverage except for:

- long-term care insurance,
- COBRA coverage, and
- health care coverage while an individual is receiving unemployment compensation under Federal or State law.

For purposes of determining the itemized deduction for medical expenses, distributions from an HSA for qualified medical expenses are not treated as expenses paid for medical care under Code Section 213(d).

In addition, qualified medical expenses include health insurance premiums for individuals eligible for Medicare, other than premiums for Medicare supplemental insurance. Qualified health insurance premiums include, for example, Medicare Part B or Part D premiums, Medicare HMO premiums, and the employee's share of premiums for employer-sponsored retiree health insurance for individuals age 65 or older.

An HSA may only reimburse, tax-free, qualified medical expenses incurred on or after the date the HSA is established. If expenses incurred prior to the establishment of the HSA are reimbursed from the HSA, the amount so reimbursed will be taxable and may be subject to the 20% penalty tax.

For more information about expenses that qualify as qualified medical expenses, visit the IRS website at www.IRS.gov. (Publication 502).

20. Can an individual use his or her HSA to pay for, or be reimbursed for, his or her long-term care insurance premiums?

Yes, subject to limits based on age, which are published by the IRS and are adjusted annually, HSA funds can be used to pay long-term care insurance premiums.

21. Can dental and vision expenses be paid from an HSA?

Yes. Distributions from an HSA which are used to pay for “qualified medical expenses” of the account holder, his or her spouse and dependents are generally excludable from gross income. Qualified medical expenses include dental expenses and certain vision expenses.

“Dental expenses” include those expenses paid for the prevention and alleviation of dental disease. Preventive dental treatment includes the services of a dental hygienist or dentist for such procedures as teeth cleaning, the application of sealants, and fluoride treatments to prevent tooth decay. Treatment to alleviate dental disease includes services of a dentist for procedures such as x-rays, fillings, braces, extractions, dentures, and other dental ailments. Services for teeth whitening and other cosmetic services are not considered “qualified medical expenses” and cannot be paid from an HSA.

“Vision expenses” include contact lenses needed for medical reasons (materials required for using contact lenses, such as saline solution and enzyme cleaner, are also covered), eye examinations and eye surgery to treat defective vision, such as laser eye surgery or radial keratotomy.

22. Can an individual find out how much a treatment or procedure is going to cost so he or she can best utilize his or her HSA funds?

It hasn't always been easy to be an informed consumer when it comes to medical care. How do you know you're making the right choices? Getting best care? Not paying too much? HealthNAV puts the tools you need right in your hands – and on your smartphone. See side-by-side comparisons showing in-network doctors, dentists & hospitals; quality and performance ratings; specialties and expertise; and location. HealthNAV lets you locate urgent care centers based on GPS, click to call urgent care locations and find care throughout the United States. You'll also be able to see your estimated out-of-pocket costs, and you are able to search common categories such as wellness, surgery, women's health and more. You can also view cost estimates for specific procedures by provider and location. Visit <https://www.bcbsnc.com/content/campaigns/blueconnectnc/healthnav.htm> or click [here](#) to be directed to “HealthNAV”.

Individuals are encouraged to ask their doctors how much a service or procedure might cost. Doctors and hospitals may charge different rates for the same services, so choice can make a difference.

23. Can accountholders use debit, credit or stored-value cards to receive distributions from an HSA for qualified medical expenses?

Yes. An employer may use a debit card that restricts payments and reimbursements to health care under the accountholder's HSA, so long as the funds in the HSA are otherwise readily available to the accountholder. For example, in addition to the restricted debit card, the accountholder must also be able to access his or her HSA funds other than by purchasing health care with the debit card, such as through online transfers, withdrawals from automatic teller machines (ATMs), or check writing. The employer must notify accountholders that other access to the HSA funds is available. On the other hand, restrictions that unreasonably hinder access to HSA funds would be impermissible.

Accountholders who establish their HSAs with **Health Equity** (our HSA administrator) will be given an HSA Debit Card. Assuming sufficient funds are deposited in the HSA, the Debit Card may be used for direct payment at a health care provider's office or a pharmacy or to pay a bill from a health care provider as long as they accept the Debit Card. Keep in mind that if at the time an expense is incurred there are not sufficient funds deposited in the participant's HSA, the participant must pay for his or her medical expenses out-of-pocket and then be reimbursed later out of his or her HSA once there is enough money in the account to cover the expenses. This is different from the current FSA where the amount a participant elects to contribute for the year is available immediately. With an HSA, a participant **only** has access to the funds actually deposited in the account.

24. If the accountholder no longer qualifies as an eligible individual, will distributions from an HSA for qualified medical expenses be taxable?

No. If the accountholder is no longer an eligible individual (e.g., the individual is over age 65 and enrolled in Medicare benefits, or no longer covered by an HDHP), distributions used exclusively to pay for qualified medical expenses continue to be excludable from the accountholder's gross income. As previously indicated, qualified medical expenses include Medicare premiums, deductibles, copays and coinsurance under Medicare, and premiums for retiree coverage under the accountholder's former employer's retiree health care plan. Qualified medical expenses do not, however, include premiums for Medicare supplemental insurance.

Any amount of the distribution not used exclusively to pay for qualified medical expenses will be includable in the gross income of the accountholder. Such distributions will also be subject to the 20% penalty tax except in the case of distributions made after the accountholder's death, disability or attainment of age 65 (i.e., the current Medicare eligibility age).

25. Can one spouse use his or her HSA to reimburse the medical expenses of the other spouse even if the other spouse has an HSA?

Yes. The medical expense can be paid by one HSA or split between the two HSAs.

26. Will Elon continue to offer a Health FSA to employees?

Yes; however, if you are currently enrolled in the medical FSA and wish to enroll in health Plan C with the HSA for 2025, you must deplete your medical FSA funds by December 31, 2024 in order to participate on January 1, 2025.

27. Can an employee who elects to make pre-tax salary reduction contributions to his or her HSA make such contributions in a lump sum?

No. For administrative reasons, the amount an employee elects to contribute to his or her HSA on a pre-tax basis through Elon's cafeteria plan will be required to be withheld from his or her pay on a pro-rata basis each payroll period just as under the current FSA arrangement.

28. When may an individual start funding his or her HSA?

Assuming the individual elects either HDHP option for the 2025 plan year, the balance in his or her health FSA on December 31, 2024 (assuming he or she participates in the FSA) is zero, and he or she has no other coverage that makes him or her ineligible, the individual may establish and start funding his or her HSA as of the first business day in January of 2025.

If there is any year-end balance in the individual's general-purpose health FSA account (even \$1), then the individual is not eligible for an HSA until the first day of the month following the end of the grace period (i.e. April 1, 2025), regardless of when the remaining balance is actually spent. Thus, if an individual desires to start contributing to an HSA in January 2025, the balance in the individual's health FSA (if any) must be reduced to zero by December 31, 2024.

29. What services are included in Preventive Care?

Preventive care generally includes the following:

- Yearly preventive care visits for adults
- Routine prenatal and well-child care
- Child and adult immunizations, and
- Certain screening and counseling services (when age and gender appropriate)

Preventive care does not generally include any service or benefit intended to treat an existing illness, injury or condition. Treatment of a related condition made during a preventive care service or screening is considered to be preventive care when it would be unreasonable or impracticable to perform another procedure to treat the condition and such treatment would be considered to be incidental or ancillary to a preventive care service or screening. For example, the removal of polyps during a colonoscopy would be considered preventive.

Certain prescription drugs (e.g., certain oral contraceptives) are required by law to be considered preventive.

30. Are HSAs subject to COBRA coverage?

No. When an account holder with an HSA terminates employment, there is no right to COBRA on the HSA itself. The money in the HSA at the time of termination belongs to the account holder. The employer has no control over it and does not get it back if it goes unused. If the employer contributes to employees' HSAs, those contributions will stop once the person is no longer an employee. This is the case even if the former employee elects COBRA under the HDHP.