COUNTY NATIONAL BANK

Health Savings Accounts

Frequently Asked Questions and Answers

What is an HSA?
An HSA is a tax-exempt trust or custodial account established exclusively for the purpose of paying qualified medical expenses of the account beneficiary who, for the months for which contributions are made to an HSA, is covered under a high-deductible health plan.

Who is eligible for a Health Savings Account?
To be eligible for a Health Savings Account, an individual must be covered by a High Deductible Health Plan (HDHP), must not be covered by other health insurance (does not apply to specific injury insurance and accident, disability, dental care, vision care, long-term care), is not enrolled in Medicare, and cannot be claimed as a dependent on someone else's tax return.

Who is eligible to establish an HSA?
An eligible individual can establish an HSA. An eligible individual means, with respect to any month, any individual who:

- is covered under a high-deductible health plan (HDHP) on the first day of such month;
- is not covered by any other health plan that is not an HDHP (with certain exceptions for plans providing certain limited types of coverage);
- is not enrolled in Medicare and;
- may not be claimed as a dependent on another person's tax return.

What kind of other health coverage makes an individual ineligible for an HSA?
Generally, an individual is ineligible for an HSA if the individual, while covered under an HDHP, is also covered under a health plan (whether as an individual, spouse, or dependent) that is not an HDHP.

How does an eligible individual establish an HSA?
Beginning January 1, 2004, any eligible individual can establish an HSA with a qualified HSA trustee or custodian, in much the same way that individuals establish IRAs with qualified IRA trustees or custodians. No permission or authorization from the Internal Revenue Service (IRS) is necessary to establish an HSA. An eligible individual who is an employee may establish an HSA with or without involvement of the employer.

Who is a qualified HSA trustee or custodian?
Any insurance company, any bank, or any credit union can be an HSA trustee or custodian. In addition, any other person already approved by the IRS to be a trustee or custodian of IRAs is automatically approved to be an HSA trustee or custodian.

Does the HSA have to be opened at the same institution that provides the HDHP?
No. The HSA can be established through a qualified trustee or custodian who is different from the HDHP provider. Where a trustee or custodian does not sponsor the HDHP, the trustee or custodian may require proof or certification that the account beneficiary is an eligible individual, including that the individual is covered by a health plan that meets all of the requirements of an HDHP.

Who may contribute to an HSA?
Any eligible individual may contribute to an HSA. For an HSA established by an employee, the employee, the employee's employer or both may contribute to the HSA of the employee in a given year. For an HSA established by a self-employed (or unemployed) individual, the individual may contribute to the HSA. Family members may also make contributions to an HSA on behalf of another family member as long as that other family member is an eligible individual.

Can anyone make catch-up contributions to a Health Savings Account?
Individuals 55 and older who are covered by an HDHP can make additional catch-up contributions. They may make contributions anticipating medical expenses that will not be covered under Medicare – such as a portion of prescription drug costs or Medicare Part A & B premiums. For individuals age 55 and older, additional catch-up contributions to the HSA is allowed in the amount of $1,000. Contributions must stop once an individual is enrolled in Medicare.

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I turned 55 this year. Can I make the full "catch-up" contribution?
If you had HDHP coverage for the year, you can make the full catch-up contribution regardless of when your 55th birthday falls during the year. If you did not have 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.

In what form must contributions be made to an HSA?
Contributions to an HSA must be made in cash. For example, contributions may not be made in the form of stock or other property. Payments for the HDHP and contributions to the HSA can be made through a cafeteria plan.

What is the tax treatment of an eligible individual's HSA contributions?
Contributions made by an eligible individual to an HSA are deductible by the eligible individual in determining adjusted gross income (i.e. above-the-line). The contributions are deductible whether or not the eligible individual itemizes deductions. However, the individual cannot also deduct the contributions as medical expense deductions under section 213.

What is the tax treatment of an HSA?
An HSA is generally exempt from tax (like an IRA), unless it has ceased to be an HSA. Earnings on amounts in an HSA are not includable in gross income while held in the HSA (i.e. inside buildup is not taxable).

Are rollover contributions to HSAs permitted?
Rollover contributions from Archer MSAs and other HSAs into an HSA are permitted. Rollover contributions need not be in cash. Rollovers are not subject to the annual contribution limits. Rollovers from an IRA, from a health reimbursement arrangement (HRA), or from a health flexible spending arrangement (FSA) to an HSA are not permitted.

When is an individual permitted to receive distributions from an HSA?
An individual is permitted to receive distributions from an HSA at any time.

Must HSA trustees or custodians determine whether HSA distributions are used?
No. HSA trustees or custodians are not required to determine whether HSA distributions are used for qualified medical expenses. Individuals who establish HSAs make that determination and should maintain records of their medical expenses sufficient to show that the distributions have been made exclusively for qualified medical expenses and are therefore excludable from gross income.

Must employers who make contributions to an employee's HSA determine whether HSA distributions are used exclusively for qualified medical expenses?
No. The same rule that applies to trustees or custodians applies to employers.

Can an HSA be offered under a cafeteria plan?
Yes. Both an HSA and an HDHP may be offered as options under a cafeteria plan. Thus, an employee may elect to have amounts contributed as employer contributions to an HSA and an HDHP on a salary-reduction basis.

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