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HSA RULEBOOK

Health Savings Accounts offer you an easy way to lower your taxable income and save money to pay for healthcare expenses. In order to enjoy the tax advantages, you must follow the specific regulations associated with HSAs. It is important to be aware that HSAs are owned by you, and you are responsible for keeping track of how the funds are spent, retaining receipts, and reporting life events to your district's HR team. Employees should consult their personal tax advisor for additional guidance.

8 RULES TO KNOW:

1. **Requires Enrollment in a Qualified HDHP**
   To be eligible to contribute to an HSA, you must be:
   a. Covered by a High Deductible Health Plan (HDHP)
   b. Not covered by any other health insurance that is not an HDHP
   c. Not enrolled in Medicare - After you enroll in either Part A or Part B, contributions cannot be made to your HSA account
   d. Not eligible to be claimed as a dependent on someone else's tax return

2. **Adult Children Must be Your Tax Dependents:**
   You can cover adult children under a health plan until age 26. However, if you cover an adult child on your HDHP plan, you can only use funds from your HSA to pay for their expenses if they are a legal tax dependent.

3. **Maximum Calendar Year Contribution:**
   The IRS sets yearly contribution limits. For 2024, you can contribute up to \$4,150 annually for yourself and up to \$8,300 if you cover yourself and your dependents. The maximum dollar limits include any amounts that your employer contributes towards your HSA. If you are over age 55, you are eligible to make "catch-up" contributions of \$1,000 annually.

4. **Contributions and State Taxes:**
   Most states treat HSA contributions and earnings on a tax-favored basis, just like the federal tax code. CA and NJ do not exclude HSA contributions from income. Contact your tax advisor or HSA administrator for additional information on taxes in your state.

8 RULES TO KNOW CONTINUED

5 **Taxation and Penalties on Non-Qualified Medical Expenses:**
You can use your HSA to make tax-free payments for qualified (eligible) medical expenses. Refer to IRS Publication 502 to see examples of eligible and ineligible expenses. If you use your HSA to pay for a non-qualified expense, you will be taxed on the purchase and will be required to pay a 20% penalty on the amount you spent.

6 **Contributions to Other Tax-Advantaged Savings Accounts:**
Generally, you can't have a HSA and a Flexible Spending Account (FSA). However, if your employer offers a "limited purpose" FSA (LPFSA), you may be able to contribute to both. While HSA funds can be used for qualified medical expenses, funds in LPFSAs can only be used to pay for eligible dental and vision expenses (e.g., fillings, root canals, contact lenses, prescription glasses). Check with you HR or Benefits Department for specifics.

7 **You Can't Contribute if you Have Medicare:**
You may no longer contribute to your HSA once you become enrolled in Medicare. After age 65, you can withdraw funds from your HSA for any purpose without suffering a 20% tax penalty. You may use your HSA to pay healthcare costs such as insurance deductibles and copayments, pharmacy drugs, Medicare Part A and B premiums, some health insurance premiums, and long-term care premiums. However, you will pay regular tax on withdrawals that are not used for qualified medical expenses.

- If you are collecting Social Security, your Medicare Part A and Part B will be effective automatically on the first day of the month you turn 65, or the first day of the prior month if your birthday is on the first of the month
- After you enroll in either Part A or Part B, no one can contribute to your HSA account
- If you take your Part A after you turn 65, the effective date of the prohibition on HSA contributions will be retroactive to six months before your enrollment date or to your 65th birthday, whichever period is shorter
- Please let your HR department know if you have or are going to take your Part A

8 **Your account goes with you:**
If you leave your employer, your HSA account goes with you. Contact your HR representative for more information

MEDICARE & YOUR HSA

Medicare entitlement and effective date affect your ability to contribute or receive employer contributions. It's important to plan ahead and understand what your Medicare effective date will be and how that affects the HSA contributions for that year.

- If you are collecting Social Security, your Medicare Part A and Part B will be effective automatically on the first day of the month you turn 65, or the first day of the prior month if your birthday is on the first of the month
- After you enroll in either Part A or Part B, no one can contribute to your HSA account
- If you take your Part A after you turn 65, the effective date of the prohibition on HSA contributions will be retroactive to six months before your enrollment date or to your 65th birthday, whichever period is shorter.

LIFE EVENTS & YOUR HSA

When your family situation changes, you may have options to adjust how much you contribute to your HSA and whose health expenses can be paid from the account:

- **You have a baby:** Enroll your child in your health plan as quickly as possible. If you are going from a single to a family plan, your HSA contribution limits will change on the first day of the month that you elected family coverage. This will allow you to contribute more to your HSA.
- **You are changing to a family plan:** If your spouse loses health coverage, you can change to a family plan outside of open enrollment. In this instance, your HSA contribution limit will increase on the first day of the month that you elect family coverage.
- **You are getting separated or divorced:** The HSA owned by one spouse may be divided or given to the other spouse by a court judgment in a divorce.
- **You have stepchildren:** Generally, you can cover stepchildren under your health plan without formally adopting them. Adding stepchildren to your plan may allow you to increase your HSA contribution. Consult your personal tax advisor for guidance.
- **Transitions for your children:** If your child is not eligible for your health plan but is still considered your tax dependent, you can use funds in your HSA account to pay for qualified medical expenses for this child.
- **You lose your job or hours are reduced:** If you elect COBRA benefits, you can use your HSA to pay your COBRA premiums. You can also continue to contribute to your HSA.
- **You retire before Medicare eligibility:** If you retire before age 65, you can still use your HSA for medical expenses, such as COBRA premiums, long-term care premiums, etc. However, should you retire, accept a pension and then go to work for another employer, you can no longer use your HSA to make premium contributions before age 65.
- **You enroll in Medicare:** Once you enroll in Medicare, you are no longer able to make HSA contributions. You can use the HSA to pay for various medical expenses after age 65. You can also use an HSA to pay for employer-sponsored health coverage if you remain employed after age 65 or to pay for Medicare premiums.
    - After you enroll in either Part A or Part B, no one can contribute to your HSA account.
- **You become disabled**: You need not work to make HSA contributions. However, if you lose HDHP coverage under your employer's plan because you no longer work, you are ineligible to continue contributing to your HSA. You can use your HSA funds to make COBRA payments if you become eligible for COBRA coverage as a result of your disability.

Records Keeping & Your HSA

What Type of Records Do I Need to Keep for my HSA?

You own your HSA and are responsible for keeping track of how the funds are spent. Keeping proof of the expenses paid from the HSA will help prevent tax concerns and resolve disputes down the road.

What to Keep:

- Receipts for office visits, prescriptions, hospital stays, etc. For tax purposes, keep for at least 3 years.
- Explanation of Benefits forms (claims information) from your health plan.
- Records of payments made from your HSA, for example, keep your doctor's office bill stub and note the date paid.
- Statements from your HSA provider. Review these statements and retain them as you would any other bank statement.

Other Considerations:

- Electronic records of HSA distributions are generally acceptable.
- While there is no time limit on when you can claim reimbursement for expenses paid with your account, you must have the documentation to prove that your expenses occurred after the HSA was opened.
- An in-network provider will submit your claim to your health plan. However, if your provider is out-of-network, you may be required to submit the claim on your own. In that case, ask your provider for the information necessary to submit the claim properly.