

## Top 10 FAQs

### What is a Health Savings Account (HSA)?

An ACS|BNY Mellon Health Savings Account (HSA) is a special tax-advantaged savings account similar to a traditional Individual Retirement Account (IRA) but designated for medical expenses. An HSA allows you to pay for current covered health care expenses and save for future qualified medical and retiree health care expenses on a tax-favored basis.

HSAs provide triple-tax advantages: contributions, investment earnings, and qualified distributions are all exempt from federal income tax, FICA (Social Security and Medicare) tax and state income taxes (for most states). Three states (Alabama, California, and New Jersey) do not currently conform to the federal tax provisions on taxation of HSAs. This means contributions to HSAs are subject to state income tax in these states and HSA earnings are also taxable in these states. However, HSA contributions are not subject to taxation in Alabama if they are made through a Section 125 plan. Also, two states, New Hampshire and Tennessee do not tax contributions to an HSA but they do tax HSA earnings. Please consult your financial advisor or State Department of Revenue for more information on how these rules may apply to your personal tax situation.

Unused HSA dollars roll over from year to year, making HSAs a convenient and easy way to save and invest for future medical expenses. You own your HSA at all times and can take it with you when you change medical plans, change jobs or retire. This means the funds in the account [both yours and your employer's, if they contribute] are non-forfeitable and portable.

Funds in the account not needed for near term expenses may be invested, providing the opportunity for funds to grow. Investment options include money market accounts, mutual funds, etc.

To be eligible to set up an ACS|BNY Mellon HSA and to make annual contributions, you must be covered by a qualified High Deductible Health Plan (HDHP) and meet other eligibility requirements as defined by the IRS.

### How does an HSA work?

HSAs work in conjunction with a HDHP. All the money you (or your employer) deposit into your HSA up to the maximum annual contribution limit is 100% tax-deductible for federal income tax, FICA (Social Security and Medicare) tax, and in most states, state income tax. This makes HSA dollars tax-free.

You can use these tax-free dollars to pay for expenses covered under your HDHP until you have met your deductible. The insurance company pays covered medical expenses above your deductible, except for any coinsurance; you can pay coinsurance costs with tax-free money from your HSA. In addition, you can use tax-free dollars for qualified medical expenses not covered by the HDHP, such as dental, vision and alternative medicines.

The funds in the account also can be used for other, non-medical expenses, but then your dollars are subject to ordinary tax, plus a 20% penalty if you are under age 65. The penalty does not apply if the distribution occurs after you reach age 65, become disabled or die; however ordinary income tax may still apply.

Funds remaining in your account at year-end cannot be forfeited, they rollover and accumulate for your future health care expenses. You may choose not to spend your HSA dollars on small expenses, instead using after-tax dollars to meet these expenses, and leaving your HSA dollars to grow for future needs. Choosing the expenses on which to spend your HSA dollars and which to pay out-of-pocket with after-tax dollars is entirely up to you.

## Who is eligible to open an HSA?

If you meet all the criteria listed below you are eligible to open and contribute to an HSA. The Medicare Act of 2003, which established HSAs, defines "eligible individuals" as those who:

- are covered by a qualified High Deductible Health Plan (HDHP);
- are not covered by another health care plan, such as a health plan sponsored by your spouse's employer, Medicare or TriCare;
- cannot be claimed as a dependent on another individual's tax return.

You may still open and contribute to an HSA if you have certain limited coverages approved by the IRS, such as dental, vision and long-term care insurance. And you are still eligible to establish an HSA if you are entitled to benefits under an Employee Assistance Plan (EAP), disease management or wellness program or have a discount card for prescriptions. You are not eligible to open and contribute to an HSA if your spouse has a general purpose FSA account and your medical expenses are eligible for reimbursement from that FSA account.

## How is money deposited to my HSA?

Money may be deposited to your ACS|BNY Mellon HSA through payroll deduction, if your employer participates in such a program, or you may make deposits directly to your account. Deposits may be made periodically or in a lump sum.

**Payroll deductions:** If your employer offers the option, you may specify a regular contribution to be deducted from your paycheck. This contribution will be made before Social Security, federal, and most state income taxes are deducted.

**After-tax contributions:** You may choose to make all or part of your annual account contributions to your HSA by making "after-tax" contributions to your account. These contributions, which you can make by writing a personal check, may be deducted on your income tax return, using IRS Form 1040 and Form 8889.

Employers may make contributions to your account as well; while you do not take a deduction for these contributions, they are excluded from your gross income.

**A tip:** you can contribute up to the maximum allowed for the year at any time up until April 15th of the following year. (For example, you can deduct an additional after-tax contribution on your 2011 income tax return when you file your 2011 tax return in 2012.)

## How do I open an HSA?

You must first open your HSA before funds (including any employer contributions) may be deposited or withdrawn to pay for qualified medical expenses. Opening an HSA requires both your review of account terms and conditions and your signature acknowledging acceptance of those terms and conditions. To open an ACS|BNY Mellon HSA follow these steps: (1) enroll in a High Deductible Health Plan (HDHP) and elect the ACS|BNY Mellon HSA option if it is not automatically included by your employer and (2) review account terms and conditions and provide your signature accepting those terms and conditions. Step 2 may be completed electronically via a link provided to you from your employer, your health plan or included with your welcome kit mailing or at [www.hsamember.com](http://www.hsamember.com). You may also open your account by submitting the Master Signature Card included in your welcome kit. Even if you electronically provide your signature to open your account, you should always complete and return the Master Signature Card. The card gives you the ability to designate a beneficiary for your account and order a checkbook Your ACS|BNY Mellon HSA account is a bank account. Personal information is requested during account opening as required by federal banking regulations under the Patriot Act, just as it would be required to open a traditional banking account.

### **How much can I contribute to my HSA?**

- For 2011, the annual contribution limit is \$3,050 for individual coverage and \$6,150 for family coverage.
- For 2012, the annual contribution limit is \$3,100 for individual coverage and \$6,250 for family coverage.

If you turn age 55 or older in 2010 or after, you may add up to \$1000 more as a “catch up” contribution.

These amounts are valid as long as you enroll in qualified HDHP coverage before the first day of December, meaning you have held at least one full month of HDHP coverage, and so long as you continue to maintain qualified HDHP coverage for the next 12 months (Thirteen months in total).

### **What health care expenses does my HSA cover?**

Your HSA funds can be used tax-free to pay for out-of-pocket qualified medical expenses, even if the expenses are not covered by your HDHP. This includes expenses incurred by your family. There are hundreds of qualified medical expenses, including many you might not expect: dental visits; orthodontics; glasses; long-term care insurance premiums; cost of COBRA coverage; medical insurance premiums while receiving federal or state unemployment compensation and post age-65 premiums for coverage other than Medigap or Medicare supplemental plans. In addition, HSA funds may be used to pay your Medicare parts A and B premiums and for employer-sponsored retiree plans. Effective January 1, 2011, amounts paid for over-the-counter drugs are no longer qualified medical expenses eligible for reimbursement from your HSA unless the over-the-counter drug was prescribed by a doctor. The prescription requirement only applies to over-the-counter drugs. It does not apply to expenses for over-the-counter items such as insulin and diabetic supplies, bandages, band-aids or contact lens supplies. These items continue to be reimbursable from an HSA without a doctor's prescription. All of these expenses may be paid for with your HSA funds, free from federal taxes or state tax (for most states). Refer to IRS Publication 502 for a more complete list of qualified medical expenses. It is the responsibility of the account holder to substantiate the use of HSA funds including use of funds by those authorized by the account holder to use the account funds by providing a debit card for the individual or including them as a signature on the checkbook.

### **How are distributions from my HSA taxed?**

Distributions from your HSA that are used exclusively to pay for qualified medical expenses for you, your spouse, or tax-qualified dependents are excludable from your gross income. Your HSA funds can be used for qualified medical expenses and will continue tax-free (free from federal taxes and state tax, for most states) even if you are not currently eligible to make contributions to your HSA. If you take a non-qualified distribution, you are subject to ordinary income tax and a 20 percent penalty tax. If you are age 65 or older, disabled, or for the year in which you die, the 20 percent penalty may not apply.

### **What tax forms will I receive to include with my annual tax filings?**

Form 1099-SA notifies the IRS of distributions made from your HSA during the tax year. Form 5498-SA notifies the IRS of contributions made to your HSA during the tax year. ACS|BNY Mellon will send the appropriate form(s) to you with instructions regarding the forms. These forms are also available online.

Note: You will use IRS Form 1040 for your HSA contributions, not the short form 1040A or 1040EZ. This deduction is taken “above the line”: you do not need to itemize contributions on Schedule A in order to claim the deduction for HSA contributions.

### **When can I start the HSA investment process?**

The ACS|BNY Mellon HSA Solution begins with an FDIC insured, interest-bearing checking (transactional) account; all HSA deposits are first credited to this account. Once your HSA checking account balance reaches a certain balance, you may:

- Elect to transfer the excess balance to an HSA Investment Account.
- Transfer additional HSA dollars from your HSA checking account to your HSA Investment Account or add additional investment options online.
- Establish an automatic investment schedule, which allows you to make regularly scheduled investments each month. You specify up to two days per month and a dollar amount you would like to invest (you may modify the days and the dollar amounts online) and that amount is automatically transferred from your HSA checking account to your HSA Investment Account.

Your HSA Investment Account offers 22 investment options from a variety of fund families.