

# Health Savings Account FAQ

## General

**Q:** What is an Health Savings Account (HSA) and how does it work?

**A:** An HSA is a tax-advantaged account<sup>1</sup> established to pay qualified medical expenses of an account holder who is covered under a high-deductible health plan (HDHP). The funds contributed to an HSA are not subject to federal income tax at the time of deposit. With money from this account, you can pay qualified healthcare expenses until your deductible is met. Then, your insurance company pays for covered expenses in excess of your deductible. Any unused funds can be used to pay for qualified medical expenses in future years.

**Q:** Who qualifies for a HSA?

**A:** An eligible individual is anyone who:

- Is covered under an HDHP.
- Is not covered by any other health plan that is not an HDHP.
- Is not entitled to Medicare benefits and may not be claimed as a dependent on another person's tax return.

**Q:** What can I use the HSA for?

**A:** The HSA can be used:

- To pay for qualified medical, dental, vision and prescription drug expenses as defined in IRS Publication 502.
- As a tax-free supplemental income upon retirement at age 65 for non-qualified expenses; money withdrawn for non-qualified expenses before the age of 65 is taxable and is subject to a 10% penalty.

**Q:** Is tax reporting required for an HSA?

**A:** IRS form 8889 must be completed with your tax return each year to report total deposits and withdrawals from your account. You do not have to itemize to complete this form.

**Q:** What are the tax rules of an HSA?

**A:** An HSA is tax free if used for qualified medical expenses. Earnings on money in the HSA are not considered part of your gross income. Any interest accrued in the account is not taxable until used.

**Q:** Who is responsible for determining whether HSA distributions are used exclusively for qualified medical expenses?

**A:** As the HSA account holder, you must ensure that distributions are used for qualified medical expenses. Records of medical expenses should be maintained as evidence that distributions have been made for these purposes. You must also ensure that contributions to the HSA do not go beyond the maximum limits.

**Q:** If I change employers, what happens to my HSA?

**A:** The HSA is portable, allowing you to move the account from job to job.

**Q:** What are the requirements for an HSA investment options at Flagstar?

**A:** Flagstar's HSA requires:

- A \$50 minimum deposit to open an HSA.
- A \$500 minimum daily balance to avoid a \$5 monthly fee.
- A \$5 annual HSA plan fee.

**Q:** How will HSA statements be delivered to me?

**A:** HSA statements itemizing deposits and withdrawals will be delivered by standard mail or online.

## Contributions

**Q:** Who may contribute to an HSA?

**A:** Any eligible individual may contribute to an HSA. If an employee establishes an HSA, the employee, the employee's employer, or both may contribute to the employee's HSA in a given year. If a self-employed or unemployed individual establishes an HSA, that 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.

**Q:** How do I make contributions?

**A:** You can set up automatic deposits via a payroll deduction, transfers from another account, or make a deposit at a Flagstar branch.

**Q:** How much can I contribute to my HSA?

**A:** Federal law dictates the annual contributions limits for both singles and families. Individuals who are age 55 and older may also make additional "catch up contributions". For current limits refer to [www.irs.gov](http://www.irs.gov). We recommend you speak with your tax or legal advisor prior to making investment decisions.

**Q:** In what form must contributions be made?

**A:** Contributions must be made with collected funds (for example, cash, or check). 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 (a plan under which employees are provided the opportunity to choose between one or more employee benefits and cash).



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**Q: How are contributions applied to my HSA?**

**A:** Contributions are fully vested (you are completely entitled to these contributions) and nonforfeitable.

**Q: Are rollover contributions to HSAs permitted?**

**A:** Rollover contributions from Archer MSAs (Medical Savings Accounts—tax-exempt trusts or custodial accounts to save money for future medical expenses) and other HSAs are permitted. Rollover contributions do not have to be in cash and are not subject to annual contribution limits. Rollovers from an IRA, a health reimbursement arrangement, or health flexible spending accounts to an HSA are not permitted.

**Q: What is the tax treatment of earnings on amounts in my HSA?**

**A:** Earnings on amounts in your HSA are generally not taxable prior to distribution from your HSA. Please consult your tax advisor for guidance.

## Distributions

**Q: How are distributions from an HSA taxed?**

**A:** Distributions used exclusively to pay for qualified medical expenses of the account beneficiary, his or her spouse or dependents are tax free. This applies even if the account beneficiary is not currently eligible for contributions to the HSA. However, any amount of the distribution not used exclusively to pay for qualified medical expenses of the account beneficiary, spouse or dependents is taxable and subject to an additional 10% tax, except in the case of distributions made after the account beneficiary reaches age 65, becomes disabled or dies.<sup>1</sup>

**Q: What “medical expenses” qualify for tax-free distributions?**

**A:** Medical expenses for HSA purposes are defined in Code Section 213 of the IRS Publication 502 and are available for review. Tax-free distributions generally include any medical expenses that could qualify as a medical expense itemized deduction on an individual’s tax return. However, the payment of most medical insurance premiums will not qualify for tax-free treatment.

*(If a distribution is made from an HSA for medical expenses, those same medical expenses cannot be itemized as a deduction on the individual’s tax return.)*

**Q: How are distributions taxed after the account beneficiary is no longer an eligible individual?**

**A:** If the account beneficiary is no longer an eligible individual, distributions used exclusively to pay for qualified medical expenses are not taxed.

**Q: When can I receive distributions from an HSA?**

**A:** You can receive distributions from your HSA at any time.

**Q: Can I use the HSA to pay for services obtained before I enrolled in the HSA program?**

**A:** The HSA can only be used to pay for expenses incurred after your enrollment in the HSA program.

**Q: What happens to the HSA if I die?**

**A:** Upon death, ownership of the HSA is transferred to your spouse. If the HSA passes to a person other than your spouse, the account is no longer an HSA and funds will be taxed upon distribution.

We reserve the right to change account at any time without notice.

<sup>1</sup>Please consult your tax advisor for guidance.

Please visit your nearest branch to learn more about Flagstar’s Health Savings Account.

[flagstar.com/branch](http://flagstar.com/branch)

