



HSAs Are Still a Hot Topic

In yet another clarification, the Internal Revenue Service (IRS) continues to comment on Health Savings Accounts (HSAs). Notice 2008-59 contains 42 questions and answers ranging from eligible individuals to establishing an HSA and administrative fees.

The content is based on real questions posed by the general public, and the clarification keeps everyone on the right track.

Eligible Individuals

1. An HSA eligible individual may be covered by a Health Reimbursement Arrangement (HRA) that pays the employee share of the employer-sponsored high deductible health plan (HDHP).
2. An otherwise HSA eligible individual may not be covered by insurance that provides benefits as a fixed amount per office visit with a physician, out-patient treatment at a hospital, or per ambulance use before the minimum HDHP deductible is satisfied.
3. An otherwise HSA eligible individual may not be covered by a flexible spending account (FSA) or HRA that pays for medical expenses incurred before the minimum HDHP deductible is satisfied except for payment of vision, dental or preventive care expenses.
4. An embedded individual deductible within a family HDHP as well as a post-deductible HRA or FSA must be at least the statutory minimum family HDHP deductible. (\$2,200 for 2008)
5. An individual who is eligible for, but not enrolled in, Medicare Part D does not fail to be HSA eligible.
6. An individual enrolled in Medicare Part D is not HSA eligible.
7. An HSA eligible individual may be covered by more than one qualified HDHP.
8. A post-deductible FSA or HRA that covers the participant and their family members, but only reimburses the medical expenses of the participant's spouse or dependents before the minimum family HDHP deductible is satisfied, makes the participant ineligible for an HSA.
9. An individual actually receiving medical benefits through the Department of Veterans Affairs (VA) in the previous three months is not HSA eligible, unless the medical benefits consisted of vision, dental, or preventive care.
10. An individual will remain HSA eligible even though they may have access to healthcare from an employer's on-site clinic, if the clinic does not provide significant medical care.
11. An HSA account holder with family coverage where the dependents have other, disqualifying, non HDHP coverage, remains HSA eligible.

High Deductible Health Plans

12. An HSA eligible individual will remain HSA eligible if they switch from a single to family or family to single HDHP as long as the HDHP uses any reasonable method to allocate the covered expenses incurred toward the deductible.
13. If specific benefits within an HDHP are subject to a higher or separate deductible, amounts paid toward this higher or separate deductible are not treated as out-of-pocket expenses.

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14. An HDHP must provide significant benefits in order to be considered an HSA qualified HDHP.
15. Only “medically necessary” expenses that are covered by the HDHP may be taken into account in determining whether the HDHP deductible, or the minimum deductible has been satisfied.

Contributions

16. An eligible individual may contribute the statutory maximum for family coverage even through some or all of the remaining family members have non-HSA health plan coverage.
17. If one spouse has single qualifying HDHP coverage and the other spouse has family qualifying HDHP coverage, the maximum contribution is the statutory maximum for family coverage. The contribution limit is divided between the spouses by agreement.
18. The maximum HSA contribution limit for a married couple where both spouses have qualified family coverage is the annual statutory maximum (\$5,800 for 2008). The contribution limit is divided between the spouses by agreement.
19. An individual who ceases to be an eligible individual during a calendar year may make HSA contributions with respect to their covered months until April 15 of the following year.
20. An individual who is not currently HSA eligible may still make a rollover contribution from their existing HSA to a new HSA.
21. Employers may make contributions (including salary reduction contributions) between January 1 and April 15 that are allocated to the prior year.
22. Husbands and wives that are each eligible to make catch-up contributions may only make such contributions to their own HSA.
23. Employer contributions to an individual’s HSA where the employee was never HSA eligible may be returned to the employer by the end of the taxable year to correct the error.
24. If employer contributions to an individual’s HSA is in excess of the maximum annual contribution allowed, the employer may correct the error and recoup the excess funds by the end of the taxable year.
25. If an employer contributes to an individual’s HSA, who ceases to be eligible during the year, the employer cannot recoup amounts contributed after the employee became an ineligible individual.
26. Employer contributions to an employee’s non-employee spouse’s HSA may not be excluded from the employee’s gross income and wages.

Distributions

27. HSA funds may be made available to account holders through a debit card that restricts payments to healthcare as long as the funds in the HSA are otherwise readily available.
28. An HSA account holder may authorize someone else to withdraw funds from their HSA.
29. Medicare Part D premiums are qualified medical expenses that can be paid from an account holder’s HSA who has attained age 65.
30. If the account holder has not attained age 65, medical premiums for the account holder’s spouse (who has attained age 65) are not qualified medical expenses.

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31. Premiums for continuation coverage for the spouse or dependent of an account holder are qualified medical expenses for payment from their HSA.
32. Premiums for health coverage for the spouse or dependent of an account holder, who are receiving unemployment, are qualified medical expenses for payment from their HSA.
33. The medical expenses for an account holder's child who is claimed as a dependent by the account holder's former spouse are qualified medical expenses for payment from their HSA.

Prohibited Transactions

34. Borrowing funds from an HSA is a prohibited transaction. Any direct or indirect extension of credit is also a prohibited transaction.
35. A trustee lending money to an HSA is a prohibited transaction. Any direct or indirect extension of credit to a trustee is a prohibited transaction.
36. If an account holder pledges their HSA as security for a loan, it is considered a prohibited transaction.
37. If an account holder engages in a prohibited transaction, the account is disqualified as an HSA. Applicable taxes and the 10 percent additional tax are due on all funds.

Establishing an HSA

38. An HSA is considered established when an asset is held in the trust. Most states require that the trust be funded before it is deemed to be established.
39. A trustee may not treat an HSA as established until it has met the requirements set forth by state law.
40. An HSA can be established with funds rolled over or transferred from an Archer MSA or another HSA. The establishment date for the new HSA is the date the prior account was established.
41. If an account holder establishes an HSA and later establishes another HSA, any later HSA is deemed to be established when the first HSA was established if the first HSA has had a balance greater than zero at any time during the 18-month period ending on the date the later HSA was established.

Administration

42. HSA administration and maintenance fees withdrawn by the trustee are not reported as distributions from the HSA.

The above items hit only the highlights of the newest quest for HSA insight. Click here to read the entire IRS Health Savings Accounts Notice 2008-59. ■

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