IRS Publication 969 provides details on the ins and outs of Health Savings Accounts, or HSAs.

While any eligible Rice employee, retiree or COBRA participant may elect the Consumer Driven Health Plan (CDHP), which is a qualifying High-Deductible Health Plan (HDHP), there are different limits and requirements for participation in the HSA.

Below is the information you need to know before considering enrollment in the CDHP/HSA plan.

Benefits of the HSA

- There are many benefits of participating in the HSA:
    - Contributions to your HSA made through Rice payroll deduction will be excluded from your gross income (i.e., they are pre-tax).
    - The contributions remain in your account until you use them (i.e., no “use-it-or-lose-it” provisions).
    - The interest or other earnings on the assets in the account are tax-free.
    - Distributions may be tax-free if you pay qualified medical expenses.
    - An HSA is “portable.” It stays with you if you change employers or leave the work force.

Eligibility for HSA

- You are only eligible to participate in the HSA if you meet all of the following requirements:
    - You must be covered under a high deductible health plan (CDHP) on the first day of the month you enroll in the HSA.
    - You have no other health coverage except what is permitted (see below).
    - You are not enrolled in Medicare.
    - You cannot be claimed as a dependent on someone else's 2015 tax return.
    - You cannot participate in the medical flexible spending account and an HSA.
- Each spouse who is an eligible individual who wants an HSA must open a separate HSA. Unlike a flexible spending account, you cannot have a joint HSA. However, you can still receive reimbursement for your spouse’s eligible medical expenses from your HSA account (see “Qualifying Medical Expenses” below).
- You (and your spouse, if you have family coverage) generally cannot have any other health coverage that is not a qualifying HDHP. However, you can still be an eligible individual even if your spouse has non-HDHP coverage provided you are not covered by that plan.

- You can have additional insurance that provides benefits only for the following items:
  - Worker's compensation coverage, property or tort medical coverage.
  - Coverage for a specific disease or illness.
  - Coverage paying a fixed amount per day (or other period) of hospitalization (like Aflac).
  - You can also have coverage (whether provided through insurance or otherwise) for the following items and still be eligible for an HSA plan:
    - Accidents
    - Disability
    - Dental care
    - Vision care
    - Long-term care

HSA Pre-Tax Contributions

- For 2016, if you have self-only CDHP coverage, you can contribute up to $3,350. If you have family CDHP coverage you can contribute up to $6,750 for the calendar/plan years.
- There is also an age-based catch-up contribution that allows eligible individuals who are age 55 or older at the end of your tax year to increase their contribution limit by $1,000 for that plan year.
  - For example, if you are age 56 and have employee only coverage, you can contribute up to $4,350 (the contribution limit for self-only coverage ($3,350) plus the additional contribution of $1,000).
- If either spouse has family CDHP coverage, both spouses are treated as having family CDHP coverage. If each spouse has family coverage under a separate plan, the contribution limit for 2016 is $6,750.
- If you elect the coverage mid-year, you are only eligible to contribute the pro-rated amount for the remainder of the calendar year.
  - For example, if you elect employee only coverage for July 1, 2016, you can elect the full $3,350 for the plan year (July – June), but only ½ of that amount can be deducted from your pay over the remainder of 2016. You cannot pre-load the full $3,350 into the calendar year 2016.
- Only active employees receiving pay from Rice can contribute pre-tax dollars to the HSA plan.
  - Retirees and COBRA participants under age 65 (i.e., not eligible/enrolled in Medicare or any additional medical coverage) may enroll in the CDHP and then go to a financial institution, such as a bank or investment firm, and set up an independent HSA. The contributions to such an HSA should be deductible on your taxes for that calendar year.
  - Family members or any other person may also make contributions on behalf of an eligible individual with an independent HSA (but not through pre-tax payroll deductions).
  - Contributions to an HSA must be made in cash. Contributions of stock or property are not allowed.

Qualifying Medical Expenses

- Qualified medical expenses are those expenses that would generally qualify for the medical and dental expenses deduction. These are explained in IRS Publication 502, Medical and Dental Expenses.
- Also, non-prescription medicines (other than insulin) are not considered qualified medical expenses for HSA purposes.
- A medicine or drug will be a qualified medical expense for HSA purposes only if the medicine or drug:
  - Requires a prescription,
  - Is available without a prescription (an over-the-counter medicine or drug) and you get a prescription for it, or
  - Is insulin.
- Qualified medical expenses are those incurred by the following persons:
  - You and your spouse.
  - All dependents you claim on your tax return.
  - Any person you could have claimed as a dependent on your return except that:
    - The person filed a joint return,
    - The person had gross income of $4,000 or more, or
    - You, or your spouse if filing jointly, could be claimed as a dependent on someone else's tax return.
- *Insurance premiums*. You can treat insurance premiums as qualified medical expenses if the premiums are for:
  - Long-term care insurance
  - Health care continuation coverage (such as coverage under COBRA)
  - Health care coverage while receiving unemployment compensation under federal or state law
  - Medicare and other health care coverage if you were 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap)

Recordkeeping

- You must keep records sufficient to show that:
  - The distributions were exclusively to pay or reimburse qualified medical expenses,
  - The qualified medical expenses had not been previously paid or reimbursed from another source, and
  - The medical expenses had not been taken as an itemized deduction in any year.
- Do not send these records with your tax return. Keep them with your tax records.

Additional IRS Reporting

- You must file Form 8889 with your Form 1040 or Form 1040NR if you (or your spouse, if married filing a joint return) had any activity in your HSA during the year.