

Where can I find a list of HSA-eligible, qualified medical expenses?

The IRS makes available Publication 502 online at www.irs.gov. This publication includes a listing of medical expenses the IRS considers “qualified.” You should also check with your health plan provider to ensure that the plan covers the expense and that it is counted toward meeting your deductible.

What happens if I use the money in my HSA for a non-qualified expense?

You can use HSA funds for any purpose whatsoever; however, HSAs fall under the jurisdiction of the Internal Revenue Service (IRS) and the IRS requires that Sovereign issue a Form 1099-SA reporting all distributions from your HSA. The responsibility for determining which distributions were for qualified medical expenses and reporting these amounts on your IRS Form 1040 (on Form 8889) belongs to you, the account owner. If you have used money in your HSA for non-qualified expenses, you are subject to normal income taxes on the expenditure as well as a potential tax penalties assessed by the IRS.

What if I don't use the full amount I contribute in a single year?

Unlike other health spending accounts (for example, Flexible Spending Accounts), there is no “use-it-or-lose-it” rule with

HSAs. The money remains in your account to earn interest and is available for use in subsequent years.

Who owns my HSA?

You do. There are no vesting periods or other requirements. And it is portable. If you change jobs, switch health plans, retire or otherwise leave the workforce, your HSA continues to be available to you for healthcare expenses.

What happens when I reach age 65?

Once you enroll in Medicare, you will no longer be allowed to make contributions to your HSA. You can, however, use withdrawals from your HSA for non-qualified expenses without incurring the 10% tax penalty. However, these distributions for non-qualified expenses will be taxable as income.

Who keeps track of my HSA contributions and expenses?

Keeping accurate records of contributions and withdrawals, including receipts for all expenses, is your responsibility. The receipts for your purchases and bill payments available online with your Sovereign HSA should be helpful in this regard. Additionally, to assist you with recordkeeping, your HSA from Sovereign provides you with monthly statements and year-end tax reporting.



1.877.HSA.7800 (472.7800)
sovereignbank.com/hsa

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Frequently asked questions about Health Savings Accounts

Information and answers from Sovereign Bank

Your HEALTH
SAVINGS ACCOUNT
from Sovereign Bank

Health Savings Accounts

Helping you take control of your medical expenses

As healthcare costs rise, more and more individuals and families are seeking effective ways to reduce health insurance premiums and manage medical costs.

One of the ways you can reduce your health insurance costs is by selecting a High Deductible Health Plan (HDHP). Because you will pay a higher initial deductible for your medical expenses each year, your health plan premium should be lower.

In addition, when you choose a *qualified* HDHP, you may also be eligible for a tax-advantaged Health Savings Account (HSA). The HSA is designed to make your HDHP even more attractive and effective. An HSA helps you save for deductibles with pre-tax dollars, and it has other advantages as well, such as portability (you can take your account with you when you change jobs or leave the workforce) and financial flexibility (for example, the money in your account that is not used each year remains in your account for use in future years).

At Sovereign Bank, we believe that the more you know about HDHPs and HSAs, the more money you may be able to save on healthcare costs. This brochure answers some of the most common questions about these innovations. You should consult your tax advisor or the Internal Revenue Service (IRS) with specific questions. You can access IRS Publication 969 on HSAs online at www.irs.gov. Additional government publications explaining Health Savings Accounts in detail are available at www.treas.gov/offices/public-affairs/hsa/. For more information on the Sovereign HSA, visit us at sovereignbank.com/hsa.

What is a Health Savings Account (HSA)?

A Health Savings Account is an individually-owned, tax-advantaged account that can be used to pay for qualified medical expenses for yourself and your dependents. HSAs are portable and funds can accumulate for future medical expenses. A qualified High Deductible Health Plan (HDHP) is needed to open an HSA.

Who can open an HSA?

In general, anyone who is enrolled in a qualified HDHP can establish an HSA. There are some exceptions, however. For example, you cannot establish an HSA if you are covered by another medical plan (unless it is also an HDHP), if you are entitled to Medicare, or if you can be claimed as a tax dependent by another individual.

What is a qualified High Deductible Health Plan (HDHP)?

A qualified HDHP is a health plan that has a minimum deductible and an out of pocket maximum amount that meet government requirements. These amounts will be adjusted for inflation each year. For the 2010 calendar year, the following amounts apply:

Type of coverage	Minimum deductible	Maximum out of pocket expense
Individual coverage	\$1,200	\$5,950
Family coverage	\$2,400	\$11,900

For more specific information, check with your health plan, insurance agent or benefits plan specialist or visit the Internal Revenue Service web site at www.irs.gov.

What is the maximum contribution allowable in a single year?

HSA contribution maximums are also adjusted each year. For the 2010 calendar year, the following limits apply:

Type of coverage	Maximum annual contribution
Individual coverage	\$3,050
Family coverage	\$6,150

Who can make contributions to an HSA?

You, your employer or virtually anyone else can contribute to your HSA. When you reach age 65 and enroll in Medicare, or have other non-HDHP coverage, you can no longer make contributions. Keep in mind that the total contributions in any year cannot exceed the maximum, regardless of source. If they do, the excess amount may be subject to an excise tax.

How are HSA contributions treated from a tax standpoint?

Direct contributions that you make are deductible on your federal income tax return. Salary reduction contributions you make and contributions made by your employer are not included in your taxable income.

Is the interest earned by my account taxable?

No. Interest accumulates tax-free.

Are my HSA savings FDIC insured?

Yes, but only if they are held in a bank deposit account. Investments in mutual funds and other securities are not protected by FDIC insurance.

Do I ever have to pay income tax on the money in my HSA?

Only if you use it for non-qualified purposes or make contributions in excess of your maximum annual limit.

How can I use funds from my HSA?

You can use the money in your account to pay (or reimburse yourself) for qualified medical and healthcare expenses incurred by you or your family members (whether or not they are covered by your HDHP). These withdrawals, also called *distributions*, are tax-free. If you make withdrawals for non-qualified expenses, the amount becomes taxable to you as income. You will also incur a 10% penalty from the IRS for non-qualifying medical expenses unless you are age 65 or older or disabled.

How do I pay for a doctor's office visit with my HSA?

In general, with an HDHP, you will receive a bill from your doctor's office.* This bill should be compared to the Explanation of Benefits (EOB) sent by your health plan which will validate that you are being charged the correct amount for the service.

You can then make payment to your doctor using Sovereign's online bill payment service, by providing your HSA debit card number to your doctor's office, or if you choose, by check. You can also pay with other funds and make a later withdrawal from your HSA to reimburse yourself.

What if I do not have enough funds in my HSA when I receive my doctor's bill?

Should you need to make a payment that exceeds the balance in your HSA, you may pay the expense "out of pocket" from another bank account you own and reimburse yourself for the same amount as funds become available in your HSA.

From the Sovereign HSA web site you can make online HSA transfers to and from other bank accounts. This lets you to pay for qualified medical expenses from another bank account and reimburse that account conveniently from your HSA. By doing this, you will be able to keep track of all your qualified medical expenses on the HSA web site.

How do I pay for prescriptions at the pharmacy?

Prescriptions can be paid for with your Sovereign HSA debit card. The purchase amount will automatically be withdrawn from your HSA. Please remember that when using your Sovereign HSA debit card, select "Credit" as the payment type as your card does not have a PIN or password associated with it.

Can an HSA be used to pay for preventive care?

Yes, an HSA can be used to pay for any medical expenses that are not covered by other plans. In addition, an HDHP can provide first dollar coverage for a wide range of preventive care services, including periodic health evaluations and annual physicals and accompanying tests, routine prenatal care and well-child care, smoking cessation programs, and a wide range of screening services. Contact your health plan for more information on which services are covered by the HDHP.

What happens when I have satisfied my deductible?

When you have paid your deductible in full, your HDHP should begin paying covered expenses (subject to any applicable co-insurance provisions).

How do I know when I've reached my deductible?

Your health plan provider is responsible for keeping track of your deductible. The Sovereign HSA web site will also help you keep track by displaying daily account activity and monthly statements, providing online storage of copies of receipts and bills, generating customized spending reports and more.

If I'm part of my employer's HDHP program, do I need to provide them with copies of receipts?

No. Your HSA belongs to you. No employer review is necessary.

*Each health plan has different coverage, payment rules and costs. For example some HDHPs require co-pays for preventive care, wellness screenings, etc. Contact your health plan provider for specific information about your plan.