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**HEALTH SAVINGS ACCOUNT (HSA) - OVERVIEW & FAQS**

A Health Savings Account (HSA) is a special tax-advantaged savings account similar to a traditional IRA but **designated for health care expenses**. An HSA allows you to pay for current non-reimbursed eligible 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 all are exempt from federal income tax, FICA (Social Security and Medicare) tax and state income taxes (for most states).

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. Also, for accounts greater than $2,000, funds can be invested, providing the opportunity for funds to grow. Investment options include money market accounts, mutual funds, etc.

**Who is eligible to have a HSA?**

To be eligible to set up an HSA and to make or receive employer contributions, you **must** be covered by a qualified “high-deductible health plan” (HDHP), such as Southwest’s **Consumer Driven Health Plan (CDHP)**. The Southwest CDHP is administered by Mutual Health Services (MHS). You cannot be covered by another medical plan, such as a plan sponsored by your spouse’s employer or covered under Medicare, and cannot be claimed as a dependent on another individual's tax return.

**How can I determine advantages?**

Southwest has partnered with Fifth Third Bank to manage our HSA program. Fifth Third Bank offers a variety tools and resources to provide information regarding HSAs. For example, to compare the out-of-pocket cost of the CDHP to the Basic PPO or High PPO plans offered by Southwest, use their tax savings calculator which can be found at:

[www.mywealthcareonline.com/fifththirdhsa/Resources/HSAResourcesTaxSavingsCalculator.aspx](http://www.mywealthcareonline.com/fifththirdhsa/Resources/HSAResourcesTaxSavingsCalculator.aspx):

Links to Fifth Third Bank can also be found on the Southwest Intranet > Benefits Information or through Quick Links on the home page > Health Savings Account.

**How does a HSA work?**

When you enroll in the CDHP, Southwest will contribute to your HSA account on per pay basis $28.85 ($750 annually) for Individual (Employee) coverage and $57.69 for Family (EE+child, EE+Spouse, family) coverage ($1,500 annually).You will also be given the opportunity to add to your HSA on a pre-tax basis. All the money contribute into your HSA up to the maximum annual contribution limit (2018 limits: Single $3,450/Family $6,900–includes employer contributions) is 100% tax-deductible from federal income tax, FICA (Social Security and Medicare) tax and state income tax. If you are over 55 years of age, you can contribute an extra $1,000 to your HSA per IRS catch-up provisions (limited to $1,000 even if employee/spouse is enrolled and over age 55).

Your HSA works in conjunction with your CDHP. MHS under the CDHP, pays covered medical expenses following your deductible, except for any coinsurance or copayments. At the time of service, you and/or your provider will submit a claim to Mutual Health Services under your CDHP (medical plan you are enrolled). Following review of the claim, an explanation of benefits (EOB form) will be sent by MHS to you and your provider explaining what medical treatments and/or services are paid on your behalf **based on the plan’s pre-negotiated rates.**

You can then use your tax-free dollars in your HSA to pay the provider for any unreimbursed health care expenses. You are encouraged to use the information outlined on your EOB shown in the “Patient Obligation” section that describes your out-of-pocked (unreimbursed expenses) such as deductibles and co-insurance.

If the funds in your account are **used for other, nonmedical expenses, your dollars are subject to ordinary tax**, plus a 20% penalty if you are under age 65. The 20% 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 are yours to rollover and accumulate for your future healthcare expenses. You may choose not to spend your HSA dollars on small expenses, instead using after-tax dollars to pay for 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.

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

Your HSA funds can be used tax-free to pay for unreimbursed qualified medical expenses, even if the expenses are not covered by your CDHP. This includes expenses incurred by your family.

There are hundreds of qualified health care expenses, including many you might not expect: over-the-counter medications, 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. A listing of eligible expenses can be found online at: IRS – Publication 969 at <http://www.irs.gov/publications/p969/ar02.html>

**How do HSAs differ from health care flexible spending accounts (FSAs)?**

Both HSAs and FSAs allow you to pay for qualified medical expenses with pre-tax dollars. One key difference, however, is that HSA balances can roll over from year to year, while FSA money left unspent at the end of the year or after a designated grace period is forfeited. When enrolled, you may choose to use a Limited Purpose FSA to pay for eligible heath care expenses and save your HSA dollars for future health care needs.

**Who is responsible for managing my expenses/receipts?**

As an individual account holder, how you use your HSA account is solely between you and the IRS. You will want to save all receipts, invoices and statements that support withdrawals out of your HSA account in case you are audited.

**How do I set-up my HSA with Fifth Third Bank?**

When you elect the CDHP through Employee Self Service\*, you will automatically be offered to elect a HSA. The system will indicate your Annual Minimum (.26) amount to receive Southwest contributions to the Annual Maximum you can contribute based up to IRS limits (including eligible catch-up contributions). You will then enter the amount you would like to contribute on a per pay period or annual basis.

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**How is money deposited to my HSA?**

Shortly after your HSA is set-up with Fifth Third Bank, you will a Welcome Email from the bank. You need to activate your account by accepting the Terms and Conditions of the account, order a debit card, link to a personal bank account and review your profile information. **Fifth Third Bank account activation is required in** order to receive Southwest and your contributions. Upon activation, Southwest will deposit contributions into your HSA on a biweekly pay cycle basis (to receive Southwest contributions you will need to contribute a minimum of .01 per pay to no more than the IRS maximum). You will be provided instructions on how to activate your account during the enrollment process.

You may also choose to make all or part of your annual account contributions to your HSA by making “after-tax” contributions to your account. These contributions are made directly to Fifth Third bank by writing a personal check or transferring funds to your HSA and may be deducted on your income tax return using IRS Form 1040 and Form 8889.

**How often can I change my HSA contribution amount?**

Because your HSA is considered a savings account, you can change the amount you contribute at any time up to the IRS annual limits. Remember, you have to contribute a minimum of .01 per pay to receive Southwest contributions.

**What if I am no longer enrolled in the CDHP?**

You can receive distributions from your HSA if you no longer participate in Southwest’s Health Savings Account Plan. In order to maintain the tax-free status of the distribution, funds must be used for qualified medical expenses.

**Are there any fees associated with my HSA?**

Effective May 2018 there are NO fees for your Fifth Third HSA Bank Account.

**What if I already have an account at Fifth Third Bank?**

Due to IRS regulations, your HSA must be separate from your existing consumer Fifth Third Accounts.

**What if I am no longer eligible for the Southwest HSA plan?**

If you are no longer eligible to contribute because you are enrolled in Medicare benefits or are no longer covered by a qualified HDHP, distributions used exclusively to pay for qualified medical expenses continue to be free from federal taxes and state tax (for most states) and excluded from your gross income.

**What happens to my HSA if I quit my job or otherwise leave my employer?**

Your HSA is portable. This means that you can take your HSA with Fifth Third Bank with you when you leave and continue to use the funds you have accumulated. Funds left in your account continue to grow tax-free.

Distributions from your HSA used exclusively to pay for qualified expenses for you, your spouse, or dependents are excluded from your gross income. Your HSA funds can be used for qualified expenses even if you are not currently eligible to make contributions to your HSA.

**Where can I get additional information regarding HSAs?**

* Southwest Intranet > Benefits Information or via Quick Links on the home page > Health Savings Account
* Internal Revenue Service – Publication 969 at <http://www.irs.gov/publications/p969/ar02.html>
* Fifth Third Bank at <https://www.mywealthcareonline.com/fifththirdhsa/>