

# The High-Deductible Health Plan / Health Savings Account solution

Benefit from combining a High-Deductible Health Plan  
with a BMO Harris Health Savings Account®

# What is a Health Savings Account?

- Health Savings Accounts (HSAs)
  - ◇ Created by Medicare legislation
  - ◇ Became available January 1, 2004
- Adoption of HSA legislation is optional for each state
  - ◇ State tax benefits may vary from state to state
- BMO Harris® does not provide tax advice; you must seek the advice of your own tax and legal professional to ensure your compliance with applicable HSA and other laws

# How does an HSA work?

A BMO Harris HSA is a personal checking account that offers you flexibility and financial advantages.

- Special-purpose account owned by an individual along with a qualified High-Deductible Health Plan (HDHP)
  - ◇ Must be held by Custodian or Trustee
  - ◇ Contributions can be made by nearly anyone
- HSAs are triple tax advantaged and balances roll over from year to year\*
  - ◇ Withdrawals are tax free
  - ◇ Contributions grow tax free
  - ◇ Interest earned is tax free

\* State tax implications may vary by state. Also, special tax inclusions and deduction rules apply for certain partners and S corporation shareholders. BMO Harris does not provide tax or legal advice. You must consult your attorney or tax consultant for tax or legal advice.

# What is a High-Deductible Health Plan (HDHP)?

An HDHP is a health insurance plan that can include different options and provisions.

- Typically lower premiums for a higher deductible
- HDHPs can have:
  - ◇ No deductible for preventive care
  - ◇ Higher out-of-pocket expenses for non-network services
- Plan must be recognized by the IRS as a qualified High-Deductible Health Plan

# Advantages of the HDHP / HSA solution

- HSA controlled by account owner
- No “use it or lose it” rules like Flexible Spending Accounts (FSAs)
  - ◇ All amounts are fully vested
  - ◇ Balances carry over from year to year
  - ◇ HSA owner controls use of HSA funds
  - ◇ May reimburse self at any time for qualified medical expenses paid out-of-pocket
- Account goes with individual whether employed, unemployed or retired

# Advantages of the HDHP / HSA solution

- Balances can be used to pay COBRA premiums
- Remaining balances can be used for retirement income
- Distributions can reimburse owner for prior years' qualified medical expenses paid out-of-pocket, as long as the expense was incurred after the HSA was established

# IRS HSA eligibility requirements

- Below are the requirements to be eligible for and to contribute to an HSA:
  - ◇ You are covered under a qualified HDHP<sup>1</sup>
  - ◇ You are not covered by another health plan that is not an HDHP<sup>2</sup>
  - ◇ You are not enrolled for Medicare benefits
  - ◇ You are not eligible to be claimed as a dependent on another individual's tax return
  - ◇ You or your spouse are not contributing to a traditional health FSA or Health Reimbursement Arrangement (HRA) that would make you ineligible to contribute to an HSA; however, contributing to a limited-purpose health FSA or HRA will not prevent HSA eligibility

<sup>1</sup> The maximum out-of-pocket expenses are not to exceed the annual limits defined by the IRS. See your health insurance professional to determine if your insurance plan meets qualified HDHP requirements.

<sup>2</sup> Certain exceptions may apply.

# Contributions

- Contributions can be made by the employer, the individual, a family member or any other individual
- Maximum Contribution Amounts defined by the IRS:

Tax Year	Annual Contribution Limits		Add catch-up contribution(s): available for ages 55 or older	Maximum contribution limit with catch-up contribution for ages 55 or older	
	Self	Family		Self	Family
2020	\$3,550	\$7,100	\$1,000	\$4,550	\$8,100
2021	\$3,600	\$7,200	\$1,000	\$4,600	\$8,200

These amounts are based on HDHP Coverage type and indexes annually for inflation.

**Last-month rule:** Under the last-month rule, if you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers), you are considered an eligible individual for the entire year. You are treated as having the same HDHP coverage for the entire year as you had on the first day of that last month.

**Testing period:** If contributions were made to your HSA based on your being an eligible individual for the entire year under the last-month rule, you must remain an eligible individual during the testing period. For the last-month rule, the testing period begins with the last month of your tax year and ends on the last day of the 12th month following that month. For example, December 1, 2013 through December 31, 2014.

If you fail to remain an eligible individual during the testing period, other than because of death or becoming disabled, you will have to include in income the total contributions made to your HSA that would not have been made except for the last-month rule. You include this amount in your income in the year in which you fail to be an eligible individual. This amount is subject to a 10% additional tax. The income and additional tax are shown on Form 8889, Part III. Please see IRS Publication 969 for further details. This publication is available at [www.irs.gov](http://www.irs.gov).



# Distribution rules

- Distributions are tax free when used to pay for qualified medical expenses<sup>1</sup>
- Distributions can pay for medical expenses for spouse and dependents
- State tax implications vary by state

<sup>1</sup> Contributions to, and earnings on, HSAs generally are not subject to federal taxes, but may be subject to state taxes depending on where you reside.

# Distribution rules

- HSA funds can't be used to pay HDHP premiums or other comprehensive health insurance premiums
- Exceptions:
  - ◇ COBRA continuation coverage
  - ◇ Health plan coverage while unemployed
  - ◇ Long-term care insurance premiums
  - ◇ Medicare premiums (Part A, Part B, Medicare HMOs)

# The BMO Harris Health Savings Account®

The BMO Harris Health Savings Account (HSA) is a personal checking account that allows money to be deposited at any time and easily withdrawn for qualified medical expenses.

- No monthly maintenance fee
- Account earns a tiered interest rate
- BMO Harris Bank HSA Debit Mastercard®
  - ◇ Use your HSA debit card to pay for qualified medical expenses
  - ◇ No ATM transaction fee for deposits, withdrawals, transfers or balance inquiries at BMO Harris ATMs
  - ◇ \$3.00 will be assessed for each non-BMO Harris ATM transaction<sup>1</sup>
- Personalized HSA checks are available<sup>2</sup>

<sup>1</sup> The ATM network or operator may charge you a fee for a transaction or balance inquiry.

<sup>2</sup> The customer is responsible for check printing charges.

# The BMO Harris Health Savings Account®

- Monthly statement
  - ◇ Free paper and e-statement with check images<sup>1</sup>
- \$25 fee if you transfer this account to a new custodian
- BMO Harris Online Banking® allows you to conveniently review your balance, transfer available funds between eligible BMO Harris accounts, track spending and pay bills
- BMO Harris Mobile Banking®<sup>2</sup>

<sup>1</sup> Customer must request check images from a BMO Harris Banker.

<sup>2</sup> Message and data rates may apply. Contact your wireless carrier for details.

# Get started

Review the benefits and open enrollment materials, and follow instructions set forth by your employer.

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