

## **Opening a Health Savings Account**

Last month, we explained the rules regarding High Deductible Health Plans and Health Savings Accounts (HSAs). This month, we would like to explain just how easy it is to open and use an HSA.

**What You Need to Open an HSA.** Opening an HSA is very similar to opening an Individual Retirement Account. If you have not opened an IRA, it's not much more time-consuming or difficult than opening a checking account. You can do so in person, over the internet or through the mail by completing some very basic documents. For internet applications, you are almost certainly going to be required to print and sign the application and send it in.

You provide basic information to your HSA provider, such as, name, address, social security number, date-of-birth, phone number, driver's license and e-mail. You also sign the account and agree to terms in a "Custodial Agreement." The Custodial Agreement sets forth the details on the HSA. That's basically all you need to do to open an HSA.

You may also want to authorize a co-signer on your HSA. An HSA is an individual account and cannot be held jointly; however, some HSA providers allow for co-signers. One spouse's HSA can be used for the benefit of other eligible members in the family. A spouse opening an HSA can allow the other spouse to have check signing privileges on the HSA and also a debit card. It generally makes sense to only open one HSA per family rather than split the contribution between two spouses' accounts, but there are exceptions.

As a custodial or trust account, you are permitted and encouraged to name a beneficiary for your HSA at the time you open it. At the time of death, a spouse beneficiary will have the option to treat the account as his or her own HSA and continue to use the account as an HSA. A non-spouse beneficiary will not be allowed to keep the assets in an HSA and will have to include the amount in the HSA as income. If you do not name a beneficiary, any balance remaining in your HSA will go to your estate.

**How You Make Contributions.** You will generally open your HSA with an initial contribution. This could be a check, an ACH withdrawal from your checking account or a contribution from your employer made payable to the HSA custodian or trustee.

You may then want to set up an automatic deposit plan for future contributions. An automatic monthly deposit allows for you to fund your HSA on a regular basis without any hassle. If you prefer, you can make your full annual contribution all at once.

Your employer may make contributions on your behalf or as a benefit to you.

**Where You Open an HSA.** As a new product in the market, there are still only a limited number of HSA providers. Only banks, savings and loans, credit unions, insurance

companies and other institutions specifically approved by the Internal Revenue Service are allowed to offer HSAs.

**How You Pay for Medical Expenses.** Paying for qualified medical expenses is easy from an HSA. Generally, you can write checks or use a debit card to pay for medical expenses directly. You are generally not required to complete any special forms, copy receipts, or submit reimbursement claims in order to get your money to pay for your medical expenses. You simply write a check or use your debit card for your HSA to pay for the expenses. You can even pay cash or write a check from your personal checking account for medical expenses and reimburse yourself later from your HSA. The HSA is designed to take some of the administrative complexity out of paying for medical expenses. It really is easy. You do need to keep records for your own tax purposes.