

Qualified vs. Non-Qualified Expenses

Health Savings Accounts (HSAs) can help you save in order to pay for many different medical expenses, and using your HSA correctly helps to ensure that these funds are available to you tax-free.

HSA funds are to be used to pay for **qualified** medical expenses in order to be treated as a tax-free distribution. Qualified expenses include products and services such as doctor's visits, prescription medication, eye exams and glasses/contacts, dental cleanings and braces, over-the-counter medications and more.

Please also note:

An HSA accountholder may use funds in their account to pay for the qualified medical expenses of their spouse and dependents, even if they are not covered by the same qualified high deductible health plan.

There are some expenses that are eligible for payment from the HSA **that may not be eligible** under your health insurance plan, and thus may not apply to your deductible. For example: laser eye surgery or the purchase of nicotine gum for smoking cessation are eligible HSA expenses, but not eligible under most health plans. Eligible expenses are subject to change.



What if I've used my HSA for something that's not a qualified expense?

If you have used your HSA funds for non-medical purchases, this is considered a **non-qualified expense** and must be noted as such on Form 8889 submitted with your income tax reporting for the year. You will be required to pay tax on the total amount, as well as a 10% penalty – **increasing to 20% as of January 1, 2011** (the penalty does not apply if over age 65.)

If you have **mistakenly** used your HSA for non-qualified expenses, you can reimburse your account before filing your taxes. By doing so, you may avoid the taxation and penalties on those expenses. To learn how to properly document your expenses or process a reimbursement deposit to your account, contact the Customer Support Center.

Remember, this must be completed before you file your federal tax return for the year in which the mistaken distribution occurred.

See the following page for examples of qualified and non-qualified expenses

Reminder – Keep Those Receipts!

Remember to keep the receipts from your HSA expenses in your tax file for the year in order to properly document your usage of the health savings account.

HSA Qualified Expenses

A list of qualifying expenses is provided in IRS Publication 502. You may view this document within your online account at www.first-southern.com. Below is a list of qualified expenses as defined by the IRS. This list is not complete, but includes a representative sample of qualified expenses. The list is subject to change by the IRS.

- Acupuncture
- Alcoholism
- Ambulance
- Artificial Limb
- Artificial Teeth
- Breast Reconstruction Surgery
- Braille Books and Magazines
- Capital Expenses / Home Improvements
- Chiropractor
- COBRA Insurance Premiums
- Contact Lenses
- Crutches
- Dental Treatment
- Diagnostic Devices
- Disabled Dependent Care Expenses
- Drug Addiction Assistance programs
- Eyeglasses
- Eye Surgery
- Fertility Enhancement
- Guide Dog or Other Service Animal
- Hearing Aids
- Home Care
- Hospice Care
- Hospital Services
- Labor and Delivery
- Laboratory Fees
- Lead-Based Paint Removal
- Learning Disability / Special Education
- Lifetime Care - Advance Payments
- Long-Term Care / Long Term Care Insurance
- Medical Services
- Medicines / Drugs with a prescription
- Mentally Retarded, Special Home for
- Nursing Home
- Nursing Services
- Optometrist
- Organ Donors
- Osteopath
- Oxygen
- Prosthesis
- Psychiatric Care
- Psychoanalysis
- Stop-Smoking Programs
- Surgery
- Therapy
- Transplants
- Vision Correction Surgery
- Weight-Loss Program Fees to treat obesity, etc.
- Wheelchair
- X-Rays

NOTE: Due to Health Care Reform legislation, beginning January 1, 2011, Over-the-counter medications will no longer be considered qualified expenses (except Insulin) unless you have a doctor's prescription.

Non-Qualified Expenses

Although many expenses are eligible for payment from the HSA, there are some items which are excluded. HSA funds generally cannot be used for the following.

- Babysitting/Childcare for Healthy Baby
- Controlled Substances
- Cosmetic Surgery
- Dancing Lessons
- Diaper Service
- Electrolysis or Hair Removal
- Funeral Expenses
- Future Medical Care
- Hair Transplant or purchase of Hair growth products such as Rogaine
- Health Club Dues
- Household Help
- Illegal Operations and Treatment
- Insurance Premiums - except COBRA/Long Term Care
- Maternity Clothes
- Medicines and Drugs from Other Countries
- Nutritional Supplements
- Personal Use Items (toothbrush, toothpaste, etc.)
- Swimming Lessons
- Teeth Whitening
- Veterinary Fees
- Weight Loss Program Fees unless for treatment of disease (ex: obesity, hypertension, etc.)
- Weight Loss Food / Supplements
- Expenses that are not deemed "medically necessary" by the IRS
- Expenses for general health (vitamins, food, etc.)

If you have any questions about whether or not an expense is eligible for payment from your health savings account, please contact:

HSA Customer Support Center
8:30am – 4:00pm Eastern
Toll-free (866) 719-6039