

Health Savings Accounts (HSAs)

A Health Savings Account (HSA) is an account that you can put money into to save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment.

Who Can Have an HSA?

Any adult can contribute to an HSA if he/she:

- Has coverage under an HSA-qualified "high deductible health plan" (HDHP).
- Has no other first-dollar medical coverage (other insurance like specific injury, accident, disability, dental care, vision care, or long-term care insurance are permitted).
- Is not enrolled in Medicare.
- Cannot be claimed as a dependent on someone else's tax return.

Contributions to your HSA can be made by you, your employer, or both. However, the total contributions are limited annually.

If you make a contribution, you can deduct the contributions when completing your federal income tax return.

Contributions to the account must stop once you are enrolled in Medicare. However, you can keep the money in your account and use it to pay for medical expenses tax free.

High Deductible Health Plans (HDHPs) †

Generally, this is health insurance that does not cover first dollar medical expenses. Federal law requires that the health insurance deductible be at least:

\$1,400* -- Self-only coverage
\$2,800* -- Family coverage

In addition, annual out-of-pocket expenses under the plan (including deductibles, co-pays, and co-insurance) cannot exceed:

\$6,900* -- Self-only coverage
\$13,800* -- Family coverage

In general, the deductible must apply to all medical expenses (including prescriptions) covered by the plan.

However, plans can pay for "preventive care" services on a first-dollar basis (with or without a co-pay). "Preventive care" can include routine pre-natal and well-child care, child and adult immunizations, annual physicals, mammograms, pap smears, etc.

HSA Contributions

You can make a contribution to your HSA each year that you are eligible. You can contribute no more than:

\$3,550* -- Self-only coverage
\$7,100* -- Family coverage

Individuals age 55 and older can also make additional "catch-up" contributions.

The maximum annual catch-up contribution is as follows:

- 2006 - \$700
- 2007 - \$800
- 2008 - \$900
- 2009 and after - \$1,000

Determining Your Contribution

Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. Individuals that are eligible to contribute to an HSA in the last month of the taxable year are allowed to contribute an amount equal to the annual HSA contribution amount provided you remained covered by the HSA for at least the 12-month period following that year.

Contributions can be made as late as April 15 of the following year.

Using Your HSA

You can use the money in the account to pay for any "qualified medical expense" permitted under federal tax law. This includes most medical care and services, and dental and vision care, and includes over-the-counter drugs such as aspirin.

You can generally not use the money to pay for medical insurance premiums, except under specific circumstances, including:

- Any health plan coverage while receiving federal or state unemployment benefits.

*2020 amounts; adjusted annually for inflation. (Last updated 1/04/2020)

† defined under Internal Revenue Code § 223(c)(2)(A)

- COBRA continuation coverage after leaving employment with a company that offers health insurance coverage.
- Qualified long-term care insurance.
- Medicare premiums and out-of-pocket expenses, including deductibles, co-pays, and coinsurance for:
 - Part A (hospital and inpatient services)
 - Part B (physician and outpatient services)
 - Part C (Medicare HMO and PPO plans)
 - Part D (prescription drugs)

You can use the money in the account to pay for medical expenses of yourself, your spouse, or your dependent children. You can pay for expenses of your spouse and dependent children even if they are not covered by your HDHP.

Any amounts used for purposes other than to pay for “qualified medical expenses” are taxable as income and subject to an additional 10% tax penalty.

Examples include:

- Medical expenses that are not considered “qualified medical expenses” under federal tax law (e.g., cosmetic surgery).
- Other health insurance types unless specifically described above.
- Insurance premium for Medicare supplement plan.
- Expenses that are not medical or health-related.

After you turn age 65, the 10% additional tax penalty no longer applies. If you become disabled and/or enroll in Medicare, the account can be used for other purposes without paying the additional 10% penalty.

Advantages of HSAs

Security – Your high deductible insurance and HSA protect you against high or unexpected medical bills.

Flexibility – You can use the funds in your account to pay for current medical expenses, including expenses that your insurance may not cover, or save the money in your account for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Savings – You can save the money in your account for future medical expenses and grow your account through investment earnings.

Control – You make all the decisions about:

- How much money to put into the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from the account
- Which company will hold the account
- Whether to invest any of the money in the account
- Which investments to make

Portability – Accounts are completely portable, meaning you can keep your HSA even if you:

- Change jobs
- Change medical coverage
- Become unemployed
- Move to another state
- Change your marital status

Ownership – Funds remain in the account from year to year, just like an IRA. There are no “use it or lose it” rules for HSAs.

Tax Savings – An HSA provides you triple tax savings:

- (1) tax deductions when you contribute to your account;
- (2) tax-free earnings through investment; and,
- (3) tax-free withdrawals for qualified medical expenses.

What Happens to My HSA When I Die?

If you are married, your spouse becomes the owner of the account and can use it as if it were their own HSA.

If you are not married, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate (and be subject to any applicable taxes).

Opening Your Health Savings Account

Banks, credit unions, insurance companies and other financial institutions are permitted to be trustees or custodians of these accounts. Other financial institutions that handle IRAs or Archer MSAs are also automatically qualified to establish HSAs.

Need More Information About HSAs?

Additional information about Health Savings Accounts can be found at <https://www.irs.gov/publications/p969>.

This brochure is for informational purposes only.