

HSA Explained

What is a Health Savings Account (HSA)?

An HSA is a triple-tax-advantaged personal savings account that can be used to pay for eligible medical, dental, vision and other qualified expenses now or later in life. The money goes in tax-free, grows tax free, and comes out tax-free, if used to pay for eligible expenses. The funds can even be invested, making it a great addition to your retirement portfolio. Once you reach age 65, HSA funds can be used for any purpose and are simply taxed as ordinary income, with no penalty.

Am I eligible to participate?

To contribute to an HSA -

- You must be covered by a qualified High Deductible Health Plan (HDHP).
- You cannot be covered by any other non-qualified health plan, including a medical FSA.
- You cannot be enrolled in Medicare.
- You cannot be another person's tax dependent.

However, you are always eligible to spend previously-contributed HSA funds.

What is a qualified high-deductible health plan (HDHP)?

A qualified HDHP is a health insurance plan that must comply with deductible and out-of-pocket amounts that are subject to annual minimum and maximum limits. Please see our Benefits Today newsletter for current limit amounts.

What are qualified expenses?

Qualified expenses, also known as eligible expenses, include co-pays, co-insurance, vision, dental care, and certain medical supplies not covered by a health plan. The IRS provides specific guidance regarding eligible expenses. (See IRS Publication 502)

- Medical expenses paid with HSA dollars CANNOT be claimed as a deduction on a tax return.
- Medical or other insurance premiums are NOT qualified expenses, except in COBRA continuation situations.
- If you use HSA funds for medical expenses that are NOT qualified, and you are under the age of 65, you are subject to ordinary income tax on those funds and IRS penalties may be applicable.

How do I contribute money to my HSA?

An HSA is an individual trust account, and contributions to it can be made by the eligible employee, their employer, or any other individual. Annual contributions are subject to maximum limits, depending upon the type of health plan coverage, however individuals aged 55 and over may make an additional \$1,000 catch-up contribution. Please see our Benefits Today newsletter for current contribution limit amounts.

As for methods of contribution, a tax free payroll deduction is most likely offered by your employer. You can make changes to HSA contributions during the year by providing the applicable notice of change provided by your employer. Direct contributions can also be made from your personal checking account and can be deducted on your personal income tax return.

And because HSA money is yours to keep, unused money in your HSA rolls forward from year to year, and can be transferred if you change employment. However, if at any point, you are no longer eligible to contribute to your HSA (see above eligibility rules), you are still allowed to use the funds for qualifying health expenses.

How do I access the funds in my HSA?

Your HSA is similar to a checking account. You are responsible for ensuring the money is spent on qualified purchases only and for keeping itemized receipts of all your medical expenses for tax-reporting purposes. Distributions from your HSA can be made via ACH transfer directly to your checking or savings account, online bill-pay, debit card, or check.

Is tax reporting required for an HSA?

IRS form 8889 must be completed with your tax return each year to report total deposits and withdrawals from your account. At the end of the year, if you have made any distributions (used your HSA funds for medical expenses), you will receive a 1099 SA with all the applicable information needed to file your return.

How can I invest my HSA funds?

Once your cash balance reaches the minimum amount required, and as long as you maintain the minimum cash balance, you can transfer funds to an HSA investment account. You can choose from a selection of mutual funds and setup transfers like you would for a 401k plan. You can also transfer money between your HSA cash account and HSA investment account at any time.

Please keep in mind that mutual funds are not guaranteed by any bank, and are not insured or guaranteed by the FDIC. Investment in mutual funds involves risk, including possible loss of principal.

