

# Health Savings Accounts (HSAs)

**Everything You Need to Know**



# What is an HSA?

- A health savings account (HSA) is an account that you can use to pay medical expenses
- Must be in conjunction with a high-deductible health plan (HDHP)
- You own the account, but both you and the City can contribute funds
- Tax-advantages: contribute pre-tax money, funds accrue tax-free and withdraw funds tax-free (if they are for eligible medical expenses)

# Benefits of an HSA

- Triple tax advantage means you save money on your health care expenses
- Funds rollover each year, so you can use your HSA to save tax-free money for retirement
- You own the account, even if you leave the company
- Lower monthly premiums than a traditional health plan

# High-Deductible Health Plan

- HSAs can only be offered with a high-deductible health plan (HDHP)
- This is plan that must provide coverage as follows (2020 limits, as established by the IRS):
  - Minimum deductible: \$1,400 single, \$2,800 family
  - Maximum annual out-of-pocket: \$6,900 single, \$13,800 family
- Though the deductible is higher for this plan than traditional plans, your monthly premium is lower, and HSA funds can pay for medical expenses subject to the deductible

# How Does The HSA/HDHP Work?

- You contribute money to the HSA (either a lump sum payment or monthly through payroll deductions)
- You can use HSA dollars to pay your health insurance deductible, along with other qualified medical expenses such as dental or vision services
- Once you meet your deductible, your insurance pays additional covered expenses in accordance with our plan (mostly at 100%)

# Who is Eligible for an HSA?

- Anyone who is:
  - Covered by an HDHP
  - Not enrolled in Medicare
  - Not covered under other health insurance\*
  - Not another person's dependent

\*Other health insurance does not include: specific disease or illness insurance, accident, disability, dental care, vision care and long-term care insurance

# HSA Contribution Limits

- Each year, the IRS sets contribution limits
- These limits are for the total funds contributed, including company contributions, your contributions and any other contributions
- For 2020, limits are:
  - \$3,550 (2020) for individual coverage
  - \$7,100 (2020) for family coverage

# HSA Contributions

- You are allowed to contribute the entire year's limit whenever you first become eligible for the HSA (even if that is in December)
- However, you must remain eligible for at least 12 months after that date, or you will be subject to taxes and penalties on the amount you contributed

# Catch-Up Contributions

- For individuals ages 55-plus, the IRS allows additional “catch-up contributions”
- Eligible individuals may contribute an extra \$1,000 for the year (for 2020)
- This is to help save additional money for retirement

# HSA Distribution Rules

- Distributions from your HSA are tax-free if they are taken for “qualified medical expenses”
- Your HSA can only be used for expenses that are incurred on or after the date the HSA was established
- However, HSA funds can be used for expenses from a prior year, as long as the expenses incurred on or after the date the HSA was established

# HSA Distribution Rules

- HSA distributions can be taken for qualified medical expenses for the following people:
  - The account holder (person covered by the HDHP)
  - Spouse of that individual (even if not covered by the HDHP)
  - Dependents of that individual (even if not covered by the HDHP)

# Distributions – Age 65-plus

- For individuals age 65 and older, HSA distributions can be used for non-qualified medical expenses without facing the 20 percent penalty
  - However, income taxes will apply for non-medical distributions
  - This rule is regardless of whether the individual is enrolled in Medicare

# Qualified Medical Expenses

- The IRS defines expenses that are considered “qualified medical expenses” for HSA distributions
- Expenses must be primarily to treat or prevent a physical or mental defect or illness
- If you use HSA funds for expenses beyond what the IRS defines as qualified, you will be subject to income tax on the distribution and an additional 20 percent penalty

# Qualified Medical Expenses

- Examples of qualified medical expenses include:
  - Most medical care that is subject to your deductible (copays, coinsurance, doctor visits, inpatient or outpatient treatment, etc.)
  - Prescription drugs
  - Over-the-counter drugs, only if you obtain a prescription
  - Insulin (with or without a prescription)
  - Dental and vision care
  - Select insurance premiums
    - COBRA, qualified long-term care insurance, health insurance premiums paid while receiving unemployment benefits, health insurance after you turn 65 except for a Medicare supplemental policy

Human Resources can provide you with a full list of eligible expenses upon request.

# Ineligible Medical Expenses

- Expenses that are not considered “qualified medical expenses” include:
  - Insurance premiums (other than the exceptions listed on the previous slide)
  - Over-the-counter drugs (unless a prescription is retained from a physician – insulin is an exception)
  - Surgery purely for cosmetic reasons
  - Expenses covered by another insurance plan
  - General health items such as tissues, toiletries, hand sanitizer

Human Resources can provide you with a full list of eligible expenses upon request.

# Recordkeeping

- Whenever you use HSA funds to pay for a medical expense, you should keep your receipt
- You may need to demonstrate to the IRS that HSA distributions were for qualified medical expenses
- If the IRS requests receipts for verification purposes, failure to provide those receipts could result in having to pay a penalty

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# **Thank you for your attention!**

**If you have additional questions about the HSA plan,  
please contact HR.**

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