Health Savings Accounts

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. HSAs were signed into law by President Bush on December 8, 2003.

Who Can Have an HSA?

Any adult can contribute to an HSA if they:

- Have coverage under an HSA-qualified "high deductible health plan" (HDHP).
- Have no other first-dollar medical coverage (other types of insurance like specific injury insurance or accident, disability, dental care, vision care, or long-term care insurance are permitted).
- Are 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 (even if you do not itemize deductions) 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 pay for medical expenses tax-free.

High Deductible Health Plans (HDHPs) Using Your HSA

You must have coverage under an HSA-qualified "high deductible health plan" to open and contribute to an HSA. 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.

Finding HDHP Coverage

Any company that sells health insurance coverage in your state may offer HDHP policies. Although Treasury cannot recommend any specific names of companies selling these policies, you should be able to find a qualified policy by contacting your current insurance company, an agent or broker licensed to sell health insurance in your state, your state insurance department.

HSA Contributions

You can make a contribution to your HSA each year that you are eligible. For 2020, you can contribute up to $3,550* if you have Self-Only coverage and $7,100* if you have Family coverage.

	Minimum HDHP Deductible	Maximum HSA Deposit (2020)
Single Coverage	$1,400	$3,550
Family Coverage	$2,800	$7,100

Individuals age 55 and older can also make additional "catch-up" contributions. The maximum annual catch-up contribution is as follows:

2009 and years thereafter - $1,000

Determining Your Contribution

Effective January 1, 2007, the Tax Relief and Health Care Act of 2006 allows individuals who become eligible after the beginning of the year to make the maximum annual contribution ($3,500* for Single coverage or $7,000* for Family coverage).

To be eligible for a full-year contribution, however, you must remain HSA-eligible throughout the "testing period," which runs from the first day of the last month of the initial eligibility year through the end of the 12-month period following that month. If you fail to maintain eligibility for the entire testing period, you must prorate the contribution limit for the number of months you were eligible.

If you do not remain eligible during the testing period, you must include ineligible contributions in gross income and pay a 10 percent penalty on the ineligible amount. Contributions can be made as late as April 15 of the following year.

**2020 amounts; adjusted annually for inflation*

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, dental and vision care. Effective January 1, 2011, you will no longer be able to pay for over-the-counter drugs from your HSA, unless you have a prescription.

You can generally <u>not</u> 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.
- 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.

Effective January 1, 2011, any amounts used for purposes other than to pay for "qualified medical expenses" are taxable as income and subject to an additional 20% tax penalty. Examples include:

- Medical expenses that are not considered "qualified medical expenses" under federal tax law (e.g., cosmetic surgery).
- Other types of health insurance unless specifically described above.
- Medicare supplement insurance premiums.
- Expenses that are not medical or health-related.
- Over-the-counter drugs.

After you turn age 65, the 20% 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 20% penalty.

What Happens to My HSA When I Die?

If your spouse becomes the owner of the account, your spouse 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).

Advantages of HSAs

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

Affordability – You should be able to lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

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 your 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.