Health Savings Accounts (HSA)

What Is an HSA?

A Health Savings Account (HSA) is a tax-advantaged savings account that you can use to pay your medical expenses. HSAs are often used in conjunction with an HSA-Qualified High Deductible Health Plan (QHDHP).

Benefits of an HSA

- Triple tax advantage means you save money on your eligible medical expenses, as contributions are tax-free, reimbursements are tax-free, and any interest accrual is tax-free.
- 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. Both you and the employer can contribute funds.
- QHDHPs tend to have lower monthly premiums than a traditional health plan.

Eligible Medical Expense

Reimbursable expenses include medical care that is subject to your deductible (copays, coinsurance, doctor visits), dental and vision care, prescription drugs, insulin (with or without a prescription), over the counter expenses, and select insurance premiums upon separation of service.

Maximum Contribution

Each year, the IRS sets contribution limits. These limits are for the total funds contributed, including employer contributions, your contributions, and any other contributors.

Additional Details

- Spouses can use HSA funds and any dependent claimed on your tax return.
- If you make a non-medical distribution, it will be taxed as income and subject to a 20% penalty unless you are disabled, deceased, or attained Medicare Eligibility Age.
- The IRS treats married couples as a single tax unit, which means they must share one family HSA contribution limit. In cases where both spouses have self-only coverage, each spouse may contribute up to half of the annual contribution limit. An individual is not eligible if they are covered by a Medical FSA that has not been modified as limited purpose including a spouse's FSA.[1]
- Additionally, if the account holder has funds in a VEBA or HRA and is actively contributing to an HSA, then the VEBA/HRA must be restricted to limited-purpose expenses.[1]
- When the account holder is deceased, only the surviving spouse (if s/he is the designated beneficiary) is entitled to use remaining account balance for qualified medical expenses. If the designated beneficiary is someone other than the spouse, then the remaining account balance is taxed as income to the beneficiary.
- Eligible premium upon sepeation of service include COBRA premiums, long-term care (LTC) premiums, and Medicare Parts B, C, and D. Medicare Supplementals are not reimbursable from an HSA.

[1]A limited purpose medical savings account can only be used for eligible dental, vision, and post-deductible expenses.