Health Savings Account

What is an HSA?

A Health Savings Account (HSA) is a tax-favored account for those covered by a high-deductible health plan (HDHP). These accounts are triple tax-free in that contributions, investment earnings and healthcare expenditures are tax-free. In order to open and contribute to an HSA, one must be an eligible individual.

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Who is eligible?

- An individual can be HSA-eligible if that individual:
  - » Has qualifying HDHP (discussed later)
  - » Has no other disqualifying coverage
- HRAs, FSAs, coverage from spouse, etc.
- An individual is generally NOT eligible if that individual:
  - » Is entitled to Medicare
  - » Can be claimed as someone else's tax dependent on a federal income tax return
- Individuals who cease to be eligible can still use their HSA for qualified healthcare expenses but can no longer contribute to it during the period in which they are ineligible
  - » Eligibility is determined on a monthly basis

What is an HDHP?

A high-deductible health plan (HDHP) is a health plan that meets the requirements for annual deductibles and out-of-pocket expenses as issued by the IRS.

2022		
	Self	Family
Deductible	$1,400	$2,800
Out-of-Pocket	$7,050	$14,100

Another important requirement of qualifying HDHPs is that they may not pay any benefit until the annual deductible has been satisfied with the exception of preventive care.

Contributing to an HSA

Funds can usually be contributed to an HSA by either the employee or the employer.

HSA contributions are limited to an annual amount issued by the IRS. All contributions count towards this limit, regardless of the contributing entity. The limits are listed below:

2022	
Self	$3,650
Family	$7,300
55 and Above	Additional $1,000 “catch-up” allowed

Nonforfeiture requirement

HSAs are intended to provide individuals with a portable source of funding for health costs. HSAs are subject to a nonforfeitable requirement, meaning that account balances, including interest earned, cannot be forfeited back to the employer. This requirement is true regardless of who contributed funds into the account. This also means that an employer cannot impose a vesting schedule of similar restrictions. Your HSA is yours to keep, even if you change jobs. However, you must remain eligible in order to contribute to it.

What can I spend it on?

Distributions from an HSA account are tax-free for qualified healthcare expenses, so long as amounts are not reimbursed by insurance or any other source. An individual can use their HSA to pay for qualified healthcare expenses for the following:

- Self
- Spouse (as defined by the IRS)
- Tax dependents

Generally, HSAs cannot be used to pay for insurance premiums with some exceptions:

- Medicare premiums (but not Medigap policies)
- Premiums at age 65 or above
- Qualified long-term care premiums
- Premiums while on COBRA
- Premiums while on federal unemployment

An individual can use their HSA for non-qualified expenses; however, such distributions will be taxed in the following manner:

- Under 65: income tax + 20% excise tax
- Over 65, disabled, or deceased: only income tax

Tax treatment

HSAs can be triple tax-free, meaning an individual wouldn't pay tax on:

- Contributions
- Investment earnings (if any)
- Distributions

Contributions can be made:

- Pretax through salary reductions
- After-tax and then taken as an "above-the-line" deduction

The account holder is responsible for self-adjudication and reporting to the IRS. The HSA trustee or custodian is not required to determine whether HSA distributions are used for qualified healthcare expenses, and neither is a contributing employer.

Setting up an HSA

An eligible individual can establish an HSA with a qualified HSA trustee or custodian, in much the same way that individuals establish IRAs or Archer MSAs. No permission or authorization from the IRS is necessary to establish an HSA. Your employer may also set up the HSA if they are contributing or offering payroll contributions.

Is an HSA right for me?

HSAs and their corresponding high-deductible health plans have benefited many individuals and employers. The tax savings can be substantial. HSAs may not be right in every situation. There are advantages and disadvantages to weigh.

Advantages:

- Lower premiums
- Tax savings
- Portability
- Investment returns
- Account carryover from year to year

Disadvantages:

- May be open to more risk
- May be unfamiliar with HDHP plan designs
- Self-adjudication
- "Other coverage" complications

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