Health Savings Account (HSA) FAQs

What is a Health Savings Account (HSA)?

A health savings account (HSA) is a triple tax-advantaged savings account designed to be paired with High Deductible Health Plan (HDHP) coverage.

The three layers of federal HSA tax advantages are:

1. Pre-Tax Contributions
   - Employee contributions through payroll are made on a pre-tax basis through the employer’s Section 125 cafeteria plan
   - Employer contributions are tax-free to the employee
   - Employee contributions outside of payroll receive an above-the-line deduction

2. Tax-Free Growth
   - HSA gains are not subject to investment taxes (interest, dividends, capital gains)

3. Tax-Free Distributions
   - Distributions for qualifying medical expenses are not subject to taxation

HSA money is yours to keep!

Unlike a health flexible spending arrangement (FSA), unused money in your HSA isn’t forfeited at the end of the year. It continues to grow on a tax-advantaged basis. HSA funds also remain in your personal account unaffected by changing employers.

Who is eligible for an HSA?

You must participate in a High Deductible Health Plan (HDHP), have no other health coverage other than those specifically allowed, and not be claimed as a dependent on someone else's tax return in order to be eligible for an HSA. Some examples of other coverage that would cause ineligibility are:

- a general purpose health care flexible spending arrangement (HCFSA),
- a spouse's general purpose HCFSA,
- your spouse's family enrollment in a health plan other than HDHP coverage (e.g., a traditional HMO),
- other non-high deductible HSA qualified health insurance coverage,
- Medicare or TRICARE
- Receipt of IHS or VA benefits within the previous three months (note that veterans with a service-connected disability can access VA benefits without losing HSA eligibility)

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Does the money in my HSA earn interest?

Yes. Your HSA account is an interest-bearing account. Funds can also be invested once you reach a certain balance. Your earnings are tax-free for federal taxes.

What expenses are eligible for reimbursement from my HSA?

HSA dollars may be used on a tax-free basis for qualified medical expenses incurred by the account holder and his or her spouse and dependents. Qualified medical expenses are outlined within IRS Section 213(d). See IRS Publication 969 and IRS Publication 502 for more details.

In summary, the IRS Section 213(d) states that “the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness.”

In addition to qualified medical expenses, the following insurance premiums may be reimbursed from an HSA:

- COBRA or USERRA premiums
- Health insurance premiums while receiving federal or state unemployment benefits
- Qualified long-term insurance care premiums (annual limitations apply)
- Premiums for Medicare (excluding any Medicare supplemental policy) or employer-sponsored retiree coverage by individuals ages 65 and over
- Over the counter medicines and drugs
- Menstrual care products

Are dental and vision care qualified medical expenses under an HSA?

Yes, as long as these are deductible expenses under the current rules. For example, cosmetic procedures, like cosmetic dentistry, would not be considered qualified medical expenses and would not be reimbursable. See IRS Publication 969 and IRS Publication 502 for more details.

What expenses are NOT eligible for reimbursement from my HSA?

The following expenses may not be reimbursed from an HSA on a tax-free basis:

- Premiums for Medicare supplemental policies
- Expenses covered by another health plan
- Expenses incurred prior to the date the HSA was established

Can I use my HSA dollars for non-eligible expenses?

Money withdrawn from an HSA account to reimburse non-eligible medical expenses is taxable income to the account holder and is subject to a 20 percent tax penalty—unless over age 65, disabled or upon death of the account holder. If you are over age 65, amounts withdrawn to reimburse non-medical expenses are subject only to ordinary income taxes.

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When can I start using my HSA dollars?

You can use your HSA dollars immediately following your HSA account activation and once contributions have been made. Any medical expenses incurred prior to your HSA being funded are not eligible for reimbursement, even if they were incurred within the plan year.

What if I have HSA dollars left in my account at year-end?

The money is yours to keep. It will continue to earn interest and will be available for you and your health care costs next year. Any dollars left in your HSA account at year-end will automatically roll over.

What happens to my HSA dollars if I leave my employer?

The funds are yours to keep. You may elect one of the following options:

- Leave your funds in the current HSA account. You may however have to pay a monthly service fee.
- Transfer your funds to an HSA with your new employer
- Transfer your funds to another qualifying account within 60 days

Can I use the money in my account to pay for my dependents' medical expenses?

You can use the money in the account to pay for the medical expenses of yourself, your spouse or your dependent children under the age of 19 or under the age of 24 if a full-time student. You can use your HSA to pay for expenses of your spouse and qualified dependent children even if they are not covered by your HDHP.

Medical expenses of a domestic partner qualify only if the domestic partner is your tax dependent.

Can married couples establish a "joint" account and both make contributions to the account, including "catch-up" contributions?

"Joint" HSA accounts are not permitted. Each spouse should consider establishing an account in his or her own name. This allows you to both make catch-up contributions when you are 55 or older.

My employer offers an FSA—can I have both an FSA and an HSA?

You can have both types of accounts, but only under certain circumstances. General-purpose flexible spending accounts (FSAs) will make you ineligible for an HSA. If your employer offers a "limited-purpose" (limited to dental, vision, and preventive expenses), then you may still be eligible for an HSA. Keep in mind that you will also not be HSA eligible if your spouse participates in a general-purpose FSA.

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How do I contribute to my HSA?

You may contribute to your HSA on a pre-tax basis for federal income tax purposes through your employer's Section 125 cafeteria plan by making an election with your employer to contribute. Note that for state income tax purposes in California and New Jersey, contributions will be made on an after-tax basis.

You may also contribute outside of payroll with after-tax dollars and take an above-the-line deduction on your individual tax return.

How much can I contribute to my HSA?

If you are enrolled in a HSA qualified HDHP as of January 1, you may contribute up to the IRS limit in a calendar year. If you are age 55 or older, you are able to contribute an additional $1,000 catch up contribution.

What happens during the year, while covered under an HDHP/HSA, when I change from Self Only coverage to Self and Family coverage or vice versa based on a qualified life event?

You may contribute a proportional amount of the statutory HSA contribution limit based on the number of months you had self-only coverage and the number of months you had self and family coverage. For example, if you had self only coverage the first nine months of the calendar year, and family coverage the remaining three months, you are able to contribute 9/12 of the employee only HSA contribution limit, and 3/12 of the family HSA contribution limit.

See IRS Form 8889 Instructions for more details and a worksheet to assist in the calculation.

What if my medical expenses are more than my health savings account?

You can only reimburse yourself up to amount of money in your account. If your expenses exceed your account balance, you can always pay yourself back later. There is no time limit on when you can be reimbursed for a qualified medical expense.

How much can I contribute to my HSA if I become eligible for the HSA plan mid-year?

- You may contribute a proportional amount of the statutory HSA contribution limit based on the number of months in the year you were HSA eligible. There is a special rule that will allow you to make HSA contributions up to the full statutory limit, provided:
- You were HSA eligible on December 1 of the year at issue, AND
- You remain HSA eligible the entire following year (the 13-month period from December of year one through the end of December year two).

This is frequently referred to as the "last-month" rule. See IRS Publication 969 for more details.

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What is the deadline to make HSA contributions?

Individuals and employers may make HSA contributions by the tax deadline filing date the following year (generally April 15).

What happens if I move to a non-HDHP plan mid-year and have a balance in my HSA?

You do not need to maintain HSA eligibility to take tax-free distributions for medical expenses. You can continue to use the HSA account to reimburse yourself for qualifying medical expenses tax-free.

I am turning age 65 soon. Will I still be able to make contributions into my HSA?

Simply being eligible for Medicare will not cause you to lose HSA eligibility. Only Medicare enrollment will cause you to lose HSA eligibility. Note that if you begin to receive Social Security retirement benefits, you will automatically be enrolled in Medicare Part A and this will cause you to lose HSA eligibility. If Part A enrollment occurs after reaching age 65, the effective date (and resulting loss of HSA eligibility) may be retroactive for up to six months. Also, once you turn age 65 you can use the money in the account on any non-medical expenses and only pay ordinary income taxes (the 20% additional tax no longer applies).

Can I use my HSA account for medical expenses incurred by my domestic partner?

If your domestic partner is your tax dependent, you are able to use the money in your HSA account for your domestic partner's qualified medical expenses. Otherwise, any reimbursements will be subject to income tax and a 20% additional tax (unless you are age 65+).

I am a disabled veteran with VA coverage. Am I able to put money into an HSA account if I am enrolled in a qualified HDHP?

VA benefits will never be disqualifying coverage for veterans with a service-connected disability. You will be able to contribute to an HSA if you are enrolled in a qualified HDHP.

Can I cash out my HSA account at any time?

Money withdrawn from an HSA account that is not used to reimburse eligible medical expenses is taxable income to the account holder and is subject to a 20 percent tax penalty—unless over age 65, disabled or upon death of the account holder. If you are over age 65, money withdrawn from the account is subject only to ordinary income taxes

If I use medical services in another country can I use my HSA to reimburse my medical expenses?

You can use your HSA account to reimburse any medical expense inside or outside the country on a tax-free basis. Any medical services or drug expenses incurred outside the country must be legal in that country, and in the U.S.

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Can I invest the money in my HSA through different trading platforms?

If your employer designates a HSA provider to use, once your HSA account reaches a certain balance, you will be able to invest funds through the HSA provider's investment options. You can also transfer HSA funds to a HSA bank of your choice and invest through their investment options.

Can I use the money in my HSA for over-the-counter medications and other health products?

Yes, the CARES Act (Coronavirus Aid, Relief and Economic Security Act), passed March 25, 2020 eliminated the ACA rule that required a prescription for over-the-counter medicines and drugs. These items and menstrual care products can now be reimbursed from your HSA Account. This is effective for items purchased on or after January 1, 2020.

What happens if I contribute more than my maximum allowable contribution?

You may take a corrective distribution of the excess amount and any earnings on the excess amount prior to April 15th of the following year. However, you must pay income tax on your excess contributions and income tax on any earnings of the excess contribution. If you do not take a corrective distribution, you will pay a 6% excise tax for each tax year until you take the distribution.

Do I have to keep my receipts showing what I withdrew from my account?

Yes, you should keep your receipts. If you are audited by the IRS, you may need to explain your HSA expenditures.