

Health Savings Accounts (HSAs) Frequently Asked Questions

What is a Health Savings Account?

A Health Savings Account (HSA) is a tax-advantaged, interest-bearing checking account designed for people with High Deductible Health Plans (HDHPs) that can be used to pay for eligible medical expenses, such as co-payments on doctor or hospital visits, medications, or medical supplies.

HSAs are a compliment to traditional health insurance because they enable individuals to pay for current medical costs and also save for future health-related expenses. Based on the type of coverage (Individual versus Family), minimum deductibles and maximum out-of-pocket expenses can vary each calendar year. Maximum contributions are also adjusted each calendar year.

What are the Benefits of an HSA?

- Interest and earnings are tax free as long as they remain in the HSA
- Contributions are tax deductible on a federal income tax return*
- Distributions are tax-free, if made for qualified medical expenses**
- Payroll deductions are made pre-tax
- If you change jobs or health plans, the funds in your HSA are still yours
- At retirement and beyond, an HSA is treated like a Traditional IRA, with funds being used for any purpose and can be used as additional income without penalty

**Contributions in excess of the maximum annual limit are taxable.*

***Distributions for non-qualified medical expenses are taxable.*

Who is Eligible to Open an HSA?

Any adult who is enrolled in a qualified High Deductible Health Plan (HDHP) can open an HSA.

An HSA cannot be opened if the individual:

- Is covered by another medical plan, unless it is also a HDHP;
- Is enrolled in Medicare; or
- Can be claimed as a dependent on someone else's tax return

What is a High Deductible Health Plan (HDHP)?

An HSA-qualified HDHP is health insurance that has a minimum deductible and a maximum out-of-pocket expense. These amounts are adjusted for inflation each year. The deductible must apply to all medical expenses, including prescriptions that are covered by the plan. Plans can pay for any 'preventative care' services, with or without a co-pay.

Who can make contributions to an HSA?

Contributions can be made by an individual, their employer, or both. Contributions cannot be made once the individual is enrolled in Medicare or has other non-HDHP coverage. However, any funds already paid into an HSA can be used for qualified medical expenses tax-free. The total amount of contributions in a single year cannot exceed the maximum, regardless of who is making them (individual versus employer) and any excess contributions may be subject to additional taxes.

What are the current amounts used in determining a High Deductible Health Plan (HDHP) in 2019?

Type of Coverage	Minimum Deductible	Maximum Out-of-Pocket
Individual HDHP Coverage	\$1,350.00	\$ 6,750.00
Family HDHP Coverage	\$2,700.00	\$13,500.00

What is the maximum annual contribution allowed in 2019?

Type of Coverage	Maximum Annual Contribution
Individual Coverage	\$3,500.00
Family Coverage	\$7,000.00
Additional Catch-Up Contribution, If age 55 or older	\$1,000.00

Contributions limits can vary depending on whether the individual was covered by their HDHP plan for the entire calendar year, and whether the plan was changed during the year from individual to family or family to individual.

The catch-up amount is a per-person contribution, but can only be made to that person's HSA. Contributions can be made up to April 15th of the following year. Customers should consult their tax advisor for more information.

How can HSA funds be used?

Funds in the account can be used to pay for, or reimburse the accountholder for, any 'qualified medical expense' for themselves, their spouse, or a dependent child. Withdrawals from the account are considered distributions and are tax-free, if used for qualified medical expenses. Withdrawals for non-qualified expenses are taxable as income and, unless the individual is 65 or older, will also incur penalties from the IRS.

(A list of qualified medical expenses can be found in IRS Publication 502.)

Payments for medical expenses can be made by writing a check from the accountholder's HSA or using their HSA ATM/Debit card. They can also reimburse themselves by making a withdrawal from their HSA Account. It is important to keep receipts supporting the withdrawals as proof of the qualified medical expense. It is the responsibility of the accountholder, not the financial institution, to retain proof (receipts) of the qualified medical expenses for IRS reporting.

Can I lose eligibility for an HSA?

You lose eligibility to establish or contribute to an HSA if you become covered under a health care plan that is not a qualified HDHP, become covered under Medicare, or become a dependent on another person's tax return. If you lose eligibility you can still utilize the funds in the account for qualified medical expenses, but you can no longer make contributions to the account unless you regain eligibility.

What if I have a major change in my life?

Change Jobs?

If you lose your job or change jobs and no longer have a HDHP, you may lose your eligibility to contribute to your HSA. If you lose your eligibility to contribute you can still utilize the funds in the account for qualified medical expenses. You continue to own the account as-is, even though you can no longer make contributions. If you become enrolled in a qualifying HDHP in the future you may resume making contributions to the account.

Become Permanently Disabled?

If you lose your HDHP coverage because you can no longer work, you will no longer be eligible to contribute to the HSA, unless you qualify for COBRA or you enroll in a HDHP as an individual. You can use your HSA balance to make COBRA payments if you are eligible for COBRA coverage.

Retirement?

If you retire before age 65, you can use your HSA to pay COBRA premiums, premiums for long-term care insurance, or non-COBRA premiums for coverage you purchase on your own. You may also continue to use your HSA for qualified medical expenses.

If you retire at age 65 you will be automatically enrolled in Medicare when you enroll in SSI. Enrolling in Medicare makes you ineligible to make any further contributions to your HSA. You can still use the existing funds in the account for qualified medical expenses tax free. After age 65 you can use your HSA to pay your Medicare premiums. If you are age 65 or older, you can use the funds in your HSA for non-qualified expenses with no penalty, however those disbursements will become taxable expenses.

If you are 65 or older but waived all parts of Medicare you may still set up and contribute to an HSA as long as you have a qualified HDHP. You may contribute to an HSA until the month you are enrolled in Medicare. You may also make catch-up contributions prior to enrollment in Medicare.

Death?

When the HSA owner dies, any amount remaining in the HSA passes to the entity or individual named as the HSA's beneficiaries.

Is an HSA covered by FDIC insurance?

Yes, if held in an FDIC-insured bank account, funds are insured (FDIC coverage limits apply). However, investments, mutual funds, and other securities are not FDIC insured products.

How is the HSA reported to the IRS?

Each year the financial institution will report the HSA activity (contributions and distributions) to the IRS. The accountholder will file IRS Form 8889 as part of their federal income tax return. Consult your tax advisor for more information.

This document has been prepared for informational purposes only and is not intended to provide, tax, legal or accounting advice. You should consult your own tax, legal or accounting advisors for additional information.