Health Savings Accounts

A health savings account (HSA) is an account funded to help you save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment.

Who Can Have an HSA?

Any adult can have an HSA if you:

- Have coverage under an HSA-qualified, high deductible health plan (HDHP)
- Have no other health coverage (certain types of insurance, such as specific injury or accident, disability, dental care, vision care or long-term care, 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. Alternatively, some employers will allow you to make your HSA contributions as tax-free salary reductions.

Contributions to the account must stop once you are enrolled in Medicare. However, you can still use your HSA funds to pay for medical expenses tax-free.

HDHPs

You must have coverage under an HSA-qualified high deductible health plan to open and contribute to an HSA. Generally, this plan will not cover first-dollar medical expenses, and must have a deductible of at least:

- Single coverage: $1,600 for 2024 ($1,650 for 2025)
- Family coverage: $3,200 for 2024 ($3,300 for 2025)

In addition, annual out-of-pocket expenses under the plan (including deductibles, copays and coinsurance) cannot exceed the following limits:

- Single coverage: $8,050 for 2024 ($8,300 for 2025)
- Family coverage: $16,100 for 2024 ($16,600 for 2025)

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. Preventive care can include routine prenatal and well-child care, child and adult immunizations, annual physicals, mammograms and more.

HSA Contributions

You can make a contribution to your HSA each year that you are eligible. You can contribute no more than:

- Single coverage: $4,150 for 2024 ($4,300 for 2025)
- Family coverage: $8,300 for 2024 ($8,550 for 2025)

Individuals ages 55 and older can also make additional "catch-up" contributions of up to $1,000 annually.

Determining Your Contribution

Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. Individuals who are eligible to contribute to an HSA in the last month of the taxable year are allowed to contribute an amount equal to the annual HSA contribution amount provided they remained covered by the HSA for at least the 12-month period following that year. Contributions can be made as late as April 15 of the following year.

Using Your HSA

You can use money in your HSA to pay for any qualified medical expense permitted under federal tax law. This includes most medical care and services, dental and vision care.

Generally, you cannot use your HSA to pay for medical insurance premiums, except specific instances, 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
- For HSA holders who are age 65 or older, any deductible health insurance (for example, retiree medical coverage) other than a Medicare supplemental policy.

You can use your HSA to pay for medical expenses for yourself, your spouse or your dependent children, even if your dependents are not covered by your HDHP. Any amounts used for purposes other than to pay for qualified medical expenses are taxable as income and subject to an additional 20% penalty. Examples include:

- Medical procedures and expenses not considered qualified under federal tax law
- Medicare supplement insurance premiums
- Expenses not health-related

After you turn 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 penalty.

Advantages of HSAs

Security–Your HSA can provide a buffer for unexpected medical bills.

Affordability–In most cases, you can lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

Flexibility–You can use your HSA to pay for current medical expenses, including expenses that your insurance may not cover, or save your funds 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 HSA for future medical expenses and grow your account through investment earnings.

Control–You make the decisions regarding:

- How much money you will put in the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from the account
- Which financial institution 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
3. Tax-free withdrawals for qualified medical expenses

What Happens to My HSA When I Die?

- If you are married, your spouse becomes the owner of the account and can use it as if it were his or her 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).

Opening Your HSA

Banks, credit unions, insurance companies and other financial institutions are permitted to be trustees or custodians of these accounts. Other financial institutions that handle IRAs are also automatically qualified to establish HSAs.

Learn More

To learn more about health savings accounts or how to get started, contact HR today.

Benefits Insights

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Health Savings Accounts

In an effort to respond to the rising costs of health care, many employers are offering tax-favored accounts, such as health flexible spending accounts (health FSAs), health reimbursement arrangements (HRAs) and health savings accounts (HSAs).

What is a health savings account?

An HSA is a tax-exempt trust or custodial account established for the purpose of paying qualified medical expenses. An HSA accompanies a high deductible health plan (HDHP).

HSAs can be a powerful tax savings tool. In general, HSA contributions made by an eligible individual are tax-deductible, and employer HSA contributions made on behalf of an eligible employee are excluded from the employee's gross income. Interest and other earnings on HSA contributions accumulate tax-free. Amounts distributed from an HSA for qualified medical expenses are generally tax-free as well.

Keep in mind that some states define income differently than the IRS. As a result, HSAs that are tax-exempt at the federal level may not be tax-exempt at the state level.

Who can establish an HSA?

An individual may contribute to an HSA in any month in which he or she is covered under an HDHP on the first day of the month. The individual cannot be covered by another health plan that is not an HDHP (with certain exceptions), and he or she cannot be entitled to Medicare benefits or be claimed on another person's tax return. Self-employed individuals are eligible to establish an HSA.

What expenses are eligible for tax-free reimbursement from an HSA?

An HSA may reimburse qualified medical expenses incurred by the account beneficiary and his or her spouse and dependents. In addition to qualified medical expenses, COBRA premiums and qualified long-term care (QLTC) premiums may be reimbursed from an HSA. A full list of qualified medical expenses can be found here.

What expenses are not eligible for tax-free reimbursement from an HSA?

The following expenses may not be reimbursed from an HSA:

- Premiums for Medicare supplemental policies;
- Expenses covered by another insurance plan;
- Expenses incurred prior to the date the HSA was established; or
- Any expenses other than qualified medical expenses and the HSA reimbursable premiums described above.

The amount withdrawn from an HSA for a non-qualifying medical expense is added to the account beneficiary's income and subject to a 20% penalty. If funds are distributed as a result of the account beneficiary's death, disability or after he or she becomes eligible for Medicare, the 20% penalty does not apply.

Relation

How much can an individual contribute to an HSA?

In 2024, eligible individuals may contribute up to $4,150 for single coverage and $8,300 for family coverage. In 2025, it increases to $4,300 for individual coverage and $8,550 for family coverage. Individuals who are age 55 or older by the end of the tax year are permitted to make "catch-up contributions" and can contribute up to an additional $1,000 annually.

HSA contributions do not have to be made in equal amounts each month. An eligible individual can contribute in a lump sum or in any amounts or frequency he or she wishes.

Also, the HSA contribution limit is reduced by any contributions made to a medical savings account (MSA) in the same year. Rollover contributions from another HSA or MSA can be accepted. These rollover contributions are not subject to the annual contribution limit.

What are the differences between HSAs, HRAs, FSAs and MSAs?

The chart below provides a comparison among these tax-favored accounts.

Where can I find more information on HSAs?

To find more information about HSAs, visit: www.irs.gov/publications/p969/ar02.html.

HSAs may not be right for all employers or individuals. Please contact Relation Insurance Services for assistance in determining what tax-advantaged account will best meet your goals.

Comparison of Tax-advantaged Accounts

	HSA	HRA	FSA
Type of account	Health Savings Account	Health Reimbursement Arrangement*	Health Flexible Spending Account
Who owns the account?	Individual/employee	Employer	Employer
Who may fund the account?	Anyone can make contributions to an individual's HSA, including employer and/or employee.	Employer	Employer and/or employee
What plans must be offered with the account?	A high deductible health plan (HDHP) that satisfies minimum annual deductible and maximum annual out-of-pocket expense requirements.	An employer must offer a health plan and the HRA must be considered integrated with group health plan coverage. Stand-alone HRAs are not permitted unless they are limited to excepted benefits or fall under an exemption to the ACA.	Most Health FSAs must qualify as excepted benefits to satisfy ACA reforms. To qualify as an excepted benefit, the FSA must meet a maximum benefit requirement and other group health plan coverage must be offered by the employer.
Is there an annual contribution limit?	\$4,150 Ind. \$8,300 Family (2024) \$4,300 Ind. \$8,550 Family (2025) Catch-up contributions: \$1,000/year– age 55 by end of tax year	No, there is no IRS prescribed limit	For plan years beginning in 2024, employees may not elect to contribute more than \$3,200. For 2025, the limit is \$3,300.
Can unused funds be rolled over from year to year?	Yes	Yes	No, with two exceptions. A health FSA may include a grace period of 2-1/2 months after end of plan year or it may allow employees to carry over up to \$660 (as adjusted for inflation) in unused funds into the next plan year.

	HSA	HRA	FSA
What expenses are eligible for reimbursement?	Section 213(d) medical expenses, including: -COBRA premiums -QLTC premiums -Health premiums while receiving unemployment benefits -If Medicare eligible due to age, health insurance premiums except medical supplement policies	Section 213(d) medical expenses Effective for 2014 plan years, cannot reimburse health insurance premiums for individual coverage Employers can define "eligible medical expenses"	Section 213(d) medical expenses Expenses for insurance premiums are not reimbursable Employers can define "eligible medical expenses"
Must claims be substantiated?	No	Yes	Yes
May the account reimburse non-medical expenses?	Yes, but taxed as income and 20% penalty (no penalty if distributed after death, disability, or age 65)	No	No
Does the uniform coverage rule apply?	No	No	Yes

**For purposes of this comparison chart, an HRA refers to a traditional HRA that is properly integrated with a group health plan. It does not include retiree-only HRAs, qualified small employer HRAs, individual coverage HRAs or excepted benefit HRAs.*