HEALTH SAVINGS ACCOUNT SMART GUIDE

This guide will provide a summary overview of Health Savings Accounts (HSAs), including eligibility requirements, tax advantages, ownership, and benefits for both employees and employers. We will also discuss how to contribute to an HSA, how to spend HSA funds, and what happens to your HSA when you retire.

What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a tax-advantaged savings account that allows individuals to save for qualified medical expenses. To be eligible for an HSA, you must be covered by a high-deductible health plan (HDHP).

An HDHP is a health plan that has a higher deductible than a traditional insurance plan. The monthly premium is usually lower, but you pay more health care costs yourself before the insurance company starts to pay its share (also called your deductible). A HDHP can be combined with a health savings account for you to pay for certain medical expenses with money you set aside in your tax-free HSA. This is why it's more commonly called an HSA-eligible plan.

How does an HSA work?

HSAs work together with an HSA-eligible health plan. If you're enrolled in this type of health plan, you can make pre-tax contributions to an HSA, allowing you to pay for qualified medical expenses tax free. This can help create a cash cushion to offset the higher deductibles that HSA-eligible health plans typically have.

If you don't need the money in your HSA for immediate medical expenses, you can save and invest it until you do. This sets HSAs apart from another popular account, the health care flexible spending account (FSA). Unlike an HSA, money held in a health care FSA typically must be spent by the end of the plan year in which it is contributed, can't be invested, and can't be carried with you when you leave an employer.

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HSA eligibility

To be eligible to contribute to an HSA, you must:

- Be covered under a high-deductible health plan that meets the minimum deductible and maximum out-of-pocket limits for the year.
- Have no other health coverage that is not an HDHP, such as a flexible spending account (FSA) or health reimbursement arrangement (HRA).
- Not be receiving medical coverage through the VA, Medicaid, or Medicare.
- Not be claimed as a dependent on someone else's tax return.

If you are a veteran using the Veteran's Administration for hospital care or medical services, you must meet the special eligibility rules to determine if you are qualified to contribute to an HSA. Veterans and their employers are eligible to contribute to an HSA if the veteran is covered by an HSA-qualified medical plan and meets other eligibility requirements like not being covered by another health plan or they can't be claimed as someone else's tax dependent. The veteran received VA medical services at a VA facility only for service-connected injuries, or for preventive dental or vision care.

Veterans and employers are not eligible to contribute to an HSA if the veteran is no longer in an HSA-qualified health plan or doesn't meet other HSA eligibility requirements. The veteran received VA medical benefits in the prior three months for a non-service-connected injury or disability, or for non-preventative care, such as general medical care. This means the veteran's annual HSA contribution limit would be reduced by the number of months they were ineligible.

HSA triple-tax advantages

HSAs are triple-tax advantaged. Contributions to an HSA are tax-deductible, and withdrawals for qualified medical expenses are tax-free. Any interest or investment earnings on HSA funds are also tax-free. Additionally, HSA contributions can be made on a pre-tax basis through an employer-sponsored plan.

HSA ownership

HSAs are owned by the individual, not the employer. This means that you can take your HSA with you if you change jobs or leave the workforce. You also have complete control over how the funds in your HSA are used and saved.

Health Savings Account benefits for employees

- HSAs offer several benefits for employees.
- You can deduct your contributions from your taxes.
- Your employer may make contributions to your HSA.
- You can invest funds held in your HSA.
- HSAs are not subject to "use-it-or-lose-it" rules.
- Your HSA is your account, not your employer's.
- Starting at age 65, there is no penalty if you use HSA money for non-qualified medical expenses.
- HSAs are not subject to required minimum distributions.

Health Savings Account benefits for employers

HSAs also offer benefits for employers. They can help reduce healthcare costs by encouraging employees to choose high-deductible health plans and take more control over their healthcare spending. Additionally, employer contributions to HSAs are tax-deductible and can be used to attract and retain employees.

HSA contribution limits

There are several ways to contribute to an HSA. You can make contributions on a pre-tax basis through an employer-sponsored plan, or you can make after-tax contributions and deduct them on your tax return. The maximum contribution limit for an HSA in 2023 is $3,850 for individuals and $7,750 for families. If you are age 55 or older, you can make an additional catch-up contribution of $1,000. For 2024, the annual contribution limit for health savings accounts increases to $4,150 for self-only plans, and to $8,300 for family plans. Those age 55 or older may make and additional catch-up contribution of $1,000 in 2024 as well.

Using payroll deductions

If you foresee a large medical expense during the year, try to prepare for it by increasing your payroll deduction or fully funding your HSA at the beginning of the year, particularly if you expect to retain HSA-qualified health coverage for the entire year.

How to spend HSA funds on qualified medical expenses

HSA funds can be used to pay for a wide range of qualified medical expenses, including deductibles, co-pays, prescriptions; some medical procedures and care; dental cleanings, exams, crowns and bridges, dental plan co-pays, dental surgery, and dental x-rays; eye exams and surgery, contact lenses, prescription eyeglasses and sunglasses, vision plan co-insurance and plan deductible, and buying, training, and maintaining a seeing eye dog.

You can use HSA funds to pay for expenses for yourself, your spouse, and your dependents. To spend HSA funds and pay for qualified healthcare expenses, you can use the debit card linked to your account, or pay out-of-pocket and reimburse yourself.

Is an HSA right for me?

Whether an HSA is right for you depends on your individual circumstances. If you are looking for a tax-advantaged way to save for qualified medical expenses, an HSA may be a good option. However, if you have a chronic medical condition and anticipate high healthcare expenses, a traditional health plan with a lower deductible may be a better option.

What happens to my HSA when I change jobs?

When you change jobs your HSA stays with you. You can continue to use your HSA to pay for qualified medical expenses, and you can continue to contribute to your HSA as long as you are covered by an HDHP. If you are no longer covered by an HDHP, you can still use your HSA to pay for qualified medical expenses, but you cannot make additional contributions.

How to open a health savings account

- **Step 1:** Make sure you're eligible to open an HSA, including the requirement that you be covered by a high-deductible health plan.
- **Step 2:** Pick an HSA provider. First National Bank is a local, community-based HSA provider with experienced staff to assist you open your account.
- **Step 3:** Begin making contributions to your HSA; or set up an automated contribution plan with your employer or the bank. There are several ways to contribute to an HSA. You can make contributions on a pre-tax basis through an employer-sponsored plan, or you can make after-tax contributions and deduct them on your tax return.

Can I get an HSA if I'm self-employed?

Yes, if you are self-employed and covered by an HDHP, you can open an HSA. Self-employed individuals can contribute up to the maximum contribution limit for themselves or their family.

HSA rollover

If you have funds remaining in your HSA at the end of the year, they will roll over to the next year. There is no limit to the amount of funds that can be rolled over from year to year. Additionally, if you change jobs or retire, your HSA funds will stay with you.

Can I make a change to my HSA if there is a change in my family status?

One major advantage of the flexibility afforded by HSAs is the ability to change status during the plan year. For example, individuals can change to family status and vice versa to adjust to recent changes in life circumstances. Common reasons for status changes include:

Changing from Individual status to Family status

- Getting married
- Birth or adoption of a child
- Spouse loses his or her individual healthcare coverage
- Becoming legally responsible for the care of elderly parents.

Changing from Family status to Self-only coverage

- Divorce
- Death of a spouse or child dependent
- Grown children moving out of the house

Updating your status is a relatively simple process that you will take care of through your employer. You must also notify the bank so your account status is properly coded to either family or self-only coverage.

It's also important to know that modifying your status during the plan year affects your annual contribution limit.

What happens to my HSA when I turn age 65?

When you retire, you can continue to use your HSA to pay for qualified medical expenses, and you can continue to make contributions to your HSA as long as you are covered by an HDHP. If you are no longer covered by an HDHP, for instance if you are receiving Medicare, you can still use your HSA to pay for qualified medical expenses, but you cannot make additional contributions.

At age 65, you can take penalty-free distributions from your HSA for any reason. However, to be both tax-free and penalty free, the distribution must be for an eligible medical expense. Withdrawals made for other purposes will be subject to ordinary income taxes. Given that Medicare does not cover all your medical expenses, most HSA owners over age 65 continue to use their HSA funds for eligible medical expenses to ensure they receive the maximum benefits from the HSA.

At age 65, you can also use your HSA to pay for Medicare Parts A, B, and D, as well as Medicare HMO premiums tax-free and penalty free. Reimburse yourself directly from your HSA for Medicare premiums deducted from your Social Security payment.

Use your HSA to pay for the employee share of employer-sponsored healthcare premiums (provided that the employee share is not deducted pre-tax). You cannot use your HSA to pay for Medigap insurance premiums.

Paperwork, recordkeeping, taxes

You own the funds in your HSA and are responsible for recordkeeping as you would your other financial accounts, including retirement accounts, investment and savings accounts, and credit cards.

Check your statement each month and make sure you understand the charges to your account, if you don't, speak with the bank or other financial institution where your account is held.

Set up an easy-to-use filing system to keep accurate, well-organized records – not only to request reimbursement or calculate tax deductions, but also to prove the deductions claimed on your tax return if audited by the IRS. You must retain proof that your HSA distributions paid for qualified products and services. In some instances, the IRS may conduct audits up to six years later.

Conclusion

In conclusion, an HSA is a tax-advantaged savings account that allows individuals to save for qualified medical expenses. To be eligible for an HSA, you must be covered by a high-deductible health plan. HSAs offer several tax advantages, ownership benefits, and benefits for both employees and employers. They can be used to pay for a wide range of qualified medical expenses, including deductibles, co-pays, and prescriptions. Additionally, HSA funds can be used to pay for qualified medical expenses in retirement. If you are looking for a tax-advantaged way to save for qualified medical expenses, an HSA may be a good option for you.

The information provided in this document is general in nature. It is not intended, nor should it be construed, as legal or tax advice. Because the administration of an HSA is a taxpayer responsibility, you are strongly encouraged to consult with your employer and tax advisor before opening an HSA.

You are also encouraged to review information available from the Internal Revenue Service (IRS) for taxpayers, which can be found on the IRS website at www.IRS.gov. You can find IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans, and IRS Publication 502, Medical and Dental Expenses (including the Health Coverage Tax Credit), online, or you can call the IRS to request a copy of each at 800.829.3676.

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