Health Savings Account

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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 often triple tax-free in that contributions, investment earnings and healthcare expenditures are tax-free.

Employers can also save taxes on contributions made to employees' accounts. In order to open and contribute to an HSA, one must be an eligible individual. Among other stipulations, to be eligible requires an individual to have an HDHP. HDHPs also have several qualifying rules and regulations, such as minimum deductibles and maximum out-of-pocket limits.

Who is eligible?

- An individual can be HSA-eligible if that individual:
  - » Has a 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 them during the period in which they are ineligible.
  - » Eligibility is determined on a monthly basis

What is an HDHP?

An HDHP is a health plan that meets the statutory requirements for annual deductibles and out-of-pocket expenses as issued by the IRS.

	2024	
	Self	Family
Deductible	$1,600	$3,200
Out-of-Pocket	$8,050	$16,100

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 the:

- Employee
- Employer
- Anyone else

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

	2024
Self	$4,150
Family	$8,300
55 and Over	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 to the account. This also means that an employer cannot impose a vesting schedule of similar restrictions.

Cafeteria plans

An employer may contribute to employees' HSAs with certain restrictions. If an employer is contributing outside of a cafeteria plan then the contributions must be comparable for all participating employees.

Employers can avoid this comparability requirement by contributing through a cafeteria plan, which may include salary reduction dollars and/or flex-credits.

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 over
- Qualified long-term care premiums
- Premiums while on COBRA
- Premiums while on federal unemployment

An individual can use their HSA for nonqualified 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

Stacking an HSA

Individuals who are covered by both HDHPs and traditional, general-purpose health FSAs or HRAs are not eligible for HSA contributions. In fact, if the individual is covered by his or her spouse's FSA or HRA, then that individual is ineligible for HSA contributions. In order to maintain eligibility, that individual or their spouse must limit their HRA and/or FSA.

There are four alternative HRA/FSA designs:

- Limited-purpose HRA/FSA
  - » Only reimburses dental and vision
- Suspended HRA
  - » Suspends reimbursement to medical expenses incurred during suspended time period
- Post-deductible HRA
  - » No reimbursement until the deductible has been satisfied, after which the HRA can reimburse all qualified medical expenses
- Retirement HRA
  - » Reimburses qualified expenses only after individual retires

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

In addition, employer HSA contributions generally are deductible as business expenses to the employer and are excludable from an employee's gross income.

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.

Employers making contributions may mandate a list of HSA custodians.

Is an HSA right for me?

HSAs and their corresponding HDHPs have benefited many individuals and employers. The tax savings for both employees and employers can be substantial. HSAs may not be right in every situation, however. 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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