

# Understanding the Basics

## Health Savings Accounts

### What is a Health Savings Account (HSA)?

A health savings account (HSA) is a savings and investment account that can be used to reimburse eligible medical expenses, like doctor's office visits, prescriptions, vision and dental expenses.

Unlike a simple savings account, the money is deposited tax free or is tax deductible if contributed after tax. Those funds remain tax free when used to pay or reimburse for eligible healthcare expenses.

### Who is Eligible for an HSA?

To make HSA contributions, you must be covered by an HSA-qualified health plan on the first day of the month.\* Also, you must not be:

- Covered by any other health plan, including a spouse's health insurance
- Covered by your own or a spouse's medical flexible spending account (FSA)
- Enrolled in any part of Medicare or Tricare
- Claimed as a dependent on another person's tax return

\*Health insurance providers and/or the insurance commissioner in your state can confirm if your plan is HSA-qualified.

### What are Qualified Medical Expenses?

The IRS outlines which medical, vision, dental and prescriptions can be paid with HSA funds. Many common expenses like doctor's office visits, prescriptions, labs and x-rays are covered.

For specifics:

- [IRS publication 502](#)
- [IRS publication 969](#)

### Why Invest in an HSA?

With ongoing changes in healthcare, an HSA is increasingly more important. It's not only a tax-advantaged savings account, it's part of a comprehensive retirement package. Individual accountholders may keep funds in cash, investments, or both.

#### Investments

- No minimum balance required to invest
- Streamlined lineup of low cost, high-quality funds
- 75% lower weighted average expense ratio than industry average
- Full fee transparency and no trading fees

#### Cash (with Debit Card, if desired)

Accountholders have the option to receive up to two free debit cards; however, a debit card is not required to withdraw funds from your account.

- Pay for eligible medical expenses at the point of service (e.g., doctor's office, pharmacy, etc.)
- Reimburse eligible out-of-pocket medical expenses through ATM withdrawals
- No monthly debit account fees (ATM service fees may apply)
- Cash/debit account is FDIC insured

### Does an HSA cover my spouse and/or child(ren)'s qualified expenses?

Yes. The funds in your HSA may be used to pay eligible medical expenses for the member's spouse and tax dependents, and is not affected by their insurance coverage. For additional information regarding domestic partnerships, divorce, etc., see IRS publication 969 at <http://bit.ly/irs969>.

### Is there a deadline for getting reimbursed from an HSA?

No, there is not. With an HSA, you do not have to reimburse yourself in the same year you incur an expense. HSA funds roll over from year-to-year; therefore, you may save your receipts and reimburse yourself at any time in the future. Many accountholders invest their HSA like they would their retirement plan, then reimburse themselves when they really need the money or after they retire. The choice is yours.

### Can I use HSA funds for non-qualified medical expenses?

Yes, but income tax and a 20% tax penalty will be required on the amount you spend on non-qualified medical expenses. (NOTE: After you reach age 65, or experience disability or death, the 20% penalty no longer applies; however, you would still pay income tax. And unlike most retirement plans, there's no required minimum distribution from an HSA.)

### Is there a deadline for contributing to an HSA?

April 15th is the last day to make contributions to your HSA for the previous tax year.

### How much can I contribute to an HSA?

#### 2020 HSA Contribution Limits

For account holders under individual health coverage: \$3,550

For account holders under family health coverage: \$7,100

Annual catch-up contribution: \$1,000

#### 2021 HSA Contribution Limits

For account holders under individual health coverage: \$3,600

For account holders under family health coverage: \$7,200

Annual catch-up contribution: \$1,000

\*Maximums include any employer contributions. There is a \$1,000 annual catch up provision if you are age 55 or older by December 31 of the tax year.

### What is the difference between an HSA and a flexible spending account (FSA)?

Both accounts can reduce healthcare-related expenses with pre-tax funds. However, two of the largest difference are:

- With an FSA, if an employee leaves, the FSA stays with the company. An HSA belongs to the individual and stays with the individual.
- An FSA does not carry over from year-to-year. It is a use it, or lose it account. An HSA carries over from year-to-year and accumulates tax-free over time.