HEALTH SAVINGS ACCOUNT OVERVIEW

What It Is

A Health Savings Account (HSA) is a tax effective way to pay or reimburse qualified medical expenses that aren't covered by insurance. By using money that was contributed on a pre-tax basis within an HSA, your out of pocket costs will be lower.

What Benefits It Offers

An HSA Has a Triple Tax Advantage:

1. Tax-deductible contributions
2. Tax-deferred growth
3. Tax-free withdrawals if used for qualified medical expenses

Additionally:

- You can claim a tax deduction for contributions you make even if you choose not to itemize your deductions in the year you contribute
- The account grows tax free and can potentially be invested
- Even if you change employers or leave the work force, your HSA stays with you
- Contributions made by your employer may be excluded from your gross income
- Since annual distributions aren't required, the balance grows until utilized
- HSAs are investment vehicles that can be used to fund retirement without an RMD requirement

How It Works

Who Qualifies?

To be eligible for an HSA, you must be covered under an High Deductible Health Plan (HDHP), have no other health coverage, not be enrolled in Medicare, and not be claimed as a dependent on someone else's tax return. Following the last-month rule, if you're an eligible individual on the first day of the last month of your tax year (December 1st for most), you're eligible for the entire year.

As listed by the IRS, qualified medical expenses are incurred by:

1. **You and your spouse.**
2. **All dependents on your tax return.**
3. **Anyone you could have claimed as a dependent on your return except if:**
   - The person filed a joint return;
   - The person had a gross income of $4,200 or more; or
   - You, or your spouse if filing jointly, could be claimed as a dependent on someone else's return.

Making Contributions

As long as you're eligible, you may contribute to an HSA. For accounts established by an employer, the employer, the employee, or both can contribute to the employee's account within the same year. For accounts that are established individually, whether you are self-employed or unemployed, the individual can contribute. Anyone may make contributions on behalf of an eligible account owner. Contributions must be made in cash, as stock and property contributions are prohibited.

Catch-up Contributions

In 2023, you can contribute up to $3,850 or $7,750 annually if you have self-only or family HDHP coverage, respectively. At age 55, the contribution limit increases by $1,000 per year. You can make contributions to your HSA until April 15th of the following year.

2023 HSA Limits

	Self-only	Family
HSA Contribution Limit	$3,850	$7,750
HSA Catch-up Contributions (age 55 or older)	$1,000	

Preparing Your Taxes

Contributions made by your employer aren't included in your taxable income. You can claim deductible contributions that you and anyone else made to your HSA, other than your employer, as an adjustment to income on your tax return.

HSAs as an Investment Vehicle

HSAs can be used as an investment vehicle to save for retirement. Since HSAs grow tax-free and any unused balances are carried forward, HSAs can be used during retirement. After age 65, non-qualified withdrawals bypass the 20% penalty. At this age, HSAs can be used for the same purpose as Traditional IRAs, but without the requirement of taking annual required minimum distributions.

It's important to note that if you are actively using an HSA, you should maintain some liquidity for expenses.

What Qualified Medical Expenses Include

Qualified medical expenses are similar to medical expenses that would qualify for the medical and dental expenses deduction and are listed within the **IRS Pub. 502**, Medical and Dental Expenses (see attachment below for complete list).

Non-prescription medications aren't considered qualified unless it requires a prescription, is available without a prescription and you receive a prescription for it, or it is insulin. You can even use your HSA to pay for some Medicare expenses including your Medicare Part B, Part D and Medicare Advantage plan premiums, deductibles, copays and coinsurance. HSA funds cannot be used to pay for Medigap premiums and generally, you cannot treat insurance premiums as qualified medical expenses. Expenses that you incur before you set up your HSA are not qualified. You are required to report your distributions on **Form 8889**.

Potential Disadvantages

- You must set up your HSA with a qualified HSA trustee, which can be a bank, an insurance company, or anyone approved by the IRS to be a trustee of individual retirement arrangements (IRAs) or Archer MSAs.
- If distributions are not used for qualified medical expenses, the withdrawal is taxed as ordinary income and may be subject to an additional 20% tax.
- Insurance premiums generally aren't qualified medical expenses.
- Not everyone is eligible to use an HSA.

IRS Publication 502 Qualified Medical and Dental Expenses
As of 2/6/2023

- Abortion
- Acupuncture
- Alcoholism
- Ambulance
- Annual Physical Examination
- Artificial Limbs
- Artificial Teeth
- Bandages
- Birth Control Pills
- Body Scan
- Braille Books And Magazines
- Breast Pumps and Supplies
- Breast Reconstruction Surgery
- Capital Expenses
- Car
- Chiropractor
- Christian Science Practitioner
- Contact Lenses
- Crutches
- Dental Treatment
- Diagnostic Devises
- Disabled Dependent Care Expenses
- Drug Sddiction
- Drugs
- Eye Exam
- Eyeglasses
- Eye Surgery
- Fertility Enhancement
- Founder’s Fee
- Guide Dog or Other Service Animal
- Health Institute
- Health Maintenance Organization (HMO)
- Hearing Aids
- Home Care
- Home Improvements
- Hospital Services
- Intellectually and Developmentally Disabled, Special Home
- Laboratory Fees
- Lactation Expenses
- Lead-based Pain Removal
- Learning Disability
- Legal Fees
- Lifetime Care—Dvance Payments
- Lodging
- Long-term Care
- Meals
- Medical Conferences
- Medical Information Plan
- Medicines
- Nursing Home
- Nursing Services
- Operations
- Optometrist
- Organ Donors
- Osteopath
- Oxygen
- Physical Examination
- Pregnancy Test Kit
- Premium Tax Credit
- Prosthesis
- Psychiatric Care
- Psychoanalysis
- Psychologist
- Special Education
- Sterilization
- Stop Smoking Programs
- Surgery
- Telephone
- Television
- Therapy
- Transplants
- Transportation
- Trips
- Tuition
- Vasectomy
- Vision Correction Surgery
- Weight-loss Program
- Wheelchair
- Wig
- X-ray