HSA—Frequently Asked Questions

HSA Basics

What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a tax-advantaged personal savings account you can use to pay for qualified health expenses or save for future qualified medical and retiree health expenses.

You own and control the money in your HSA, how to spend it on qualified medical expenses, and how to invest it.

Who is eligible for a Health Savings Account?

To be eligible, you must be covered by an HSA-qualified high-deductible health plan (HDHP) and must not be covered by any other health insurance. (Dental, vision, short-term disability, and long-term care insurance are not considered health insurance.)

What is a High-Deductible Health Plan (HDHP)?

An HDHP is a health plan that meets certain requirements for annual deductibles and out-of-pocket expenses set by the U.S. Department of the Treasury and IRS.

With an HDHP, you pay significantly lower premiums than in a traditional plan. An HDHP does not normally pay for health care expenses, except for preventive care, until your entire deductible is met. Your HSA also helps pay for expenses your HDHP plan does not cover.

Annual out-of-pocket maximums and deductibles, are adjusted annually. For current information, visit treasury.gov or speak with your agent.

Do unused funds in an HSA roll over?

Yes, if you have money in your HSA at the end of the year, it automatically rolls over. You won't lose it if you don't spend it, unlike a Flexible Spending Account (FSA).

HSA Contributions

How much can I contribute to my HSA each year?

Each year the U.S. Department of the Treasury and IRS determine contribution limits for individuals and families. If you are 55 or older, you also can make an additional "catch-up" contribution, to an amount determined by the IRS. For current information, visit treasury.gov or speak with your agent.

Do my contributions provide any tax benefits?

Your personal contributions provide you an "above-the-line" deduction, which means you reduce your taxable income by the amount you contribute to your HSA. You do not have to itemize your deductions. Contributions can also be made to your HSA by others, like relatives. However, you receive the tax deduction.

Are contributions through my employer "pre-tax"?

If your employer offers a "salary reduction" plan (also known as a "Section 125 plan" or "cafeteria plan"), you can make contributions to your HSA on a pre-tax basis (i.e., before income taxes and FICA taxes). But if you fund your HSA with pre-tax dollars, you cannot take an "above-the-line" deduction on your personal income taxes.

If I take an "above-the-line" deduction for an HSA, can I itemize deductions for medical expenses?

You may be able to claim the medical expense deduction even if you contribute to an HSA. However, you cannot include any contribution to the HSA or distribution from the HSA, including distributions taken for non-medical expenses, in the calculation for claiming the itemized deduction for medical expenses.

Using Your HSA

What can an HSA pay for?

HSA funds can pay for any "qualified medical expense," even if the expense is not covered by your HDHP. For example, most health insurance does not cover contact lens purchases, but money saved in an HSA account can be used to pay for contact lenses. If the money from the HSA is used for qualified medical expenses, then the money spent is tax-free.

What is included in "qualified medical expenses"?

You can find a partial list of qualified medical expenses at irs.gov (in IRS Publication 502). You should familiarize yourself with this list and keep your receipts in case you are audited.

Dental and vision care are generally included, as long as these are deductible under the current rules. For example, cosmetic procedures, like cosmetic dentistry, would not be considered qualified medical expenses.

What if I use my HSA for other expenses?

If HSA funds are used for anything other than qualified medical expenses, the expenditures will be taxed and, for individuals who are not disabled or over age 65, subject to a 20% tax penalty and included in gross income.

Can I use my HSA for a family member?

Yes, you may withdraw funds without a tax penalty to pay for the qualified medical expenses of yourself, your spouse, or a dependent. This is one of the great advantages of HSAs.

What happens to an HSA when you turn 65?

You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can no longer contribute to your HSA account. However, you can continue to use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. You cannot, however, use your HSA tax-free to purchase Medicare supplement insurance.

This document is not tax advice. Please consult a tax professional regarding your unique tax situation and needs.

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