

Health Savings Account (HSA) Basics

What is a Health Savings Account (HSA)?

The result of Title XII of the Medicare Prescription Drug Improvement and Modernization Act of 2003, an HSA is a consumer-oriented, tax-advantaged savings account that is always combined with an HDHP and is:

- Portable
- An interest-accruing account similar to an Individual Retirement Account (IRA)
- Established for eligible consumers by employers, their employees, or the individuals themselves
- An account whose balance rolls over year after year while earning interest
- Not required to be funded every year

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

An HSA-qualified HDHP is a health plan with the following characteristics:

- For 2022, a minimum deductible of \$1,400 for individual coverage and \$2,800 for family coverage
- For 2022, annual out-of-pocket (including deductibles and co-insurance) not exceeding \$7,050 for individual coverage and \$14,100 for family coverage
- HDHPs provide first-dollar coverage for preventive care
- All covered benefits must apply to the plan deductible, including prescription drugs
- The above limits are indexed annually for inflation

What are the eligibility requirements regarding the establishment of HSAs?

In addition to participating in an HDHP, the following conditions must be met to establish an HSA:

- Consumer does not have health benefits from another health plan and is not covered by spouse's flexible spending account (unless the FSA is "limited purpose")
- Consumer is not eligible to be claimed as a dependent on another's tax return
- Consumer is not enrolled in Medicare

Who can make contributions to an HSA?

Anyone can make contributions to an eligible individual's HSA. The account owner receives the benefit of the tax deductions.

How much can be contributed to the HSA?

- The IRS annual maximum amount that can be contributed to an HSA by all parties is:
2022: \$3,650 for an individual plan, \$7,300 for a family plan
- These maximum annual contributions may be indexed for inflation each year.
- For individuals age 55 and up, additional "catch up contributions" (\$1,000 in 2009 and beyond) are allowed.
- Contributions may be made until April 15 of the following year.

What are some advantages to the HSA?

Funds in the HSA account can be used to pay for current and future medical expenses, including expenses that insurance does not cover such as:

- COBRA premiums
- Medical expenses and insurance premiums during periods of unemployment
- Medical expenses during retirement entitlement
- Medicare premiums (except Medigap)
- Out-of-pocket expenses for Medicare
- Qualified long-term care expenses and insurance

An HSA offers tax savings

- Contributions to the account are tax-deductible
- Withdrawals and earnings for qualified expenses are tax-free

An HSA gives consumers more choices, such as:

- How much to contribute
- How much to use for qualified medical expenses
- Which medical expenses to pay from the savings account

An HSA is portable so the consumer owns the account regardless of:

- Whether the consumer is employed
- Whether the consumer moves to another state
- The consumer's future medical coverage

With the HSA, there's no "use it or lose it" rule. Therefore, a consumer doesn't feel a "time crunch" when spending the health care dollars. This encourages an individual to shop around for the best value and invest