

You & Your HSA

9 rules you should know

Health Savings Accounts offer you an easy way to lower your taxes and save money to pay for health care expenses. In order to enjoy the tax advantages you must follow the specific regulations associated with HSAs.

1. Requires Enrollment in a Qualified CDHP

To be eligible to contribute to an HSA, you must be:

- ★ Covered by a Consumer Directed Health Plan (CDHP)
- ★ Not covered by any other health insurance that is not an CDHP
- ★ Not enrolled in Medicare
- ★ Not eligible to be claimed as a dependent on someone else's tax return



You can cover adult children under a health plan to age 26. However, please note that if you cover an adult child on your CDHP plan, you can only use funds from your HSA to pay for their expenses if they are a **legal tax dependent**.

2. Maximum Calendar Year Contribution

Because of the favorable tax benefits you can only contribute a limited amount to your HSA annually. Your maximum annual contribution depends on your family status. For 2023, you can contribute up to \$3,850 annually for yourself and up to \$7,750 if you cover yourself and dependents. The maximum dollar limits include any amounts that your employer contributes towards your HSA. If you are over age 55 you are eligible to make "catch-up" contributions of \$1,000 annually.

3. Family Deductible & Out of Pocket Maximum

With CDHP coverage, the family deductible is an aggregate (umbrella) deductible. If you also cover your dependents under the plan, then you will need to satisfy the entire family deductible amount before any benefits are paid under the plan. The family out of pocket maximum is also an aggregate calculation. The entire family out-of-pocket maximum must be met before the plan pays 100%.

4. Qualified HSA Custodian Bank Required

Your employer may partner with an HSA custodian to administer your HSA. You may choose the employer endorsed custodian or can redirect the contributions to an alternative HSA

custodian of your choice. If you do not choose your employer's option, your HSA must be set up with a qualified HSA custodian or trustee.

5. HSA Custodian Fees and Restrictions

Fees and restrictions vary from one HSA custodian to another. When selecting a custodian, you should investigate the balance requirements, account and maintenance fees including account termination fees, interest rates, investment options and minimum contribution requirements. Some HSA banks require a minimum balance before investment options become available. Also, portfolio investment options will vary by bank.

6. Contributions are Considered Taxable Income in Several States

There are several states whose tax laws are in conflict with federal tax laws regarding HSAs. If you live in these states, your HSA contributions are still subject to state taxes even though they are exempt from federal taxes. This includes any contributions made by your employer and any interest you earn on your HSA balance will also be subject to state taxes, but exempt from federal taxes. Check with your tax advisor to learn about your state's treatment of HSA accounts.

7. Taxation and Penalties on Non-Qualified Medical Expenses

You can use your HSA to make tax-free payments for qualified (eligible) healthcare expenses. Eligible and ineligible expenses are set by the IRS, refer to **IRS Publication 502** to see examples of both.

if you use your HSA to pay for a non-qualified expense, you will be taxed on the purchase and will be required to pay a 20% penalty on the amount you spent. Once you reach the age 65, you may use your HSA for non-qualified expenses without being assessed the 20% penalty but you are still taxed for non-qualified expenses.

8. Medicare

You may no longer contribute to your HSA once you become enrolled in Medicare. This is a consideration if you are working past the age of 65 and have not waived Medicare coverage or are concerned about having enough money to pay for healthcare coverage. After the age of 65, you can withdraw funds from your HSA for any purpose without suffering a 20% tax penalty, but you will still be subject to taxes if the funds are not used for qualified healthcare expenses. You may use your HSA to pay healthcare costs such as insurance deductibles and copayments, pharmacy drugs, Medicare Part A and B premiums, some health insurance premiums, and long-term care premiums.

9. Claims eligible for reimbursement

Only expenses incurred after the HSA was established are eligible for reimbursement.