

Know Your Benefits

Health Savings Accounts

A health savings account (HSA) is an account funded to help you save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment.

Who Can Have an HSA?

Any adult can have an HSA if you:

- Have coverage under an HSA-qualified, high deductible health plan (HDHP)
- Have no other health coverage (certain types of insurance, such as specific injury or accident, disability, dental care, vision care or long-term care, are permitted)
- Are not enrolled in Medicare
- Cannot be claimed as a dependent on someone else's tax return

Contributions to your HSA can be made by you, your employer or both. However, the total contributions are limited annually. If you make a contribution, you can deduct the contributions (even if you do not itemize deductions) when completing your federal income tax return. Alternatively, some employers will allow you to make your HSA contributions as tax-free salary reductions.

Contributions to the account must stop once you are enrolled in Medicare. However, you can still use your HSA funds to pay for medical expenses tax-free.

HDHPs

You must have coverage under an HSA-qualified high deductible health plan to open and contribute to an HSA. Generally, this plan will not cover first-dollar medical expenses, and must have a deductible of at least:

- Single coverage: \$1,650 for 2025 (\$1,700 for 2026)

- Family coverage: \$3,300 for 2025 (\$3,400 for 2026)

In addition, annual out-of-pocket expenses under the plan (including deductibles, copays and coinsurance) cannot exceed the following limits:

- Single coverage: \$8,300 for 2025 (\$8,500 for 2026)
- Family coverage: \$16,600 for 2025 (\$17,000 for 2026)

In general, the deductible must apply to all medical expenses (including prescriptions) covered by the plan. However, plans can pay for preventive care services on a first-dollar basis. Preventive care can include routine prenatal and well-child care, child and adult immunizations, annual physicals, mammograms and more.

HSA Contributions

You can make a contribution to your HSA each year that you are eligible. You can contribute no more than:

- Single coverage: \$4,300 for 2025 (\$4,400 for 2026)
- Family coverage: \$8,550 for 2025 (\$8,750 for 2026)

Individuals ages 55 and older can also make additional "catch-up" contributions of up to \$1,000 annually.

Determining Your Contribution

Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. Individuals who are eligible to contribute to an HSA in the last month of the taxable year are allowed to contribute an amount equal to the annual HSA contribution amount provided they remained covered by the HSA for at least the 12-month period following that year. Contributions can be made as late as April 15 of the following year.

Using Your HSA

You can use money in your HSA to pay for any qualified medical expense permitted under federal tax law. This includes most medical care and services, dental and vision care.

Generally, you cannot use your HSA to pay for medical insurance premiums, except specific instances, including:

- Any health plan coverage while receiving federal or state unemployment benefits
- COBRA continuation coverage after leaving employment with a company that offers health insurance coverage
- Qualified long-term care insurance
- For HSA holders who are age 65 or older, any deductible health insurance (for example, retiree medical coverage) other than a Medicare supplemental policy.

You can use your HSA to pay for medical expenses for yourself, your spouse or your dependent children, even if your dependents are not covered by your HDHP. Any amounts used for purposes other than to pay for qualified medical expenses are taxable as income and subject to an additional 20% penalty. Examples include:

- Medical procedures and expenses not considered qualified under federal tax law
- Medicare supplement insurance premiums
- Expenses not health-related.

After you turn 65, the 20% additional tax penalty no longer applies. If you become disabled and/or enroll in Medicare, the account can be used for other purposes without paying the additional penalty.

Advantages of HSAs

Security—Your HSA can provide a buffer for unexpected medical bills.

Affordability—In most cases, you can lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

Flexibility—You can use your HSA to pay for current medical expenses, including expenses that your insurance may not cover, or save your funds for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)

- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Savings—You can save the money in your HSA for future medical expenses and grow your account through investment earnings.

Control—You make the decisions regarding:

- How much money you will put in the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from the account
- Which financial institution will hold the account
- Whether to invest any of the money in the account
- Which investments to make

Portability—Accounts are completely portable, meaning you can keep your HSA even if you:

- Change jobs
- Change your medical coverage
- Become unemployed
- Move to another state
- Change your marital status

Ownership—Funds remain in the account from year to year, just like an IRA. There are no “use it or lose it” rules for HSAs.

Tax Savings—An HSA provides you triple tax savings:

1. Tax deductions when you contribute to your account
2. Tax-free earnings through investment
3. Tax-free withdrawals for qualified medical expenses

What Happens to My HSA When I Die?

- If you are married, your spouse becomes the owner of the account and can use it as if it were his or her own HSA.
- If you are not married, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate (and be subject to any applicable taxes).

Opening Your HSA

Banks, credit unions, insurance companies and other financial institutions are permitted to be trustees or custodians of these accounts. Other financial institutions that handle IRAs are also automatically qualified to establish HSAs.

Learn More

To learn more about health savings accounts or how to get started, contact HR today.

Know Your Benefits

HSA Examples of Eligible Expenses

Your health savings account (HSA) may reimburse:

- Qualified medical expenses incurred by the account beneficiary and his or her spouse and dependents;
- COBRA premiums;
- Health insurance premiums while receiving unemployment benefits;
- Qualified long-term care premiums*;
- Any health insurance premiums paid, other than for a Medicare supplemental policy, by individuals age 65 or older; and
- Effective Jan. 1, 2020, qualifying over-the-counter (OTC) drugs, along with menstrual care products, are also treated as qualified medical expenses.

Distributions made from an HSA to reimburse the account beneficiary for eligible expenses are excluded from gross income.

Qualified Medical Expenses

The Internal Revenue Service (IRS) defines qualified medical care expenses as amounts paid for the diagnosis, cure or treatment of a disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate a physical or mental defect or illness.

The products and services listed below are examples of medical expenses eligible for payment under your HSA, when such services are not covered by your high-deductible health plan. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness.

This list is not all-inclusive; additional expenses may qualify, and the items listed below are subject to change in

accordance with IRS regulations. For more information or clarification on individual list items, refer to [Publication 502](#) or consult a tax professional.

- Acupuncture
- Alcoholism treatment
- Ambulance
- Artificial limb
- Artificial teeth
- Bandages
- Birth control pills
- Body scan
- Breast pumps and supplies
- Breast reconstruction surgery following mastectomy
- Capital expenditures (improvements or special equipment installed to a home, if meant to accommodate a disabled condition)
- Car modifications or special equipment installed for health reasons
- Chiropractor
- Contact lenses
- Crutches
- Dental treatment (not including teeth whitening)
- Diagnostic devices

- Disabled dependent care expenses (medical care of the disabled dependent)
- Drug addiction treatment
- Eye exam
- Eyeglasses
- Eye surgery
- Fertility enhancement (for example, in vitro fertilization or surgery)
- Guide dog or other service animal
- Hearing aids
- Hospital services
- Laboratory fees
- Lactation expenses
- Lodging at a hospital or similar institution
- Long-term care insurance premiums*
- Medical conference expenses, if the conference concerns a chronic illness of yourself, your spouse or your dependent
- Medications
- Nursing services
- Operations
- Optometrist
- Osteopath
- Oxygen
- Physical examination
- Pregnancy test kit
- Prosthesis
- Psychiatric care
- Psychoanalysis
- Psychologist
- Sterilization
- Stop-smoking programs

- Surgery
- Special telephone for hearing-impaired individuals
- Television for hearing-impaired individuals
- Therapy received as medical treatment
- Transplants
- Transportation for medical care
- Vasectomy
- Vision correction surgery
- Weight-loss program if it is a treatment for a specific disease
- Wheelchair
- Wigs
- X-rays

Source: www.irs.gov

Plans that do not allow reimbursement of all eligible medical expenses as defined by the IRS and Department of Treasury must customize this article prior to use.

** For purposes of reimbursement of qualified long-term care premiums from an HSA, reimbursement in excess of the amount which may be deducted on an individual's personal tax return is not an eligible expense. IRS 213(d)(10) establishes the tax deduction allowed for qualified long-term care premiums on individual tax returns. If the HSA reimburses long-term care premiums for an amount greater than set forth in IRC 213(d)(10), the amount greater than allowed is included in the account holder's taxable income and is subject to a 20 percent penalty.*