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Human Resources: Health Savings Account (HSA)

What is a Health Savings Account?

Health Savings Accounts (HSAs) were created in 2003 to allow individuals covered by High Deductible Health Plans to receive tax-preferred treatment of money saved for qualified medical expenses. Generally, an HSA is setup exclusively for paying the qualified medical expenses of the account beneficiary and eligible dependents. An HSA provides a triple tax free benefit as the dollars contributed to the HSA go in tax free, grow interest tax free, and are tax free upon distribution for payment of qualified medical expenses.

Related Files

» HRA/HSA Comparison Chart
This chart provides an overall summary comparison of the main plan features of a Health Reimbursement Account (HRA) vs. a Health Savings Account (HSA).

» HSA Eligible Expenses
Under IRS Code Section 213(d), the attached is a listing of eligible medical expenses that can be used with a Health Savings Account (HSA).

Related Links

» IRS Publication 502 Medical & Dental Expenses

» IRS Publication 969-HSA's

What are HSA Qualified Medical Expenses?

Generally, qualified medical expenses for HSA purposes are unreimbursed medical expenses that could otherwise be deducted on Schedule A (Form 1040) and fall under IRS Code Section 213(d). Note, these are the same eligible expenses that can be used with a Healthcare Flexible Spending Account.

In addition to the 213(d) expenses, HSA rules are expanded to also be used for premiums for long-term care insurance (LTC), healthcare continuation coverage (COBRA), healthcare coverage while receiving unemployment compensation under federal or state law, or Medicare and other healthcare coverage if you are 65 or older.

Please refer to the listing of HSA Qualified Medical Expenses for more information.

Who is eligible for an HSA?

Because HSA plans have special tax advantages, the IRS defines specific rules for participation. To be eligible to have contributions made to an HSA, you must meet the following criteria:

- Must be enrolled in an IRS-qualified High Deductible Health Plan
- Cannot be covered by any other health insurance:
  - Not covered by spouse's medical or pharmacy plan
  - Not covered through Medicare Part A or Part B
  - Not covered through a general-purpose Heathcare Flexible Spending Account (Health-FSA) plan (either employer's or spouse's)
- Cannot be claimed as a dependent on another person's tax return

Who is an eligible dependent for an HSA?

The following persons are eligible dependents who can have their qualified medical expenses paid for from the accountholder's HSA:

- Your spouse
- All dependents you claim on your tax return
- Any person you could have claimed as a dependent on your tax return, except that:
  1. The person filed a joint return;
  2. The person had gross income of $3,800 or more;
  3. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's tax return.

For this purpose, a child of parents that are divorced, separated, or living apart fot the last 6 months of the calendar year are treated as the dependent of both parents whether or not the custodial parent releases the claim to the child's exemption.

How much can I contribute to an HSA?

The IRS sets annual limits on HSA contribution amounts each year. For 2014, the maximum amount that can be contributed to an HSA is as follows:

- Employee-only HDHP coverage: $3,300
- Employee-plus* HDHP coverage: $6,550

*employee-plus coverage includes: employee + spouse, employee + child(ren), and family.

The HSA annual limits are a combined total of employee and employer contributions. Additionally, these limits apply to multiple HSA accounts in the same year (e.g., if a new employee is hired mid-year and already contributed to an HSA with a previous employer).

The IRS also allows for catch-up contributions for eligible individuals who are age 55 and older. For eligible individuals who are 55 or older by the end of the tax year, they can increase their contribution limit up to $1,000 a year. For example for 2014, an eligible individual who is 55 or older with employee-only coverage can have contributions up to $4,300 ($3,300 + $1,000).

Can I participate in an HSA if I am Post-65 and eligible for Medicare?

If you are age 65 or older and actively employed, you may continue to be enrolled by your employer's medical coverage and waive coverage with Medicare. As long as you are 'not enrolled' in Medicare Part A or Part B coverage, you are still eligible to participate and make tax free contributions into your HSA.

If you are age 65 or older and are interested in participating in the HDHP-HSA plan with WHOI, you should contact the Social Security office to check on the status of your eligibility and enrollment in Medicare coverage as this may impact your eligibility for contributions to an HSA.

What happens to my HSA if I am no longer enrolled in the associated HDHP?

If you are no longer enrolled in the HDHP with HSA and have a remaining balance in your HSA, you are allowed to utilize the remaining funds for any qualified medical expenses as incurred under another medical plan (WHOI or non-WHOI), but can no longer make contributions to the HSA.

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