The HSA “Rulebook”

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

Requires Enrollment in a Qualified HDHP

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

- Covered by a High Deductible Health Plan (HDHP)
- Not covered by any other health insurance that is not an HDHP
- Not enrolled in Medicare
- Not eligible to be claimed as a dependent on someone else’s tax return

Adult children must be your tax dependents

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

Maximum Calendar Year Contribution

The IRS sets yearly contribution limits. For 2020, you can contribute up to $3,550 annually for yourself and up to $7,100 if you cover you and your 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.

Contributions and State Taxes

Most states treat HSA contributions and earnings on a tax favored basis, just like the federal tax code. CA and NJ do not exclude HSA contributions from income. Contact your tax advisor or HSA administrator for additional information on taxes in your state.

Taxation and Penalties on Non-Qualified Medical Expenses

You can use your HSA to make tax-free payments for qualified (eligible) medical expenses. Refer to IRS Publication 502 to see examples of eligible and ineligible expenses. 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.

Contributions to other tax-advantaged savings accounts

Generally, you can’t have an HSA and a Flexible Spending Account (FSA). However, if your employer offers a “limited purpose” FSA (LPFSA), you may be able to contribute to both. While HSA funds can be used for qualified medical expenses, funds in LPFSAs can only be used to pay for eligible dental and vision expenses (e.g. fillings, root canals, contact lenses, prescription glasses). Check with you HR or Benefits Department for specifics.

You can’t contribute if you have Medicare

You may no longer contribute to your HSA once you become enrolled in Medicare. After age 65, you can withdraw funds from your HSA for any purpose without suffering a 20% tax penalty. 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. However, you will pay regular tax on withdrawals that are not used for qualified medical expenses.

Your account goes with you

If you leave your employer, your HSA account goes with you. You may elect one of the following options:

- Leave your funds in the current HSA account
- Transfer your funds to an HSA with your new employer
- Transfer your funds to another qualifying account within 60 days