



HSA

# HEALTH SAVINGS ACCOUNTS



## Using your HSA

You can use the money in the account to pay for any “qualified medical expense” permitted under Federal tax law. Examples of qualified medical expenses that are permitted would include medical care services, dental and vision care, and over-the-counter drugs such as aspirin.

You can generally not use the money to pay for medical insurance premiums, except under specific circumstances, 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

Medicare premiums and out-of-pocket expenses, including deductibles, co-pays, and coinsurance for:

- Part A: Hospital and inpatient services
- Part B: Physician and outpatient services
- Part C: Medicare HMO and PPO plans
- Part D: Prescription drugs

You can use the money in the account to pay for medical expenses for yourself, your spouse, or your dependent children. You can pay for expenses of your spouse and dependent children even if they 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% tax penalty.

Examples include:

Medical expenses that are not considered “qualified medical expenses” under Federal tax law (e.g. cosmetic surgery)

Other types of health insurance unless specifically described above

Medicare supplement insurance premiums

Expenses that are not medical or health-related

After you turn age 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 20% penalty.

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## Advantages of HSAs

**SECURITY:** Your high deductible insurance and HSA protect you against high or unexpected medical bills.

**AFFORDABILITY:** You should be able to lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

**FLEXIBILITY:** You can use the funds in your account to pay for current medical expenses, including expenses that your insurance may not cover, or save the money in your account for future needs, such as:

- Health insurance / 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 account for future medical expenses and grow your account through investment earnings.

**CONTROL:** You make all the decisions about:

- How much money you put into the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from the account
- Which company 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 is no “use it or lose it” rules for HSAs.

**TAX SAVINGS:** An HSA provides you triple tax savings.

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

# HEALTH SAVINGS ACCOUNTS

## High Deductible Health Plans (HDHPs)

You must have coverage under an HSA-qualified "high deductible health plan" (HDHP) to open and contribute to an HSA. Generally, this is health insurance that does not cover first dollar medical expenses. Federal law requires that the health insurance deductible be at least:

\$1,400\* ~ Self-only coverage

\$2,800\* ~ Family coverage

In addition, annual out-of-pocket expenses under the plan (including deductibles, co-pays, and co-insurance) cannot exceed:

\$6,900\* ~ Self-only Coverage

\$13,800\* ~ Family Coverage

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 (with or without co-pay). "Preventative care" can include routine pre-natal and well-child care, child and adult immunizations, annual physicals, mammograms, pap smears, etc.

**\*2020 amounts; adjusted annually for inflation.**

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## Finding HDHP Coverage

Any company that sells health insurance coverage in your state may offer HDHP policies. Although Treasury cannot recommend any specific names of companies selling these policies, you should be able to find a qualified policy by contacting your current insurance company, an agent or broker licensed to sell health insurance in your state, or your state insurance department.

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## **HSA Contributions**

You can make contributions to an HSA each year that you are eligible. The 2020 maximum annual HSA contribution for an eligible individual with Self-only coverage is \$3,550. The 2020 maximum annual HSA contribution for Family coverage is \$7,100.

Individuals age 55 and older can also make additional “catch-up” contributions. The maximum annual catch-up contribution is \$1,000.

Individuals who are eligible on the first day of the last month of the taxable year (December for most taxpayers) are allowed the full annual contribution (plus catch up contribution of \$1,000, if they are age 55 or older by year end), regardless of the number of months the individual was an eligible individual in the year. For individuals who are no longer eligible on that date, both the HSA contribution and the catch up contribution apply pro rata based on the number of months of the year a taxpayer is an eligible individual.

### **New amounts for Out-of-Pocket Spending on HSA-Compatible HDHPs:**

For 2020, the maximum annual out-of-pocket amount for HDHP with Self-only coverage increased to \$6,900 and the maximum annual out-of-pocket amount for HDHP with Family coverage is twice that, \$13,800.

### **Minimum Deductible Amounts for HSA-Compatible HDHPs:**

For 2020, the minimum deductible for HDHPs is \$1,400 for Self-only coverage and \$2,800 for Family coverage. In addition, a fiscal year plan that satisfies the requirements for an HDHP on the first day of the first month of its fiscal year may apply that deductible for the entire fiscal year.

## Determining Your Contribution

Any eligible individual can contribute to an HSA. For an employee's HSA, the employee, the employee's employer, or both may contribute to the employee's HSA in the same year. For an HSA established by a self-employed (or unemployed) individual, the individual can contribute. Family members or any other person may also make contributions on behalf of an eligible individual. Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. If you do not have HDHP coverage for the entire year, you will not be able to make the maximum contribution. All contributions (including catch-up contributions) must be pro-rated. Your annual contribution depends on the number of months of HDHP coverage you have during the year (count only the months where you have HDHP coverage on the first day of the month).

Contributions can be made as late as April 15 of the following year.

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