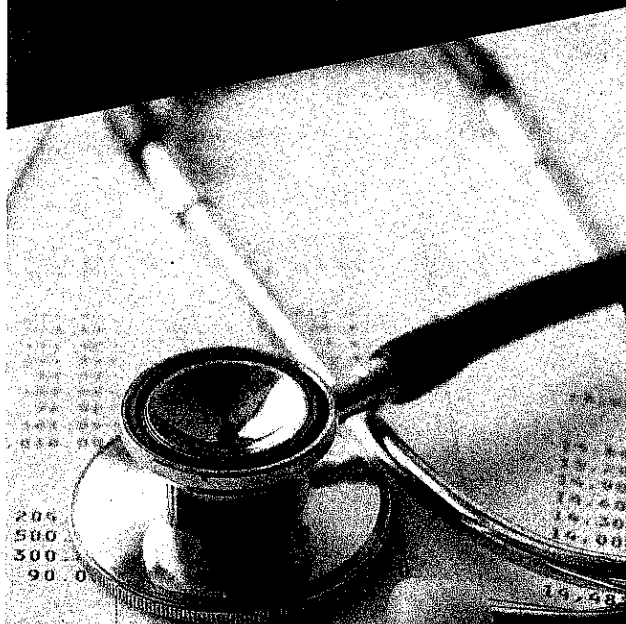


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**Health Savings Account**

## **HSA OVERVIEW**

### **What is a Health Savings Account?**

A Health Savings Account (HSA) is a tax-exempt trust or custodial account established for the purpose of paying or reimbursing qualified medical expenses of you, your spouse, and your dependents. Contributions to an HSA are tax deductible, the earnings grow tax deferred, and distributions to pay or reimburse qualified medical expenses are tax free.

### **What are My Responsibilities as an HSA Owner?**

Each year you are responsible for determining your eligibility and allowable annual HSA contribution and whether you have qualified medical expenses eligible for reimbursement with nontaxable HSA distributions. You are encouraged to seek this guidance from a tax or legal professional.

### **How Do I Establish an HSA?**

If you are eligible, you can establish an HSA in much the same way you would establish an IRA. See any of our new account representatives. We will explain the nature of these accounts in more detail and help you complete the forms necessary to establish an HSA.

## **HSA ELIGIBILITY**

### **Am I Eligible for an HSA?**

You are an eligible individual and may make regular HSA contributions if you are covered under a qualifying high deductible health plan (HDHP) and answer "No" to each of the following questions:

1. Do you have other health coverage (except permitted coverage)?
2. Are you enrolled in Medicare?
3. Are you claimed as a dependent on another person's tax return?

### What is an HDHP?

An HDHP is a health plan with an annual deductible, based on the type of insurance coverage, that is no less than the amounts shown in the chart that follows:

HDHP Annual Deductible		
Tax Year	Self-Only Coverage	Family Coverage
2020	\$1,400	\$2,800
2021	\$1,400	\$2,800
2022 and later	\$1,400*	\$2,800*

\* Subject to annual cost-of-living adjustments, if any.

Contact your health plan provider for assistance in determining if your HDHP meets the requirements for an HSA.

### Are There Other Requirements for the HDHP?

Yes. For HSA purposes, the HDHP must limit out-of-pocket expenses, based on the type of insurance coverage, to no more than the amounts shown in the chart that follows:

Maximum Out-of-Pocket Expenses		
Tax Year	Self-Only Coverage	Family Coverage
2020	\$6,900	\$13,800
2021	\$7,000	\$14,000
2022 and later	\$7,000*	\$14,000*

\* Subject to annual cost-of-living adjustments, if any.

### Can I Have an HSA and Participate in a Health Flexible Spending Account (FSA)?

One of the general rules for HSA eligibility is that if you are covered under another

health plan that is not an HDHP, you are not an eligible individual, and you cannot make regular contributions to an HSA. A health FSA is considered a non-HDHP because you can use the assets in the FSA before you have met your deductible in the HDHP. However, if you are covered by a limited purpose or post-deductible health FSA, and are otherwise eligible, you can make regular contributions to your HSA.

## **HSA CONTRIBUTIONS**

### **Who Can Contribute to My HSA?**

If you meet the eligibility requirements for an HSA you, your employer, your family members, and any other person (including nonindividuals) may contribute to your HSA. This is true whether you are employed, self-employed or unemployed.

### **How Much Can Be Contributed to My HSA?**

The maximum annual contribution amount is the standard limit as shown in the chart that follows. It is reduced by any employer contributions to your HSA, any contributions made to your Archer MSA, and any qualified HSA funding distributions from your IRA to your HSA.

Additionally, "catch-up" contributions are available for eligible individuals who are age 55 or older by the end of their taxable year and for any months individuals are not enrolled in Medicare.

**Note:** Any transfer from a checking, savings, or other type of deposit account is considered a regular contribution into your HSA and is applied to your maximum annual contribution limit.

Contribution Limits				
Tax Year	HDHP Coverage	Standard Limit	Catch-Up Limit	Maximum Contribution Limit
2020	Self-Only	\$3,550	\$1,000	\$4,550
	Family	\$7,100	\$1,000	\$8,100
2021	Self-Only	\$3,600	\$1,000	\$4,600
	Family	\$7,200	\$1,000	\$8,200
2022 and later	Self-Only	\$3,600*	\$1,000	\$4,600*
	Family	\$7,200*	\$1,000	\$8,200*

\* Subject to annual cost-of-living adjustments, if any.

### Example

Jada, age 38, has family HDHP coverage. Assuming she remains eligible for all of 2021, her contribution limit is \$7,200.

The standard and catch-up contribution amounts are determined on a monthly basis and are zero for any months an individual is not eligible.

### Example

Al reached age 65 and enrolled in Medicare during July 2021. He had been participating in an HDHP with self-only coverage. Al is no longer an eligible individual for the months after June 2021. Al's contribution limit for 2021 is \$2,300 [his regular contribution limit of \$3,600 plus the catch-up contribution limit of \$1,000, divided by 12, then multiplied by the number of months he was eligible (6 – January through June)].

### Example

Mark, age 52, has self-only HDHP coverage. Mark's 2021 monthly contribution limit is \$300 ( $\$3,600 \div 12$ ). However, Mark changed jobs in the middle of the year and his HDHP coverage ended June 15, 2021. Mark has a zero contribution limit for any month he is not an eligible individual on the first day of the month. Therefore, he may contribute to his HSA only for the months he was eligible (January through June). Mark's total contribution limit for 2021 is \$1,800 ( $\$3,600 \div 12 \times 6$ ).

For married individuals with family HDHP coverage the standard contribution limit can be split between their HSAs in any manner.

### **Example**

*Adeel, age 53, has family HDHP coverage. His spouse, Aisha, age 55, is covered under the HDHP plan. Both are eligible individuals the entire year. Having no other health insurance coverage, Adeel and Aisha are each eligible to establish and fund an HSA for 2021. Between the two of them, they can contribute a total of \$7,200 to HSAs. However, the additional \$1,000 catch-up contribution that Aisha is eligible for can only be made to Aisha's HSA, even if they decide to make the entire \$7,200 contribution to Adeel's HSA.*

### **How Does the Last Month Rule Work?**

You are eligible to make HSA contributions for a full year if you are an eligible individual on December 1 of that year. If you were not eligible for the entire year, but were an eligible individual on December 1, you must remain an eligible individual for a testing period that begins December 1 of the contribution tax year and ends on December 31 of the following year to take advantage of the last month rule.

Failure to remain an eligible individual for the entire testing period will make the contribution amount for the months you were ineligible subject to income tax and a 10 percent penalty tax during the year the failure occurs, regardless of age. However, no income tax or penalty tax applies if loss of eligibility is due to death or disability. Failure of the testing period does not create an excess contribution in the HSA. Rather, the assets remain in the HSA, and may be subject to taxation again if withdrawn and not used for qualified medical expenses.

### **Example**

*John, age 43, is an eligible individual and has self-only coverage under an HDHP beginning July 1, 2021. John contributes the full amount for 2021 (\$3,600) under the last month rule, as if he had been eligible for the entire year. His contribution limit testing period begins December 1, 2021, and ends December 31, 2022. If John loses his eligible individual status at any time during the testing period, \$1,800 [ $\$3,600 \text{ annual contribution} \div 12 \text{ months per year} \times 6 \text{ months of ineligibility in 2021 (January through June)}$ ] is subject to federal income tax and a 10 percent penalty tax during the year (likely 2022) the failure occurs.*

### **Can I Move Money From My IRA to My HSA?**

You may take a one-time (once-in-a-lifetime) distribution from your traditional or Roth IRA to fund an HSA. This HSA contribution is considered a regular, current-year contribution and, therefore, cannot exceed your contribution limit for the year. The IRA assets must be transferred directly from your traditional or Roth IRA to your HSA, or from a traditional or Roth IRA for which you are the beneficiary to your HSA. In other words, a qualified HSA funding distribution cannot be made to an HSA owned by someone other than you, including your spouse. If you own more than one IRA and want to use amounts in multiple IRAs to make a qualified HSA funding distribution, you must first transfer assets to a single IRA and then make the one-time qualified HSA funding distribution. Distributions from ongoing SEP or SIMPLE IRAs are not eligible for qualified HSA funding distribution provisions.

The testing period begins with the month of the contribution to the HSA and ends on the last day of the twelfth month following such month. Failure to remain an eligible individual for the entire testing period subjects the IRA-funded amount to income tax and a

10 percent penalty tax in the tax year you become ineligible. However, no income tax or penalty tax applies if loss of eligibility is due to death or disability. Failure of the testing period does not create an excess contribution in the HSA. Rather, the assets remain in the HSA, and may be subject to taxation again if withdrawn and not used for qualified medical expenses.

#### **Example**

*Damien, age 58, has family HDHP coverage and a \$8,200 HSA contribution limit for 2021. On June 1, 2021, Damien funded his HSA with a \$5,000 tax-free distribution from his traditional IRA. The testing period begins June 1, 2021, and ends June 30, 2022. If Damien loses his eligible individual status in February 2022, the IRA distribution amount will be subject to income tax and a 10 percent penalty tax in 2022.*

### **How Do I Factor in Contributions Made by My Employer?**

Aggregate employer contributions to an HSA reduce the amount you may contribute to your HSA. You are fully responsible for tracking the amount of your annual contributions including those made by your employer or any other third party.

#### **Example**

*Mary, age 32, has self-only HDHP coverage and a \$3,600 HSA contribution limit for 2021. Mary's employer made a \$1,000 contribution to her HSA for 2021. Because of that, she may contribute only \$2,600 to her HSA for 2021 (\$3,600 - \$1,000).*

### **What Happens if I Change HDHP Insurance Coverage During the Year?**

If you change your HDHP insurance coverage during the year, your contribution limit is based on the greater of:



- The total pro-rata contribution amounts as determined by the period of time you are covered under a self-only HDHP and under a family HDHP, or
- The maximum annual HSA contribution based on your HDHP coverage (self-only or family) on the first day of the last month (December 1) under the last month rule guidelines.

### **What is an Excess or Ineligible Contribution?**

An excess contribution results if you exceed your maximum allowable amount for a tax year.

An excess contribution includes ineligible contributions such as a rollover contribution to an HSA that includes assets not eligible for rollover.

If your HSA contains an excess or ineligible contribution you will generally owe the Internal Revenue Service (IRS) a 6 percent excess-contribution penalty tax for each year the excess contribution remains in your HSA uncorrected at the end of the tax year. The tax is paid using IRS Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*.

You may not remove an unwanted HSA contribution as an excess contribution.

### **How Do I Remove an Excess or Ineligible Contribution?**

There are two ways for you to correct an excess or ineligible contribution—by removal or by applying it in a later year. An excess contribution removal will not be subject to income taxes or the 6 percent penalty tax if:

- No deduction is allowed for the contribution under Internal Revenue Code (IRC) Section 223,
- The distribution includes any net income attributable to the excess contribution, and

- You take the distribution by the due date (plus extensions) of your federal income tax return for the tax year of the contribution.

The net income attributable is taxable in the tax year of the distribution.

### **Example**

*Ray, age 52, has self-only HDHP coverage and contributed \$4,500 to his HSA for 2021 on November 12, 2021. He filed his 2021 federal income tax return on April 15, 2022, deducting a \$4,500 contribution, not realizing that he exceeded his maximum allowable limit for 2021 by \$900 (\$3,600 - \$4,500).*

*Ray realizes his error after receiving his Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information, from his HSA custodian in May of 2022. Ray withdraws \$925 on June 10, 2022, after he and his HSA custodian determine the net income attributable to be \$25. The \$900 is not taxable, but the \$25 is taxable on Ray's 2022 federal income tax return.*

*Even though Ray had already filed his tax return, he is able to correct his excess by distribution, plus net income attributable, as late as October 15, 2022. He will have to amend his 2021 federal income tax return to change his deduction. He includes the \$25 as "Other income" on his 2022 federal income tax return.*

Your HSA custodian/trustee reports to the IRS the HSA contribution as originally made even if it results in an excess contribution that is later returned to you. It reports the return of any HSA contribution as an excess contribution along with the amount of earnings as a distribution.

### **When is the Contribution Deadline for Funding an HSA?**

The deadline for HSA regular (including catch-up) contributions is your federal individual income tax return due date, excluding

extensions, for that taxable year. The due date for most taxpayers is April 15.

### **May I Claim a Federal Tax Deduction for My HSA Contribution?**

You may deduct contributions made by anyone other than your employer as long as they do not exceed the maximum annual contribution limit. Employer contributions are not wages for federal income tax purposes. Rollover and transfer contributions from HSAs and Archer medical savings accounts, and qualified HSA funding distributions from IRAs, are not tax deductible. IRS Form 8889, *Health Savings Accounts (HSAs)*, is used to figure your HSA deduction and is filed with your tax return.

## **HSA DISTRIBUTIONS**

### **When Can I Take Distributions From My HSA?**

You may take a distribution from your HSA at any time—even if you are not currently eligible to make contributions to your HSA. HSA distributions used exclusively to pay for or reimburse qualified medical expenses incurred by you, your spouse, or your dependents are not included in your gross income for the year of the distribution.

Any other distributions are included in income unless rolled over. Distributions not used to pay for or reimburse qualified medical expenses or that are not rolled over are subject to an additional 20 percent tax unless made after your death, your disability, or your attainment of age 65.

### **What is a Qualified Medical Expense?**

Qualified medical expenses include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease that affects any structure or function of the body.

This includes items that are not medicines or drugs including equipment such as crutches, supplies such as bandages, and diagnostic devices such as blood sugar test kits. This also includes transportation costs associated with this medical care and certain qualified long-term care services.

Qualified medical expenses also include otherwise eligible amounts paid for your child who is claimed as a dependent by your former spouse.

To be paid or reimbursed tax free a qualified medical expense must be incurred after your HSA is established.

**Note: You are solely responsible for determining if you have a qualified medical expense.** Consult your tax or legal professional and review IRS Publication 502, *Medical and Dental Expenses*, or the Instructions for Schedule A (Forms 1040 or 1040-SR); *Itemized Deductions*, for a list of qualified medical expenses.

### **Does a Qualified Medical Expense Include any Over-the-Counter Medical Products?**

Yes. Due to a change resulting from the CARES Act, certain over-the-counter medical products—including menstrual care products—are considered qualified medical expenses for HSA purposes.

### **Is a Distribution for Non-Prescription Drugs a Qualified Medical Expense?**

A drug or medicine (other than insulin) must be prescribed to be considered a qualified medical expense for HSA purposes.

### **Do I Need to Pay an Entire Medical Expense From My HSA?**

You can use your HSA to pay for or reimburse all or part of a qualified medical expense. Any amount of an expense that cannot be covered

by your HSA balance would need to be paid from other sources of funds you have to avoid taxation. **Be careful not to spend more than the balance of your HSA.**

### **How Long After I Incur a Qualified Medical Expense Can I Pay For It or Reimburse Myself With a Tax-Free Distribution?**

There is no time limit on when an HSA distribution must occur. You may take HSA distributions in a later year to pay or reimburse qualified medical expenses incurred in previous years if you incur those expenses after you established the HSA. In other words, you can take a nontaxable distribution in the current year to pay or reimburse qualified medical expenses incurred in any prior year, but only if you incurred those expenses after you established the HSA.

### **What if I Take a Distribution and It is Not Used to Pay for or Reimburse a Qualified Medical Expense?**

Any HSA distribution you do not use for qualified medical expenses is subject to federal income tax and a 20 percent penalty. A distribution not used for qualified medical expenses is subject to income tax only and not the 20 percent penalty tax if:

- You are disabled as defined in IRC Section 72(m)(7),
- You have reached age 65, or
- Distribution is made due to your death.

### **Can I Return a Distribution Taken From My HSA in Error?**

If you mistakenly distribute assets from your HSA, you may be able to return the assets to the same HSA. However, the law does not require your HSA custodian/trustee to

accept the return of a mistaken distribution. If your HSA custodian/trustee permits the return of a mistaken distribution, you will need to be prepared to provide the IRS with clear and convincing evidence that the HSA distribution was the result of a mistake of fact due to reasonable cause. A mistaken distribution can be returned no later than the federal individual tax return date, excluding extensions, following the first year you knew or should have known the distribution was a mistake.

### **Examples**

*Kayla took a \$400 HSA distribution to pay for a medical expense. Later, she realized that her insurance covered more of her expenses than she had anticipated, and she had only a \$300 qualified medical expense. Kayla wishes to return a \$100 mistaken distribution to the same HSA.*

*Bill mistakenly used his HSA debit card to pay for \$75 in groceries. After discovering the error Bill requests to return the \$75 to the HSA as a mistaken distribution.*

*In both examples if the HSA custodian/trustee permits the return of a mistaken distribution, and the HSA owner determines there is clear and convincing evidence that an HSA distribution was the result of a mistake of fact due to reasonable cause, the HSA owner may repay the mistaken distribution no later than the federal individual tax return date, excluding extensions, following the first year he/she knew or should have known the distribution was a mistake. Under these circumstances, the distribution is not included in the HSA owner's gross income or subject to the 20 percent penalty tax, and the repayment is not subject to the penalty tax on excess contributions. An HSA custodian/trustee that allows the return of a mistaken distribution may rely on the HSA owner's representation that the distribution was a mistake.*

## **HSA REPORTING TO THE IRS**

### **How is HSA Activity Reported to the IRS?**

Each year your HSA custodian/trustee reports to the IRS on IRS Form 5498-SA, *HSA, Archer MSA, or Medicare Advantage MSA Information*, the contributions made to your HSA and on IRS Form 1099-SA, *Distributions From an HSA, Archer MSA, or Medicare Advantage MSA*, any HSA distributions you take. Neither the return of a mistaken distribution, nor the distribution returned, are reported on IRS Forms 5498-SA or 1099-SA, respectively. In addition, you file IRS Form 8889, *Health Savings Accounts (HSAs)*, as part of your federal income tax return to show your HSA contribution and distribution activity.

### **How are Distributions Made by Check or Electronic Fund Transfer Treated for Reporting Purposes?**

Your HSA custodian/trustee will generally treat a distribution made by check, electronic bill pay, or debit card as a normal distribution. Consult your HSA custodian/trustee to find out its specific policy regarding distributions made by check or electronic fund transfer.

## **DEATH OF AN HSA OWNER**

### **What Happens to My HSA in the Event of My Death?**

You may name a beneficiary to inherit your HSA assets after your death. Upon your death, your HSA is treated as follows:

#### **Spouse Beneficiary**

- Becomes the spouse's HSA as of the date of death
- Distributions used for the decedent's or survivor's (and survivor's dependents) qualified medical expenses are tax free

## **Nonspouse Beneficiary**

- No longer an HSA as of the decedent's date of death
- Beneficiary is responsible for federal income tax on the fair market value (FMV) as of the date of death
- Amounts used for the decedent's qualified medical expenses within one year of the date of death reduce the taxable amount

## **Estate Beneficiary**

- No longer an HSA as of the decedent's date of death
- The FMV of the HSA as of the date of death is included in the HSA owner's gross income for his last taxable year

*This brochure is intended to provide general information concerning the federal tax laws governing HSAs. It is not intended to provide recommendations or legal advice, or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances or under your state tax laws.*

*For specific information, you are encouraged to consult your tax or legal professional. IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans, the instructions to IRS Form 8889, and the IRS's web site, [www.irs.gov](http://www.irs.gov), may also provide helpful information.*

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