

Health Savings Accounts (HSAs)

Everything You Need to Know



What is an HSA?

- A health savings account (HSA) is an account that you can use to pay medical expenses
- Must be in conjunction with a high-deductible health plan (HDHP)
- You own the account, but both you and the City can contribute funds
- Tax-advantages: contribute pre-tax money, funds accrue tax-free and withdraw funds tax-free (if they are for eligible medical expenses)

Benefits of an HSA

- Triple tax advantage means you save money on your health care expenses
- Funds rollover each year, so you can use your HSA to save tax-free money for retirement
- You own the account, even if you leave the company
- Lower monthly premiums than a traditional health plan

High-Deductible Health Plan

- HSAs can only be offered with a high-deductible health plan (HDHP)
- This is plan that must provide coverage as follows (2020 limits, as established by the IRS):
 - Minimum deductible: \$1,400 single, \$2,800 family
 - Maximum annual out-of-pocket: \$6,900 single, \$13,800 family
- Though the deductible is higher for this plan than traditional plans, your monthly premium is lower, and HSA funds can pay for medical expenses subject to the deductible

How Does The HSA/HDHP Work?

- You contribute money to the HSA (either a lump sum payment or monthly through payroll deductions)
- You can use HSA dollars to pay your health insurance deductible, along with other qualified medical expenses such as dental or vision services
- Once you meet your deductible, your insurance pays additional covered expenses in accordance with our plan (mostly at 100%)

Who is Eligible for an HSA?

- Anyone who is:
 - Covered by an HDHP
 - Not enrolled in Medicare
 - Not covered under other health insurance*
 - Not another person's dependent

*Other health insurance does not include: specific disease or illness insurance, accident, disability, dental care, vision care and long-term care insurance

HSA Contribution Limits

- Each year, the IRS sets contribution limits
- These limits are for the total funds contributed, including company contributions, your contributions and any other contributions
- For 2020, limits are:
 - \$3,550 (2020) for individual coverage
 - \$7,100 (2020) for family coverage

HSA Contributions

- You are allowed to contribute the entire year's limit whenever you first become eligible for the HSA (even if that is in December)
- However, you must remain eligible for at least 12 months after that date, or you will be subject to taxes and penalties on the amount you contributed

Catch-Up Contributions

- For individuals ages 55-plus, the IRS allows additional “catch-up contributions”
- Eligible individuals may contribute an extra\$1,000 for the year (for 2020)
- This is to help save additional money for retirement

HSA Distribution Rules

- Distributions from your HSA are tax-free if they are taken for “qualified medical expenses”
- Your HSA can only be used for expenses that are incurred on or after the date the HSA was established
- However, HSA funds can be used for expenses from a prior year, as long as the expenses incurred on or after the date the HSA was established

HSA Distribution Rules

- HSA distributions can be taken for qualified medical expenses for the following people:
 - The account holder (person covered by the HDHP)
 - Spouse of that individual (even if not covered by the HDHP)
 - Dependents of that individual (even if not covered by the HDHP)

Distributions – Age 65-plus

- For individuals age 65 and older, HSA distributions can be used for non-qualified medical expenses without facing the 20 percent penalty
 - However, income taxes will apply for non-medical distributions
 - This rule is regardless of whether the individual is enrolled in Medicare

Qualified Medical Expenses

- The IRS defines expenses that are considered “qualified medical expenses” for HSA distributions
- Expenses must be primarily to treat or prevent a physical or mental defect or illness
- If you use HSA funds for expenses beyond what the IRS defines as qualified, you will be subject to income tax on the distribution and an additional 20 percent penalty

Qualified Medical Expenses

- Examples of qualified medical expenses include:
 - Most medical care that is subject to your deductible (copays, coinsurance, doctor visits, inpatient or outpatient treatment, etc.)
 - Prescription drugs
 - Over-the-counter drugs, only if you obtain a prescription
 - Insulin (with or without a prescription)
 - Dental and vision care
 - Select insurance premiums
 - COBRA, qualified long-term care insurance, health insurance premiums paid while receiving unemployment benefits, health insurance after you turn 65 except for a Medicare supplemental policy

Human Resources can provide you with a full list of eligible expenses upon request.

Ineligible Medical Expenses

- Expenses that are not considered “qualified medical expenses” include:
 - Insurance premiums (other than the exceptions listed on the previous slide)
 - Over-the-counter drugs (unless a prescription is retained from a physician – insulin is an exception)
 - Surgery purely for cosmetic reasons
 - Expenses covered by another insurance plan
 - General health items such as tissues, toiletries, hand sanitizer

Human Resources can provide you with a full list of eligible expenses upon request.

Recordkeeping

- Whenever you use HSA funds to pay for a medical expense, you should keep your receipt
- You may need to demonstrate to the IRS that HSA distributions were for qualified medical expenses
- If the IRS requests receipts for verification purposes, failure to provide those receipts could result in having to pay a penalty

Thank you for your attention!

**If you have additional questions about the HSA plan,
please contact HR.**
