Frequently Asked Questions About Health Savings Accounts (HSAs)

Introduction

Health savings accounts (HSA) are a popular type of tax-advantaged savings account that can be used to pay for out-of-pocket medical expenses. Individuals must meet certain eligibility criteria to contribute to an HSA (or have contributions made on their behalf), including a requirement that they be covered by a high deductible health plan (HDHP).

HDHPs and HSAs are an attractive benefit options for a variety of reasons, including the following:

- **No federal income tax**—HSA contributions are nontaxable, interest on HSA funds accumulates tax-free, and individuals are not taxed on amounts withdrawn for qualified medical expenses.
- **No deadline for using funds**—HSA money does not expire and unused funds are never forfeited. Money stays in an individual's HSA until they use it.
- **Individually owned**—Because HSAs are personal accounts, an individual keeps their HSA even if they change jobs or retire. Also, individuals are responsible for deciding when and how to use their HSA funds and keeping their own records.
- **Management of health care spending**—HDHPs tend to have lower monthly premiums, which can help reduce health care spending. Even though HDHPs have higher deductibles, preventive care is 100% covered and HSA funds can be used to pay out-of-pocket medical expenses until the HDHP deductible is met.

Although individuals are primarily responsible for managing their own HSAs, employers that sponsor HDHPs often have questions on HSA topics. These frequently asked questions (FAQs) on HSAs are intended to provide answers to those questions.

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HSA Eligibility

Who is eligible for an HSA?

Only eligible individuals can establish HSAs and make contributions (or have them made on their behalf). To be HSA-eligible, an individual must:

- Be covered by an HDHP;
- Not be covered by other health coverage that is not an HDHP (with limited exceptions);
- Not be enrolled in Medicare; and
- Not be eligible to be claimed as a dependent on another person's tax return.

An individual's eligibility for HSA contributions is generally determined monthly as of the first day of the month. HSA contributions can only be made for months in which the individual meets all the HSA eligibility requirements.

Are employers responsible for determining if employees are HSA-eligible?

When an employer makes a tax-free contribution to an employee's HSA, the employer should have a reasonable belief that the contribution will be excluded from the employee's income. However, the employee—not the employer—is primarily responsible for determining their eligibility for HSA contributions. An employer is only responsible for determining whether the employee is covered under an HDHP or any low-deductible health plan sponsored by the employer, including health flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs).

Can an employee make HSA contributions if they are also covered by a health FSA or HRA?

Individuals who are covered by general-purpose health FSAs or HRAs are not eligible for HSA contributions. A general-purpose health FSA or HRA is one that pays or reimburses eligible medical expenses of the employee below the HDHP deductible. It does not matter whether an individual is covered by a general-purpose health FSA or HRA as an employee or as a dependent whose medical expenses can be reimbursed—both types of individuals are ineligible for HSA contributions.

Are there special types of health FSAs or HRAs that are compatible with HSAs?

Although general-purpose health FSA or HRA coverage will prevent an individual from being eligible for HSA contributions, certain health FSA or HRA designs preserve HSA eligibility. These include limited-purpose health FSAs or HRAs that only pay or reimburse dental, vision or preventive care expenses and post-deductible health FSAs or HRAs that only pay or reimburse medical expenses incurred after the HDHP minimum annual deductible has been met.

If an employee with coverage under a health FSA changes to an HDHP/HSA for the upcoming plan year, will the health FSA's grace period (or carryover feature) impact their HSA eligibility?

An individual's HSA eligibility may be affected when a health FSA incorporates a grace period or a carryover feature. Coverage by a health FSA with a grace period will disqualify an employee from contributing to an HSA during the FSA's grace period unless the employee had a zero balance in the FSA at the end of the plan year. Also, a health FSA carryover will make an individual ineligible for HSA contributions for the next plan year unless they decline or waive the carryover or the carryover is to an HSA-compatible health FSA (that is, a limited-purpose FSA or post-deductible FSA).

Will an employer-sponsored wellness program or employee assistance program (EAP) impact employees' HSA eligibility?

In general, coverage under an employer-sponsored wellness program or EAP will not affect an individual's eligibility for HSA contributions unless the program provides significant benefits for medical care or treatment. To determine whether a program provides significant benefits for medical care or treatment, health screenings and other preventive care services are disregarded.

For example, a wellness program that provides a range of education and fitness services designed to improve employees' overall health and prevent illness does not impact an individual's HSA eligibility. Likewise, an EAP that provides counseling to identify an employee's problem that may affect job performance and, when appropriate, referrals to an outside organization, facility or program to assist the employee in resolving the problem does not impact an individual's HSA eligibility.

High Deductible Health Plans (HDHP)

What makes a health plan an HDHP?

An HDHP is a health plan that provides significant benefits and satisfies requirements for minimum deductibles and out-of-pocket maximums. An HDHP can be insured, self-funded or level funded. Except for preventive care, an HDHP cannot pay benefits for a year until the annual minimum deductible has been met.

For plan years beginning on or after Jan. 1, 2024, the deductible and out-of-pocket limits for HDHPs are as follows:

- **Minimum deductible:** $1,600 for self-only coverage and $3,200 for family coverage ($1,650 and $3,300 for plan years beginning in 2025)
- **Out-of-pocket maximum:** $8,050 for self-only coverage and $16,100 for family coverage ($8,300 and $16,600 for plan years beginning in 2025).

How do the HDHP cost-sharing limits apply to non-calendar-year plans?

The minimum deductible and out-of-pocket maximum limits for HDHPs are adjusted every year for increases in the cost of living. By June 1 of each calendar year, the IRS publishes the cost-of-living adjustments that will become effective as of the next Jan. 1. For HDHPs with non-calendar-year plans, the adjusted limits for the calendar year in which the HDHP's plan year begins can be applied for that entire plan year.

Can an HDHP have an embedded deductible for family coverage?

A health plan that has an embedded deductible pays claims for a specific individual if they meet the plan's individual deductible, even if the family as a whole has not met the family deductible. A health plan with an embedded deductible will not qualify as an HDHP if the embedded deductible is less than the required minimum deductible for family coverage. This means that, for plan years beginning in 2024, an HDHP's embedded deductible cannot be less than $3,200 ($3,300 for plan years beginning in 2025).

If an individual switches from self-only to family HDHP coverage during the plan year, can they receive credit toward their deductible?

If an individual changes coverage during the plan year from self-only HDHP coverage to family HDHP coverage, an HDHP can take into account the expenses incurred by the individual during the portion of the plan year in which the individual had self-only coverage. This will not affect the plan's HDHP status.

If an employer changes health plans during the plan year, can participants receive credit toward the new plan's deductible for expenses incurred under the prior coverage?

If an employer changes health plans midyear and the period during which expenses are incurred for purposes of satisfying the deductible is 12 months or less, the new health plan does not fail to qualify as an HDHP merely because it provides a credit toward the deductible for expenses incurred and not reimbursed during the previous health plan's short plan year. It does not matter whether the prior plan was an HDHP.

What is the deductible exception for preventive care?

Except for preventive care, no benefits can be paid by an HDHP until the minimum annual deductible has been satisfied. Preventive care includes a wide range of recommended items and services, such as periodic health exams, routine prenatal and well-child care, child and adult immunizations, screening devices and tests, obesity weight loss programs, tobacco cessation, care for certain chronic conditions and insulin products. Preventive care does not generally include any service or benefit intended to treat an existing illness, injury or condition. Note that the Affordable Care Act (ACA) requires almost all health plans to cover recommended preventive care without imposing any cost sharing, such as deductibles, copayments or coinsurance.

HSA Contributions

How much can be contributed to an individual's HSA each year?

For each month an individual is eligible for an HSA, they can contribute one-twelfth of the applicable maximum contribution limit for the year. If an individual is eligible for HSA contributions for an entire calendar year, they can contribute the maximum amount of HSA contributions permitted for that year. All HSA contributions made by or on behalf of an HSA-eligible individual are aggregated for purposes of applying the maximum contribution limit.

For 2024, the maximum contribution limit is $4,150 for individuals with self-only coverage and $8,300 for individuals with family coverage ($4,300 and $8,550, respectively, for 2025). Eligible individuals who are 55 or older by the end of the tax year can increase their contribution limit up to $1,000 a year as a catch-up contribution.

There are special contribution rules for midyear HDHP enrollees and spouses with family HDHP coverage that may impact how much can be contributed to an individual's HSA each year.

What is the full-contribution rule for midyear enrollees?

Under the full-contribution rule, an individual is treated as HSA-eligible for the entire calendar year if they become covered under an HDHP in a month other than January and are HSA-eligible on Dec. 1 of that year. The individual is treated as enrolled in the same HDHP coverage (that is, self-only or family coverage) as they have on the first day of the last month of the year. For example, if an individual first becomes HSA-eligible on Oct. 1, 2024, and has family HDHP coverage on Dec. 31, 2024, they are treated as an eligible individual who had family HDHP coverage for all 12 months in 2024 and can contribute up to $8,300 to their HSA.

The full-contribution rule applies regardless of whether the individual was eligible for the entire year, had HDHP coverage for the entire year or had disqualifying non-HDHP coverage for part of the year. However, an individual who relies on this special rule must generally remain HSA-eligible during a 13-month testing period, with exceptions for death and disability.

Who is eligible for catch-up contributions?

Individuals who are age 55 or older by the end of the tax year are permitted to make additional HSA contributions, called "catch-up contributions." The maximum annual catch-up contribution is $1,000. As with the general HSA contribution limit, an individual's catch-up contribution limit is based on their HSA eligibility for each month. The full contribution rule also applies to catch-up contributions.

The HSA catch-up contribution limit is not reduced for the year in which the individual reaches age 55 if they reach age 55 after Jan. 1. For example, an individual who is HSA-eligible for all of 2024 and who turns age 55 on Dec. 1, 2024, may make a full $1,000 catch-up contribution for 2024.

Are there any special HSA contribution rules for spouses?

There is a special contribution rule for married individuals, which provides that if either spouse has family HDHP coverage, then both spouses are treated as having only that family coverage. If both spouses are HSA-eligible, the HSA contribution limit calculated under this special contribution rule is a joint limit, which is divided equally between the spouses (unless they agree on a different division). This means that if both spouses are HSA-eligible and either have family HDHP coverage, the spouses' combined contribution limit is the annual maximum limit for individuals with family HDHP coverage.

This special contribution rule applies even if one spouse has family HDHP coverage and the other has self-only HDHP coverage or if each spouse has family HDHP coverage that does not cover the other spouse. The special contribution rule for married spouses does not apply to catch-up contributions. Married couples who are both over age 55 may each make an additional catch-up contribution to their separate HSAs.

Do individuals need to stop making HSA contributions before applying for Medicare?

In general, a Medicare-eligible individual who is not actually enrolled in Medicare Part A, Part B, Part D or any other Medicare benefit is eligible to make HSA contributions. However, the IRS has cautioned that individuals may need to stop contributing to their HSAs before applying for Medicare. This is because an individual's Medicare coverage generally starts six months back from the date the individual applied for Medicare but no earlier than the first month of Medicare eligibility (that is, turning age 65). Individuals cannot contribute to an HSA for the period of retroactive coverage.

Can employees make pre-tax contributions to their HSAs?

Employers can allow employees to reduce their pay on a pre-tax basis and contribute those amounts to their HSAs; however, to do this, the employer needs to have a Section 125 cafeteria plan in place that allows for HSA contributions. Employers can also allow employees to make HSA contributions on an after-tax basis outside of a cafeteria plan. In this case, the employer would treat those contributions as taxable and subject to withholding. Employees would take an above-the-line deduction on their individual tax returns for their after-tax HSA contributions.

Which individuals are ineligible for pre-tax HSA contributions?

Certain business owners who are not considered employees cannot contribute to an HSA with pre-tax salary reductions under a cafeteria plan. This includes partners in a partnership, more-than-2% shareholders in a subchapter S corporation, sole proprietors and other self-employed individuals.

Can employees change their pre-tax HSA contributions during a year?

An employee who elects to make pre-tax HSA contributions may start or stop their contributions (or increase or decrease their contributions) at any time during the year, as long as the change is effective prospectively. Employers often set deadlines for contribution changes throughout the year to align with their payroll procedures. To be consistent with the HSA eligibility rules, HSA election changes must be allowed at least monthly and upon loss of HSA eligibility.

Can employers contribute to their employees' HSAs?

Employers can make HSA contributions, which are excludable from the employees' income for tax and withholding purposes, for their eligible employees. All HSA contributions made by or on behalf of an individual, including employer contributions, are aggregated for purposes of applying the applicable maximum HSA contribution limit.

Can employers vary their HSA contributions for different groups of employees?

Employers can vary their HSA contributions for different groups of employees, subject to the non-discrimination tests for cafeteria plans or the HSA comparability rules.

When employees can make HSA contributions through a cafeteria plan, the employer's contributions are subject to the nondiscrimination tests for Section 125 cafeteria plans, which prevent discrimination in favor of highly compensated employees.

When an employer does not allow employees to make pre-tax HSA contributions through a cafeteria plan, the employer must make comparable contributions to the HSAs of all comparable participating employees. Comparable participating employees are HSA-eligible individuals who are in the same category of employees (current full-time employees, current part-time employees, and former employees) and have the same category of HDHP coverage. Generally, contributions are comparable if they are the same dollar amount or the same percentage of the HDHP deductible.

When should employers make their contributions to eligible employees' HSAs?

Employers can contribute to eligible employees' HSAs at any time during the year. The deadline for making HSA contributions for a year is the HSA owner's tax return deadline (without extensions) for that year, which is typically April 15 of the following calendar year.

Employer contributions can be made in lump-sum payments or at regular intervals (e.g., per pay period or monthly). Making a lump sum contribution at the beginning of the year is advantageous for employees because it allows them to use their HSA funds right away. However, fully funding an employee's HSA at the beginning of the year could cause tax issues for the employee if they do not remain HSA eligible for the full year. Also, once an employer contributes to an HSA, the contribution cannot be recouped, even if an employee terminates employment. To avoid these risks, many employers instead contribute at regular intervals throughout the year.

How quickly must pre-tax salary contributions be sent to employee's HSAs?

To comply with federal tax law, employees' HSA contributions must be promptly transmitted to their HSA trustee or custodian.

Can an employer recoup mistaken contributions?

An individual's balance in their HSA is nonforfeitable. This means that, generally, contributions an employer makes to an employee's HSA belong to that employee and cannot be forfeited or returned to the employer. However, there are some limited circumstances under which an employer may be able to recoup contributions it makes to an employee's HSA. These limited circumstances are:

- If an employee was never eligible for HSA contributions;
- If an employer contributes amounts to an employee's HSA that exceed the maximum annual contribution amount due to an error; or
- If the employer has clear documentary evidence showing the contributions were made due to an administrative or process error.

In these situations, an employer should contact the HSA vendor to request that it return the excess or mistaken contributions. Also, employers should maintain documentation to support their assertion that a mistaken contribution occurred.

How are employer HSA contributions reported for tax purposes?

HSA contributions must be reported on Form W-2 for each employee who receives a contribution. The amount an employer reports on Form W-2 must also include any pre-tax contributions an employee makes to their HSA through the employer's cafeteria plan. These HSA contributions are nontaxable wages the employer must enter in Box 12 of Form W-2 along with the code letter W.

What if an employee exceeds their HSA contribution limit for a year?

HSA contributions that exceed an individual's contribution limit (or that are made by or on behalf of an individual who is not HSA-eligible) are considered "excess contributions." Excess contributions are not deductible by the HSA owner. Excess employer contributions (including employee pre-tax contributions) are included in the employee's gross income. In addition, a 6% excise tax is imposed on the HSA owner for all excess contributions.

The 6% excise tax can be avoided if the HSA owner withdraws the excess contributions for a taxable year by the deadline (including extensions) for filing their federal income tax return for the year. The excess contributions will be treated as if they had not been made if the HSA owner does not claim a tax exclusion from income for the withdrawn contributions, withdraws any income earned on the excess contributions and includes the earnings in "other income" on their tax return.

The 6% excise tax is cumulative and will continue in future years if a corrective withdrawal is not made. For each year, the HSA owner must pay excise tax on the total of all excess contributions in the account. However, if HSA contributions for any year are less than the maximum limit for that year, the amount subject to the excise tax is reduced (for that year and subsequent years) by the difference between the maximum limit for the year and the amount contributed.

Using HSA Funds

What are the tax rules for using HSA funds?

HSA funds may be used on a tax-free basis if they pay for qualified medical expenses that were incurred after the HSA was established and are not paid or reimbursed by another source. If HSA funds are not used for qualified medical expenses, they are taxable as income to the HSA owner and subject to a 20% penalty unless the HSA owner is over age 65, disabled or deceased.

What are qualified medical expenses?

For HSA purposes, qualified medical expenses generally include the expenses listed in IRS Publication 502 and are limited to those that primarily alleviate or prevent a physical or mental disability or illness. They do not include expenses that are merely beneficial to general health. Also, insurance premiums are not qualified medical expenses for HSAs, with some narrow exceptions. However, HSA funds can be used to pay for over-the-counter medicines and drugs on a tax-free basis.

Can an HSA be used to pay for insurance premiums?

In general, insurance premiums are not qualified medical expenses for HSA purposes. However, HSA funds can be used on a tax-free basis to pay premiums for:

- Long-term care coverage;
- Health coverage for an HSA owner who has reached age 65;
- Health coverage during periods of continuation coverage (such as under COBRA); and
- Health coverage during periods when an individual is receiving unemployment compensation.

Whose medical expenses can be reimbursed by an HSA?

HSA funds can be used on a tax-free basis to pay for the qualified medical expenses of the HSA owner and their spouse and tax dependents, including dependent children up to age 19 (age 24 for full-time students). Individuals do not need to meet the eligibility criteria for making HSA contributions to receive a tax-free distribution from their HSAs. In addition, spouses and dependents do not have to be HSA-eligible to have their qualifying medical expenses reimbursed on a tax-free basis.

Is there a deadline for using HSA dollars?

There is no deadline for when an individual must use their HSA money. All unused funds remain in an HSA from year to year and may be used for qualified medical expenses incurred in the future. HSA owners have sole discretion for how and when to use HSA funds.

Can HSAs be used to pay for weight loss programs or drugs on a tax-free basis?

In general, weight loss programs and drugs are not qualified medical expenses if the purpose of the weight loss is the improvement of appearance, general health or sense of well-being. However,

if the weight loss is a treatment for a specific disease diagnosed by a physician (e.g., obesity, diabetes, hypertension or heart disease), these costs may be considered qualified medical expenses that can be reimbursed tax-free through an HSA.

More specifically, qualified medical expenses include weight loss drugs that are prescribed for a medical condition and weight loss counseling or membership in a weight loss group when recommended by a physician to treat a medical condition. Qualified medical expenses do not include membership dues for a gym, health club or spa, but they may include separate fees charged for weight loss activities if the treatment is for a specific disease diagnosed by a physician.

Can an HSA be used for personal health and wellness expenses on a tax-free basis?

HSAs cannot be used to pay for personal health and wellness expenses on a tax-free basis. Expenses that are merely beneficial to general health are not qualified medical expenses. According to the IRS, nutrition, wellness and general health expenses are qualified medical expenses only in very limited circumstances. For example:

- The cost of nutritional counseling is a qualified medical expense only if it treats a specific disease diagnosed by a physician (such as obesity or diabetes);
- The cost of nutritional supplements is a qualified medical expense only if the supplements are recommended by a medical practitioner as treatment for a specific medical condition diagnosed by a physician;
- The cost of weight-loss food or beverages is a qualified medical expense only if the food or beverage does not satisfy normal nutritional needs, the food or beverage alleviates or treats an illness, and the need for the food or beverage is substantiated by a physician. The medical expense is limited to the amount by which the cost of the food or beverage exceeds that of a product that satisfies normal nutritional needs; and
- The cost of exercise for the improvement of general health, such as swimming or dance lessons, is never a qualified medical expense (even if recommended by a doctor).

Is the employer involved with how employees use their HSAs?

Once the money is in an HSA, it belongs solely to the account owner, who has complete control over how to spend it. Employers can choose the custodian or trustee to set up employees' HSAs, but they cannot restrict employees from withdrawing or transferring HSA funds to a different HSA. An HSA custodian or trustee can place reasonable administrative restrictions on an HSA owner's distributions, generally limited to setting a minimum dollar amount for single distributions and a maximum number of distributions per month.

Neither an employer nor an HSA custodian or trustee is required to determine whether HSA withdrawals are used for qualified medical expenses. The HSA owner is solely responsible for making this determination and retaining documentation, such as receipts, for items and services they pay for with HSA funds.