

HSA Key Features

Overview	
Account Description	A tax-exempt trust or custodial account established by an eligible individual to pay for qualified medical expenses.
Potential Tax Benefits	HSAs are a powerful tax-savings tool. Tax advantages include the following: • Employee contributions are either tax-deductible or pre-tax (if made by salary reduction through a cafeteria plan); • Employer contributions are excluded from gross income and are generally not subject to income or employment tax withholding; • Interest or earnings on contributions are not includable in gross income while held in the HSA; and • Distributions are tax-free if the money is used to pay for qualified medical expenses.
New Developments	New limits on HSA contributions and HDHP cost sharing apply for 2027.
Employee Eligibility	
Who May Participate?	An individual is eligible to establish and contribute to an HSA if they: • Are covered under an HDHP; • Are not covered by any other health plan that is not an HDHP, except for certain limited types of coverage; • Are not enrolled in Medicare; and • Cannot be claimed as a dependent on another person's income tax return.
HDHP Coverage Required	An individual must be covered by an HDHP to be eligible for HSA contributions. To qualify as an HDHP, a health plan must satisfy requirements for minimum deductibles and out-of-pocket maximums. For plan years beginning in 2027, the minimum annual deductible is \$1,750 for self-only coverage and \$3,500 for family coverage. For 2027 plan years, the maximum out-of-pocket expense limit (deductibles, copayments and other amounts, but not premiums) is \$8,700 for self-only coverage and \$17,400 for family coverage. No benefits can be paid by an HDHP until the annual deductible has been satisfied, with limited exceptions for certain types of benefits (e.g., preventive care benefits and telehealth and other remote care services).
Disqualifying Coverage	To be eligible for HSA contributions, an individual generally cannot have health coverage other than HDHP coverage. Certain types of coverage will not prevent an individual from being HSA-eligible. These types of coverage include permitted insurance (e.g., hospital indemnity insurance or cancer insurance), permitted coverage (e.g., disability insurance or dental and vision coverage) and direct primary care service arrangements.
Health FSA and HRA Coverage	Individuals who are covered by general-purpose health flexible spending accounts (FSAs) or health reimbursement arrangements (HRAs) are not eligible for HSA contributions. A general-purpose health FSA or HRA pays or reimburses all qualifying medical expenses of the employee. 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. However, certain health FSA or HRA designs preserve HSA eligibility, such as limited-purpose health FSAs or HRAs (e.g., health FSAs or HRAs that only reimburse vision or dental expenses) or health FSAs or HRAs that only reimburse expenses after the HDHP minimum deductible has been met (i.e., post-deductible health FSAs or HRAs).
Contributions	
Who May Contribute?	The employee, the employer or both may contribute (family members or any other person may also contribute). All HSA contributions made by or on behalf of an HSA-eligible individual are aggregated for purposes of applying the maximum contribution limit.
Pre-tax Employee Contributions	Contributions can be made through employee salary reductions under a cafeteria plan. Also, the irrevocable election rules that apply to most benefits offered under a cafeteria plan do not apply to HSAs. An employee who elects to make HSA contributions under a cafeteria plan may start or stop the election, or increase or decrease it, during the plan year, as long as the change is effective prospectively.
Limit on Contributions	There are limits on how much can be contributed to an HSA each year. For 2027, the maximum contribution is \$4,500 for individuals with self-only HDHP coverage or \$9,000 for individuals with family HDHP coverage. The limit is increased by \$1,000 for eligible individuals age 55 or older at the end of the tax year.
Special Limit for Spouses	A special contribution rule for married individuals provides that if either spouse has family HDHP coverage, then both spouses are treated as having only that family coverage. This means that if both spouses are HSA-eligible and either spouse has family HDHP coverage, the spouses' combined contribution limit is the annual maximum limit for individuals with family HDHP coverage (i.e., \$9,000 for 2027). The contribution limit is divided equally between the spouses unless they agree on a different division.
Nondiscrimination Requirements	If an employer makes HSA contributions outside of a cafeteria plan, the employer must make comparable contributions to the HSAs of all comparable participating employees. Generally, contributions are comparable if they are the same dollar amount or the same percentage of the HDHP deductible. The comparability rules do not apply to employer HSA contributions made through a cafeteria plan. Employer contributions are made through a cafeteria plan when the employer's cafeteria plan allows eligible participants to make pre-tax salary deferrals to fund their HSAs. However, when employer HSA contributions are made through a cafeteria plan, the employer's contributions are subject to the nondiscrimination rules governing cafeteria plans.
Distributions	
Distributions Allowed	HSA funds may be used on a tax-free basis if they pay for qualified medical expenses that are not paid or reimbursed by another source. Individuals can use their HSA funds for any purpose. However, 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.

	In general, 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).
Timing of Distributions	An employee may receive tax-free distributions from an HSA at any time for qualified medical expenses not reimbursed by another source, such as the HDHP; however, expenses incurred before an HSA is established are not considered qualified medical expenses. Employees do not need to meet the HSA eligibility criteria to receive a tax-free distribution from their HSAs. Also, an employee's spouse and dependents do not have to be HSA-eligible to have their qualifying medical expenses reimbursed on a tax-free basis.
Qualified Medical Expenses	For HSA purposes, qualified medical expenses generally include the expenses listed in IRS Publication 502 for the medical and dental expenses tax deduction. The expenses must be incurred primarily to alleviate or prevent a physical or mental defect or illness. Expenses that are merely beneficial to general health, such as vitamins, are not included. Some examples of qualified medical expenses are physical exams, ambulance services, durable medical equipment, dental treatment, eyeglasses and contact lenses, eye exams, diagnostic services, hearing aids, lab fees, and medicine and drugs (including over-the-counter drugs). Health insurance premiums are generally not considered qualified medical expenses for HSA purposes unless the premiums are for: • Qualified long-term care insurance; • Healthcare continuation coverage required by federal law (for example, COBRA); • Healthcare coverage while an individual is receiving unemployment; or • Medicare and other healthcare coverage if the employee is 65 or older (other than premiums for a Medicare supplemental policy).
Other Issues	
Balance and Carryover	Amounts remaining in an HSA at the end of the year are carried over to the next year. There is no deadline for using HSA money.
Account Subject to COBRA	No.
Portability	Yes, the employee is the owner of the account. An employee keeps their HSA even if they are no longer covered under the HDHP, switch jobs or have other life changes.
Tax Reporting	Employers report their contributions to employees' HSAs using the Form W-2 . HSA owners are responsible for annually reporting HSA contributions and distributions to the IRS on Form 8889 . Form 8889 must be filed as an attachment to Form 1040 (U.S. Individual Income Tax Return).