



Frequently Asked Questions: HSAs

What are the benefits of a health savings account (HSA)?

HSAs are tax advantaged accounts that help people save and pay for qualified medical expenses. Benefits include:

- Contributions are pre-tax or tax deductible.
- Earnings are income tax-free.
- You can make tax-free withdrawals for qualified medical expenses.
- You can carry over unused funds from year to year.
- The HSA is yours to keep even if you change jobs, change health plans or retire.

Note: Contributions are tax deductible on your federal tax return. Some states do not recognize HSA contributions as a deduction, and some states tax interest earned on your HSA. Your own HSA contributions are either tax deductible or pre-tax (if made by payroll deduction). See IRS Publication 969, or consult a qualified tax advisor to see how your state treats HSA contributions.

Who qualifies for an HSA?

To open an HSA, you must have a qualifying high-deductible health plan (HDHP) and meet other IRS eligibility requirements. Unless an exception applies.

- You cannot be covered by any other health plan that is not an HDHP.
- You cannot be currently enrolled in Medicare or TRICARE.
- You cannot be claimed as a dependent on another individual's tax return.

What is a qualifying HDHP?

This is a health plan that satisfies certain IRS requirements with respect to deductibles and out-of-pocket expenses.

| Year | Annual deductible | Out-of-pocket expenses |
|------|--|--|
| 2021 | At least \$1,400 for individual coverage and \$2,800 for family coverage | Not exceeding \$7,000 for individual coverage and \$14,000 for family coverage |
| 2022 | At least \$1,400 for individual coverage and \$2,800 for family coverage | Not exceeding \$7,050 for individual coverage and \$14,100 for family coverage |

What happens to my remaining account balance at the end of the year?

Any remaining balance automatically rolls over year after year.

What can I use my HSA for?

You can use the funds in your HSA:

- To pay for qualified medical, dental, vision and prescription drug expenses, including over-the-counter drugs that have been prescribed by a doctor, as defined in IRS Publication 502.
- As supplemental income after age 65. Once you are 65, you can withdraw funds for any reason without paying a penalty, but they will be subject to ordinary income tax. If you are under age 65 and use your HSA funds for nonqualified expenses, you will need to pay taxes on the money you withdraw, as well as an additional 20 percent penalty.

Can I use my HSA to pay for qualified medical expenses for a spouse or tax dependent?

Yes, even if your spouse or tax dependent is covered under another health plan. To get personalized details, consult a qualified tax advisor.

Are health insurance premiums considered qualified medical expenses?

In general, no, but exceptions include qualified long-term-care insurance, COBRA health care continuation of coverage, any health plan maintained while receiving unemployment compensation under federal or state law and, for those 65 and over (whether or not they are entitled to Medicare), any employer-sponsored retiree medical coverage, premiums for Medicare Part A or B or Medicare HMO. Conversely, premiums for Medigap policies are not qualified medical expenses.

Can I invest my HSA dollars?

Yes, you can choose to invest your HSA dollars in mutual funds once you reach your investment threshold. Visit with the CME representative for more information.

What happens to my HSA if I no longer am covered by a qualifying high deductible plan (HDHP)?

While you can no longer contribute to your HSA, you can still use the remaining funds to pay or be reimbursed for future qualified medical expenses.

How much can I contribute to an HSA?

The IRS sets annual contribution limits each year.

| Year | Individual coverage | Family coverage |
|------|---------------------|-----------------|
| 2021 | \$3,600 | \$7,200 |
| 2022 | \$3,650 | \$7,300 |

Note that any contributions made to your HSA by family members, your employer or others count toward this limit.

If you are 55 or older, you can contribute an additional \$1,000 each year. **Note:** The primary account holder must be 55 or older (even if the spouse is of that age).

How can I make contributions?

There are several ways to make a deposit:

- Payroll deductions through your employer.
- Sick Leave Reciprocity or Fitness incentive contributions and the City's semi-annual contribution.
- Mail in a personal check or request a transfer of funds at you CME branch. See your CME representative for more details.

When can contributions be made? Contributions for a taxable year can be made any time within that year and up until the tax filing deadline for the following year, which is typically April 15.

If I change employers, what happens to my HSA?

Since you are the owner of the HSA, you may continue to maintain the account if you change employers. The funds are yours to keep.

Can I reimburse myself with HSA funds for qualified medical expenses incurred prior to my enrollment in an HSA?

No, qualified medical expenses may be reimbursed only if the expenses are incurred after the date your HSA was established.

Is there a time limit for reimbursing myself? You can reimburse yourself at any time for expenses you paid for out-of-pocket. There is no time limit, but the expenses must have been incurred since you opened your HSA.

How can I use my HSA to pay for medical services?

You can use your CME Debit Card; use online bill pay; or pay out-of-pocket and then distribute funds from your HSA to reimburse yourself. Please note you must retain copies of your receipts.

Can I use my HSA to pay for non-health-related expenses?

Yes. However, any amount of a distribution not used exclusively to pay for qualified medical expenses for you, your spouse or your tax dependents is includable in your gross income. These distributions could be subject to taxes and an additional 20 percent IRS tax penalty, except in the case of distributions made after your death, disability or reaching age 65.

What happens if my HSA balance exceeds the annual contribution limit?

If you contribute more than the IRS annual contribution limit through payroll deductions, CME will return the excess dollars to your employer. Those payroll deductions will then be taxed as ordinary income. If you make additional personal deposits that exceed the IRS annual limit you must withdraw the excess contributions by the tax-filing deadline. Excess contributions are subject to an excise tax of 6 percent on any excess contributions.

Is tax reporting required for an HSA?

Yes, you must complete IRS form 8889 each year with your tax return to report total deposits and withdrawals from your account. You do not need to itemize. For more information about tax rules including distribution information, contact the Benefits and Wellness Team, CME and/or consult a qualified tax advisor.

What happens to my HSA when I die?

If you are married, your spouse will become the owner of the account and assume it as their own HSA. If you are unmarried, your account will cease to be an HSA. The money in your account will pass to your beneficiaries or become a part of your estate, and it will be subject to applicable taxes.