

# HSA's

## Health Savings Accounts

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## Understanding a Health Savings Account

### What is a Health Savings Account?

Otherwise known as an HSA, a health savings account can be funded with your tax-exempt dollars, by your employer, or both. Dollars from the account can help pay for eligible medical expenses not covered by an insurance plan, including the deductible, coinsurance as well dental and vision care expenses. An HSA can be used before AND after the deductible has been met.

### Who is eligible for an HSA?

Anyone who is:

- Covered by a high-deductible health plan (HDHP);
- Not covered under another medical plan that is not an HDHP;
- Not entitled to (eligible for AND enrolled in) Medicare benefits; or
- Not eligible to be claimed on another person's tax return.

### When do I use my HSA?

After visiting a physician, facility or pharmacy, your medical claim will be submitted to your HDHP for payment. Your HSA dollars can be used to pay your out-of-pocket expenses (deductibles and coinsurance) billed by the physician, facility or pharmacy, or you can choose to save your HSA dollars for a future medical expense.

You may also be able to use an HSA debit card at the point of purchase for certain payments, such as copayments or prescriptions, if your plan allows it.

### What is a deductible?

It is a set dollar amount determined by your plan that you must pay out-of-pocket or from your HSA account before insurance coverage for medical expenses can begin.

### How much can I contribute to an HSA?

As noted by federal law, the annual contribution limits are:

- **2020: \$3,550 for individual coverage and \$7,100 for family coverage**
  - **2021: \$3,600 for individual coverage and \$7,200 for family coverage**
  - **2022: \$3,650 for individual coverage and \$7,300 for family coverage**
  - **2023: \$3,850 for individual coverage and \$7,750 for family coverage**
  - **2024: \$4,150 for individual coverage and \$8,300 for family coverage**
  - **2025: \$4,300 for individual coverage and \$8,550 for family coverage**
- Individuals, age 55 or older, may be eligible to make a catch-up contribution of \$1,000.*

## **What is the difference between an HSA and Flexible Spending Account (FSA)?**

- An HSA can roll over unused funds from year to year and is portable if the employee leaves the company.
- An FSA cannot roll over unused funds from year to year and is not portable.

## **Can I contribute to both an HSA and an FSA in the same year?**

Yes, a “limited FSA” is permissible. A limited FSA only allows reimbursement of expenses that are not eligible for payment under the HDHP or HSA. For example, an employer may establish a limited FSA to allow employees to contribute pre-tax dollars to an account which only reimburses expenses for dental services. Please ask if a limited FSA is available to you.

If you are covered under an FSA plan that includes a grace period, you are eligible to establish an HSA in the following year if your FSA had a zero balance at the end of the plan year or if you transfer your unused balance into the HSA at the end of the FSA plan year.

## **What if I enroll in an HSA in the middle of the year?**

If you enroll in an HSA mid-year, you are allowed to make a full year’s contribution, provided that you remain covered by the HSA for at least the 12-month period following that year.

## **Why should I elect an HSA?**

### **1. Cost Savings**

- Tax benefits
  - HSA contributions are excluded from federal income tax
  - Interest earnings are tax-deferred
  - Withdrawals for eligible expenses are exempt from federal income tax
- Reduction in medical plan contribution
- Unused money is held in an interest-bearing savings or investment account

Note: Some states (including CA) have not passed legislation to provide favorable state tax treatment for HSAs. Therefore, amounts contributed to HSAs and interest earned on HSA accounts may be included on the employee’s W-2 for state income tax purposes.

### **2. Long-Term Financial Benefits**

- Save for future medical expenses
- Funds roll over from year to year
- Account is portable—you take it with you even if you leave the company.

### **3. Choice**

- You control and manage your health care expenses.
- You choose when to use your HSA dollars to pay your health care expenses.
- You choose when to save your HSA dollars and pay health care expenses out-of-pocket.

# Examples of Eligible Expenses

Your Health Savings Account may reimburse:

- Qualified medical expenses incurred by the account beneficiary and his or her spouse and dependents;
- COBRA premiums;
- Qualified long-term care premiums; and
- Any health insurance premiums paid, other than for a Medicare supplemental policy, by individuals age 65 or older.

## Qualified Medical Expenses

The Internal Revenue Service defines qualified medical care expenses as amounts paid for the diagnosis, cure or treatment of a disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate a physical or mental defect or illness.

The products and services listed below are examples of medical expenses eligible for payment under your Health Savings Account, when such services are not covered by your high-deductible health plan. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. This list is not all-inclusive; additional expenses may qualify, and the items listed below are subject to change in accordance with IRS regulations.

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|--|---|--|
| <ul style="list-style-type: none"><li>• Abortion</li><li>• Acupuncture</li><li>• Alcoholism treatment</li><li>• Ambulance</li><li>• Annual physical examination</li><li>• Artificial limb</li><li>• Artificial teeth</li><li>• Bandages</li><li>• Birth control pills</li><li>• Body scan</li><li>• Braille books and magazines</li><li>• Breast pumps and supplies</li><li>• Breast reconstruction surgery</li><li>• Capital expenses (improvements or special equipment installed to a home, if meant to accommodate a disabled condition)</li><li>• Car modifications or special equipment installed for a person with a disability</li><li>• Chiropractor</li><li>• Contact lenses</li><li>• Crutches</li><li>• Dental treatment (not including teeth whitening)</li><li>• Diagnostic devices</li><li>• Disabled dependent care expenses</li><li>• Drug addiction treatment</li><li>• Eye exam</li><li>• Eye glasses</li></ul> | <ul style="list-style-type: none"><li>• Eye surgery</li><li>• Fertility enhancement (in vitro fertilization or surgery)</li><li>• Guide dog or other service animal</li><li>• Health institute fees (if treatment is prescribed by a physician)</li><li>• Certain health insurance premiums (not premiums for an employer-sponsored plan, but certain other medical premiums)</li><li>• Intellectually or developmentally disabled care, treatment or special home</li><li>• Laboratory fees</li><li>• Lactation expenses</li><li>• Lead-based paint removal (if a child in the home has lead poisoning)</li><li>• Learning disability care or treatment</li><li>• Legal fees associated with medical treatment</li><li>• Lifetime care, advance payments or "founder's fee"</li><li>• Lodging at a hospital or similar institution</li><li>• Long-term care</li><li>• Medical conference expenses, if the conference concerns a chronic illness of yourself, your spouse or your dependent</li></ul> | <ul style="list-style-type: none"><li>• Medical information plan</li><li>• Nursing home fees</li><li>• Nursing services</li><li>• Operations</li><li>• Osteopath</li><li>• Oxygen</li><li>• Physical examination</li><li>• Pregnancy test kit</li><li>• Prescribed Medication or Insulin</li><li>• Prosthesis</li><li>• Psychiatric care</li><li>• Psychologist</li><li>• Special education</li><li>• Sterilization</li><li>• Stop-smoking programs</li><li>• Surgery</li><li>• Special telephone for hearing-impaired individual</li><li>• Television for hearing-impaired individuals</li><li>• Therapy received as medical treatment</li><li>• Transplants</li><li>• Transportation for medical care</li><li>• Tuition for special education</li><li>• Vasectomy</li><li>• Vision correction surgery</li><li>• Weight-loss program if it is a treatment for a specific disease</li><li>• Wheelchair</li><li>• Wig</li><li>• X-ray</li></ul> |
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Source: [www.irs.gov/publications/p502/ar02.html#en\\_US\\_publink1000178947](http://www.irs.gov/publications/p502/ar02.html#en_US_publink1000178947)



## Examples of Ineligible Expenses

Your Health Savings Account lets you pay for medical care expenses not covered by your insurance plan with pre-tax dollars. The Internal Revenue Service (IRS) defines medical care expenses as amounts paid for the diagnosis, cure or treatment of a disease, and for treatments affecting any part or function of the body.

The items listed below are examples of products and services that are **NOT** eligible for reimbursement under your HSA, according to the IRS. Typically, expenses for items that promote general health are not eligible expenses.

Please note that this list is not all-inclusive and is subject to change.

- Babysitting, childcare and nursing services for a normal, healthy baby
- Controlled substances or illegal drugs
- Cosmetic surgery
- Dancing lessons
- Diapers or diaper service
- Electrolysis or hair removal
- Funeral expenses
- Future medical care (except advance payments for lifetime care, or long-term care)
- Hair transplant
- Health coverage tax credit
- Household help
- Illegal operations or treatments
- Insurance premiums (with a few exceptions)
- Maternity clothes
- Medication from other countries
- Nonprescription drugs and medicine, except insulin (over-the-counter medicine is eligible for reimbursement with a prescription)
- Nutritional supplements, unless recommended by a medical practitioner as treatment for a specific medical condition
- Personal use items (e.g., toothbrush, toothpaste, dental floss)
- Swimming lessons
- Teeth whitening
- Veterinary fees
- Weight-loss program (unless for a specific disease diagnosed by a physician)

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