HSA Frequently Asked Questions

< BACK

What is a Health Savings Account ("HSA")?
A Health Savings Account allows individuals to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax free basis.

How can I get a Health Savings Account?
Consumers can sign up for HSAs with providers which will generally be insurance companies and banks. Employers are likely to set up plans for employees as well in which case the employer will generally be arranging the HSA for the employee.

Who is eligible for a Health Savings Account?
To be eligible for a Health Savings Account, an individual must be covered by a High Deductible Health Plan (HDHP), must not be covered by other health insurance (does not apply to specific injury insurance and accident, disability, dental care, vision care, long-term care), is not eligible for Medicare, and can't be claimed as a dependent on someone else's tax return.

What Is a "High Deductible Health Plan" (HDHP)?
A HDHP is a health insurance plan with minimum deductible of $1,000 (self-only coverage) or $2,000 (family coverage). The annual out-of-pocket (including deductibles and co-pays) cannot exceed $5,000 (self-only coverage) or $10,000 (family coverage). HDHPs can have first dollar coverage (no deductible) for preventive care and higher out-of-pocket (copays & coinsurance) for non-network services.

^ TOP

Who can contribute to a Health Savings Account?
Contributions to HSAs can be made by either the employer or the individual, or both. If contributions are made by the individual, it is an "above-the-line" deduction. If contributions are made by the employer, it is not taxable to the employee (excluded from income). Contributions can also be made by others on behalf of an eligible individual and deducted by the individual. All contributions are aggregated.

How much can I contribute to a Health Savings Account?
The maximum contribution is the lesser of the deductible amount under the HDHP or (for 2004) $2,600 for individuals or $5,150 for family coverage. These dollar limits will be adjusted for inflation each year.

Do Health Savings Account funds roll over year after year and get invested?
Yes, the money invested in a Health Savings Account rolls over year after year.

Who has control over the money invested in a Health Savings Account?
In most cases the individual will have control over the assets. However, we know that some employers are exploring the idea of having control over the investments.

^ TOP

What happens to the money in a Health Savings Account after you hit age 65?
Once you hit 65, the amounts can be used for health expenses and to pay certain insurance premiums like Medicare Part A & B, Medicare HMO and the employee's share of retiree medical insurance premiums. It cannot be used to purchase a Medigap policy. It can also be used for any other expenses. If used for medical expenses, the amounts come out of the account tax free. If used for other expenses, the amount received will be taxable.

Can you roll the money in a Health Savings Account over into an IRA?
You cannot roll the HSA funds over into an IRA. They will stay in the HSA or be rolled into another HSA.

What can distributions from the HSA be used for?
The amounts can be distributed for either qualified medical or other expenses. If the amount distributed is

used for qualified medical expenses, then the distribution is tax free. If the amount distributed is used for other than qualified medical expenses, the amount distributed will be taxed and, for individuals who are not disabled or over age 65, subject to a 10% tax penalty.

Are dental and vision care qualified medical expenses under a Health Savings Account?
Yes, as long as these are deductible under the current rules. For example, cosmetic procedures, like cosmetic dentistry, are generally not deductible and would not be considered qualified medical expenses.

What is the definition, or eligibility criteria, for qualified preventative health care expenses covered by HSA policies?
Treasury and IRS recently issued guidance on this topic.

^ TOP

Can anyone make catch-up contributions to a Health Savings Account?
Individuals 55 and older who are covered by an HDHP can make additional catch-up contributions. They may make contributions anticipating medical expenses that will not be covered under Medicare -- such as a portion of prescription drug costs or Medicare Part A & B premiums.
For individuals age 55 and older, additional "catch-up" contributions to HSA allowed

- 2004 - $500
- 2005 - $600
- 2006 - $700
- 2007 - $800
- 2008 - $900
- 2009 and after - $1,000

Contributions must stop once an individual is eligible for Medicare. If both spouses are eligible individuals, both may make catch-up contributions.

How do Health Savings Accounts fit in with the Administration's other health care proposals?
The Health Insurance Tax Credit is intended to improve access by making health insurance more affordable, particularly for those with very low incomes. The Health Savings Accounts and the High Deductible Health Insurance Premium (HDIP) proposal included in the President's FY05 Budget (see next question for a description of the proposal) are designed to improve incentives by helping to level the playing field between employer plans and insurance purchased by individuals for a segment of market. Because HSAs and the HDIP deduction both provide tax benefits through a tax deduction, only taxpayers who pay individual income taxes benefit.

What is the Administration's High Deductible Health Insurance Premium Proposal?
The Administration has proposed that anyone who is not covered by an employer plan should be eligible for the above-the-line deduction of premiums used to purchase a HDHP as long as they also make contributions to a HSA. This proposal will not be effective until enacted by Congress.

Have a question about Health Savings Accounts?
Email us: HSAinfo@do.treas.gov