

Health Care Savings Accounts (HSAs)



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Authors

Joel Schumacher

Extension Economics Associate Specialist
Dept. of Agricultural Economics & Economics



Marsha Goetting

Professor & Extension Family Economics Specialist
Dept. of Agricultural Economics & Economics



What is an HSA?

- Special saving account established by Federal law
- Use to pay for future *qualifying* medical expenses



Benefits of HSA

- Deposits made reduce individual's State & Federal taxes
- Unused funds can be carried over from year to year



Benefits of HSA

- Withdrawals for *qualifying medical expenses* are tax free
 - Federal
 - State



Qualifying Medical Expenses

- Health insurance deductibles
- Co-payments
- Long-term care costs



Qualifying Medical Expenses (con'd)

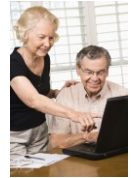
- Prescriptions
- Dental expenses
- Eyeglasses & contact lenses



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IRS Publication 502

- List of common *qualifying medical expenses*:
- Search for "Publication 502"
 - www.irs.gov



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Paying Medical Expenses Before HSA was established

- Funds in HSA can only be used to pay for *qualifying medical expenses* that were incurred after HSA was established



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Eligibility



- Must meet **ALL** four requirements:
 1. Have a qualifying high deductible health plan (HDHP):
Minimum deductibles (*as of April 2014*)
 - \$1,250 individual
 - \$2,500 family

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Eligibility (con'd)

2. Cannot have any other health insurance coverage

Exceptions:

- Accident Coverage
- Disability Insurance
- Dental Insurance
- Vision Insurance
- Long-term care Insurance



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Out-of-Pocket Expenses

- Limit of out-of-pocket annual expenses (not including premiums*) to:
 - \$6,350 per individual
 - \$12,700 for family



* As of April 2014

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Veteran's Benefits

- If received Veteran's benefits in the past three months, not eligible to contribute to HSA



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Eligibility (con'd)



3. Cannot be enrolled in Medicare
4. Cannot be claimed as a dependent on another person's tax return

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Opening an HSA account



- Can be established at:
 - Banks
 - Credit Unions
 - Insurance Companies
 - Mutual Fund Companies

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Savings Accounts

- Cannot use established savings account as an HSA



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HSA Fees



- Financial institutions may have:
 1. Minimum balance & deposit requirements
 2. Check writing fees
 3. Monthly maintenance fees

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HSA Contribution

- Maximum amount (2014):
 - \$3,300 single
 - \$6,550 family



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Catch-up Contribution

- **Must be 55 or older**
 - **Maximum allowable:**
 - **2014: \$1,000**



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HSA Deposits

- **Do not need to be made all at one time:**
 - **Regular**
 - **Irregular basis**



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HSA Deposits (con'd)

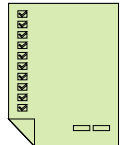
- **Deposits can be made any time of the year**
- **As late as April 15 of the following year to qualify for State & Federal income tax deduction**



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Reporting an HSA

- **IRS Form 8889 (State & Federal)**
 - **Part 1: Contributions & Deductions**
 - **Part 2: Distributions & Penalties for non-qualified withdrawals**



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Taxation of Withdrawals

- **Qualifying medical expenses are not taxed**
- **Non-qualifying expenses are subject to:**
 - **State & Federal income taxation**
 - **20% penalty**



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Example Non-Qualifying Withdrawals:



- **Frank had an unexpected car repair bill**
 - **Withdrew \$500 from HSA for car repairs**
 - **Not a *qualifying medical expense***

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Example Non-Qualifying Withdrawals (con'd):

- \$500 withdrawal reported as income on Frank's State & Federal tax returns
- 20% percent penalty of \$500
 - $\$500 \times 20\% = \100



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65 or older

- No 20% penalty for non-qualifying medical expenses
 - Withdrawal is subject to State & Federal income taxation



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Change Jobs or Retire

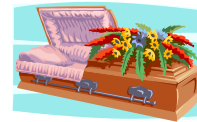


- Eligibility is not directly affected by an individual's employment status

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Death of Account Holder

- Transferred to the named beneficiary on HSA account



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Death of Account Holder (con'd)



- If beneficiaries are not designated then the account passes according to:
 - Owner's will
 - Montana law of Intestate Succession

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Transferring Funds



- One-time only transfer from:
 - Individual Retirement Account (IRA)
 - Flexible Spending Account (FSA)
 - Remaining Balance

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Transferring Funds



- **One-time fund transferred from IRA to HSA are not subject to the 20% penalty**

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Partial Year Eligibility



- **Different rules apply to individuals who are eligible for only a portion of a year**
 - **If eligible on December 1st, considered eligible for the entire year**

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Partial Year Eligibility (con'd)



- **If not eligible on December 1 then contribution limits are prorated for the period of eligibility.**

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Example: Partial Year Eligibility

- **January 1**
 - **Jane eligible for an HSA**
- **July 1**
 - **Jane enrolled in a traditional health care plan through her employer**



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Example: Partial Year Eligibility (con'd)



- **Jane's employer does not offer a high deductible health plan:**
 - **Contribution limit is prorated based on half-year eligibility:**
 - **$\$3,050 \times \frac{1}{2} = \$1,525$**

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Additional Resources:

- **Federal Health Care Savings Accounts (HSA) U.S. Department of Treasury HSA Web site:**
www.treas.gov/offices/public-affairs/hsa
- **Montana Medical Care Savings Accounts (MSA)**
www.montana.edu
Search "MSA"



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HSA MontGuide

- **Health Care Savings Accounts (HSA) MontGuide:**
 - www.montana.edu
 - Search "HSA"



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Health Care Savings Accounts (HSAs)



Questions

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