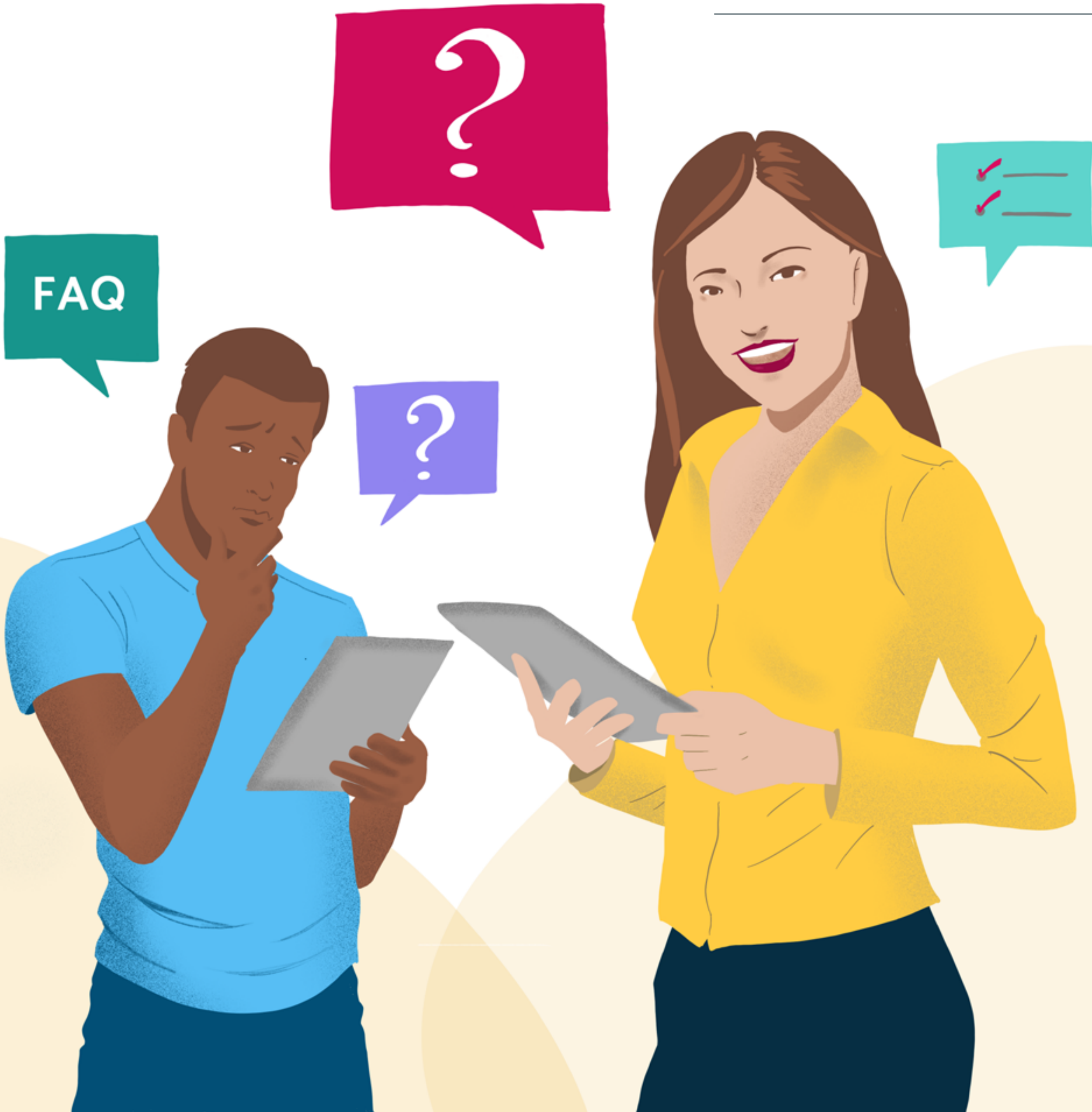
The 15 Most Frequently Asked HSA Questions



QUICK RESPONSES TO THE MOST FREQUENTLY ASKED HSA QUESTIONS

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HSA Q&A CHEAT SHEET

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01

“What is an HSA?”

An HSA is a personal savings account for health expenses.

An HSA[1] can be an interest-bearing health account used for qualifying medical expenses, with the IRS’s maximum contribution limits set annually. The account holder can contribute into an HSA when enrolled in a qualifying high-deductible health plan (HDHP), traditionally known for lower premiums and high-deductibles. A qualifying HDHP has a minimum deductible and out-of-pocket maximum that is set annually by the IRS.

HSAs are owned by individuals (not employers) and can be transferred from job-to-job or institution-to-institution, similar to a 401(k) or IRA. Contributions are 100% tax-deductible (until the maximum contribution limit is reached), and HSAs are triple tax-advantaged (tax-deductible contributions, tax-free interest, and tax-free withdrawals for qualifying medical expenses).

Read more about HSAs.

02

“How does an HSA work?”

Funds are deposited into the HSA, which can later be withdrawn for qualified medical expenses.

An HSA is an individually-owned triple-tax-advantage account that works with a qualifying high-deductible health plan. An individual can open the account on their own, but it’s often offered by an employer. With recurring payroll contributions, up to the maximum annual contribution limit set by the IRS,[2] the account holder can make tax-deductible contributions, earn tax-free interest, and make tax-free withdrawals for qualified medical expenses. The funds can be withdrawn to help pay for qualifying medical expenses, including those not covered by health insurance - like dental and vision care.[3]

Discover more of the details of how an HSA works.

“What are the requirements of an HSA? Am I eligible?”

03

That depends. There are personal requirements for HSA-eligibility:

1. Before opening an HSA, the individual must be covered by a qualifying High-Deductible Health Plan.[4]
2. They can’t be concurrently enrolled in any other non-HSA qualified health insurance plan.[5]
3. They can’t have or be eligible for reimbursement under a general-purpose Flexible Spending Account (FSA). However, they are allowed to have a limited-purpose FSA for dental, vision, and/or dependent care if their HDHP doesn’t cover those services.[6]
4. They cannot be claimed as a dependent on someone else’s tax return.[7]
5. They can’t be enrolled in Medicare (Part A or B) or Medicaid.[8]

Need more details? Read more on the health plan and personal requirements for HSA-eligibility.

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"What designates a qualifying High-Deductible Health Plan?"

A qualifying high-deductible health plan must meet the minimum deductible and out-of-pocket maximum set by the IRS.

A High-Deductible Health Plan (HDHP) is a health insurance plan traditionally defined by lower premiums and higher deductibles. For a health plan to be considered a qualifying, high-deductible health plan, or HSA-eligible, it must meet the IRS's annual minimum deductible and out-of-pocket maximum set annually. These two amounts are indexed annually for inflation.

The health insurance plan must also be designed so that the individual or family (defined as the account holder and at least one other person) pay the cost of healthcare up to the deductible before any insurance kicks in (preventative care excluded from this definition).[9]

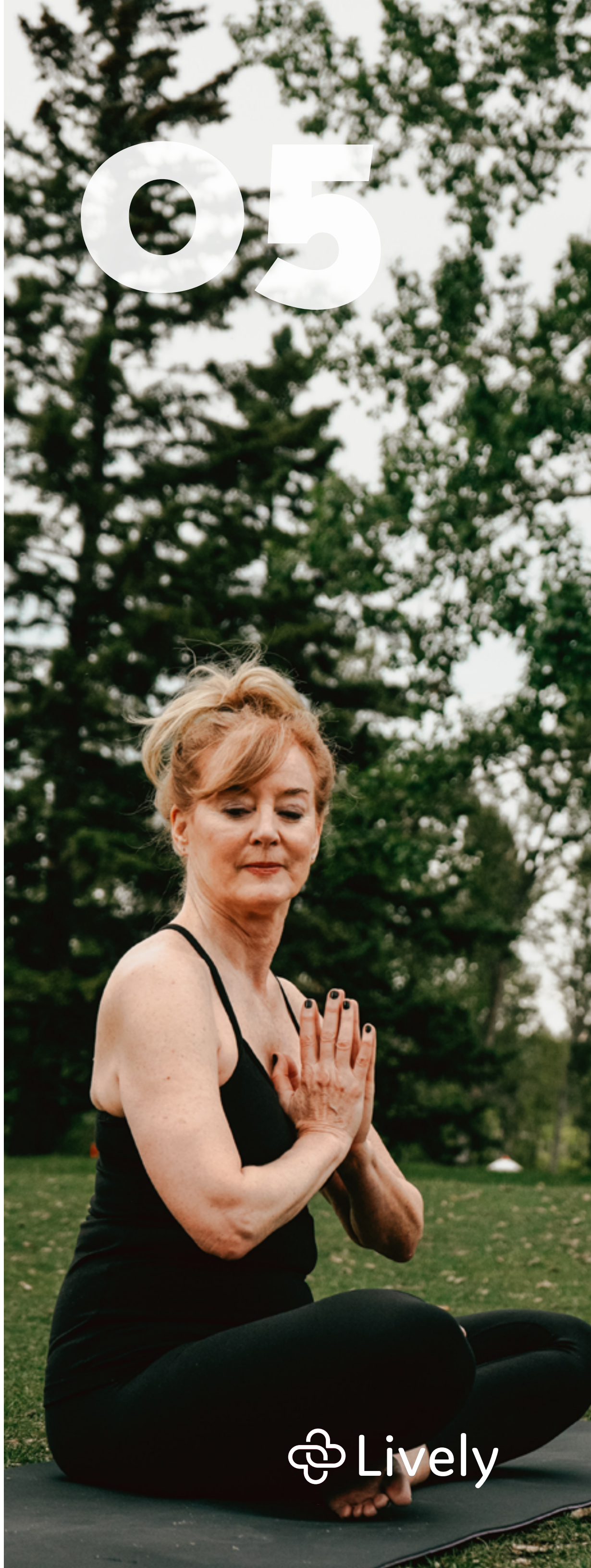
Discover the high-deductible health plan guidelines for plan years 2020 and 2021.

“What are the benefits of an HSA?”

There are five primary benefits of an HSA.

1. **Tax-free[10] money for qualified medical costs.** Because HSA contributions[11] are tax-deductible, and they earn tax-free interest, with tax-free withdrawals,[12] tax-free money from the HSA can be used to pay for health expenses. This means that the account holder saves 35%[13] off the retail cost of their medical services.
2. **Flexibility.** The account holder owns the HSA. If they change employers, they can roll the account over [14] to a new provider, similar to a 401(k).
3. **Long-term savings.** With an interest-bearing HSA,[15] and investment opportunities, account holders that plan for the long-term can mitigate the cost of health care expenses during retirement.[16]
4. **A health safety net.** An HSA helps individuals save for the unknown. HSA funds can be used for unexpected health expenses and healthcare costs like health insurance if the account holder is between jobs. It also covers Medicare-related expenses, or any other qualified medical expense, even after a change of plans or providers.
5. **Versatility in retirement.** Once the account holder turns 65 years old, HSA funds can be used for non-health-related expenses without any penalties, similar to a 401(k) or IRA.

Discover more benefits of a health savings account.



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“Are there limitations to what I can spend using my HSA?”

Yes. For tax-free distribution, funds must be spent on eligible medical expenses.

For funds to be tax-free upon a distribution, they must be used for eligible medical expenses (as defined by the IRS). IRS Publication 502 has the full list. If HSA funds are used for something other than a qualified medical expense, they can be subject to significant IRS penalties.[17]

Review IRS Publication 502 or use Lively’s “What’s Eligible” search tool.

07

“Can I have a joint HSA with my spouse?”

No. An HSA cannot be a joint account because they are individually owned.

HSAs are individually owned; therefore, spouses cannot have a joint HSA. However, each spouse who is an eligible individual and wants an HSA can open a separate HSA. While the accounts would be owned separately, either spouse’s HSA could be used to pay for the other spouse’s expenses if they both meet the eligibility requirements. The combined annual contributions for both spouse’s HSAs cannot exceed the annual family maximum.

Alternatively, one spouse could open an HSA, which would cover the spouse and any other dependents. Then, the family would be subject to the annual maximum contribution limit set for families.[18]

Read more about individual versus family plan HSAs and the annual contribution limits for 2020 and 2021.

08

“If I have a family can I still have an HSA?”

Yes, if a qualifying high-deductible health plan covers the spouse and/or family.

A family of two dependents or more can have an HSA if a qualifying high-deductible health plan covers them. One caveat is that none of the family members can be claimed on another person’s tax return,[19] or they would be unable to contribute the maximum family contribution limit set annually by the IRS.[20]

Read more about the difference between an individual and a family HSA.

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“How much can I contribute into an HSA?”

That depends on the type of HSA and the maximum contribution limit set by the IRS.

The HSA maximum contribution limits for 2020 are $3,550 for an individual and $7,100 for a family. If the account holder is 55 or older, their catch-up contributions are limited to an extra $1,000 a year.

The maximum contribution limits for 2021 are $3,600 for individuals and $7,200 for families. If the account holder is 55 or older, the $1,000 catch-up contribution still applies.[21 22]

Read more about maximum contribution limits in the HSA Guide.

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“What records do I need to keep to justify spending money on a qualified medical expense?”

The insurance carrier’s Explanation of Benefits statement and receipts for items or services paid for with an HSA.

The account holder should keep records of all HSA documentation for as long as their tax return is considered open and subject to an audit (typically three years), or as long as they maintain the HSA account, whichever is longer.

These records include any insurance carrier’s Explanation of Benefits (EOB) statement that documents the expenses for services covered under the High-Deductible Health Plan. The account holder should also keep receipts for items or services paid for with the HSA, for example, vision and dental services.

The IRS indicates that, in case of an audit, the account holder should keep records sufficient to show the following:

- The distributions were exclusively to pay or reimburse qualified medical expenses,
- The qualified medical expenses had not been previously paid or reimbursed from another source, and
- The medical expenses had not been taken as an itemized deduction in any year.[23]

Read more about HSA receipt documentation.

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“When can I reimburse myself for a qualified medical expense?”

Anytime. Today, tomorrow, or 20 years from now.

IRS rules and regulations allow account holders to reimburse themselves with HSA funds for a qualified out-of-pocket medical expense, as long as they are eligible. That means they can do it today, tomorrow, or 20 years from now.[24] The only requirements are that the account holder had the HSA established at the time the expense was incurred (date of service)[25] and that the expense was not reimbursed in any other way.

Learn how to use an HSA as emergency savings and how an account holder reimburses themselves.

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“I no longer have an HDHP. Can I use my HSA?”

Yes, they can continue to use their HSA because HSA usage is not defined by eligibility.

If they no longer have an HSA-qualified health insurance plan, they can’t contribute to their HSA. However, HSA usage is not defined by eligibility. While they can no longer contribute to their HSA, they can still pay for qualified out-of-pocket medical expenses with their HSA, allow the account to accrue interest, invest the funds, or use them for qualified medical expenses.

Read more about the ways to use HSA funds once HSA-eligibility is lost.

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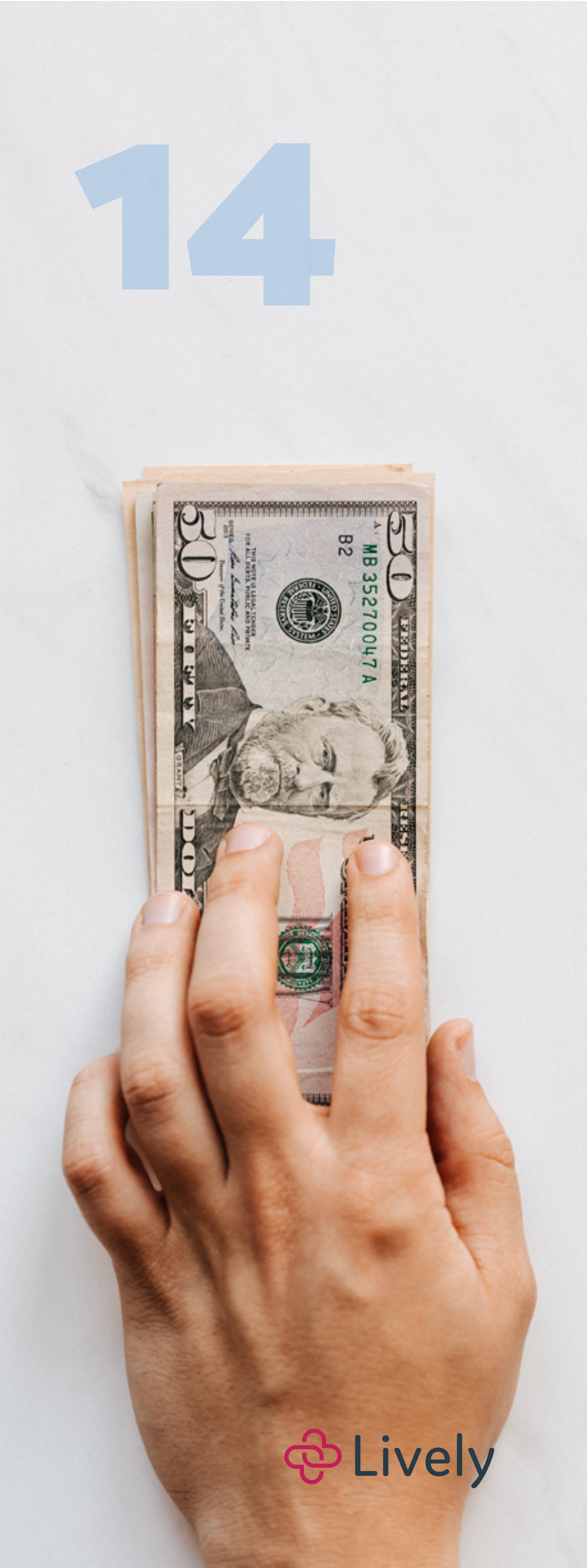
"If I have an HSA and I die, what happens?"

The HSA is transferred to the spouse, a non-spouse beneficiary, an estate, or completes a no beneficiary designated transfer.

Whether an account holder of an individual or family health plan, an HSA account is ultimately owned by the individual. Therefore, the Health Savings Account is an integral part of the estate planning process. And there are tax considerations that will determine whether an HSA transfer from an individual to a spouse, beneficiary, or estate is the best option.

- **Spouse transfer:** There are no tax implications. The HSA is transferred directly to the spouse. He/she can then continue using the HSA money for spending, saving, or investing within the standard IRS guidelines. It remains an HSA, and the same tax-advantaged rules continue to apply.[26]
- **Beneficiary (not a spouse) transfer:** The HSA ends on the date of the individual's death. The funds are then distributed and taxed as income to the beneficiary at fair market value. However, the beneficiary can use the HSA funds to pay for medical expenses of the account holder for up to 12-months after their death.[27]
- **Estate or no beneficiary designated transfer:** The HSA will be distributed to the estate and taxed as income on their final income tax return.

Read more about estate planning options and what happens to an HSA when the account holder dies.



“What is the difference between a rollover and a trustee-to-trustee transfer?”

A rollover requires the account holder to deposit withdrawn funds with a new custodian. The trustee-to-trustee transfer occurs without the account holder taking possession of the funds.

A direct rollover involves withdrawing funds from an HSA in the form of a check and then transferring (depositing) those funds with a new HSA provider. The account holder has 60 days from withdrawal to deposit the funds with a new custodian—or face a 20% income tax. The account holder is limited to one HSA rollover every 12 months.

A trustee-to-trustee transfer is when the initial health savings account provider makes a direct transfer to the new account provider. In this instance, the account holder never takes possession of the funds. There is no limit to the number of trustee-to-trustee transfers an account holder can make.[28]

Learn more about the 60-day rule and the benefits of the trustee-to-trustee transfer.

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"What do I do if I already have an HSA?"

Complete a rollover or trustee-to-trustee transfer from the other provider.

If the account holder has an HSA with another provider and wants to begin using Lively, they can choose to complete a rollover or trustee-to-trustee transfer.[29]

Learn more about how to complete a trustee-to-trustee transfer.

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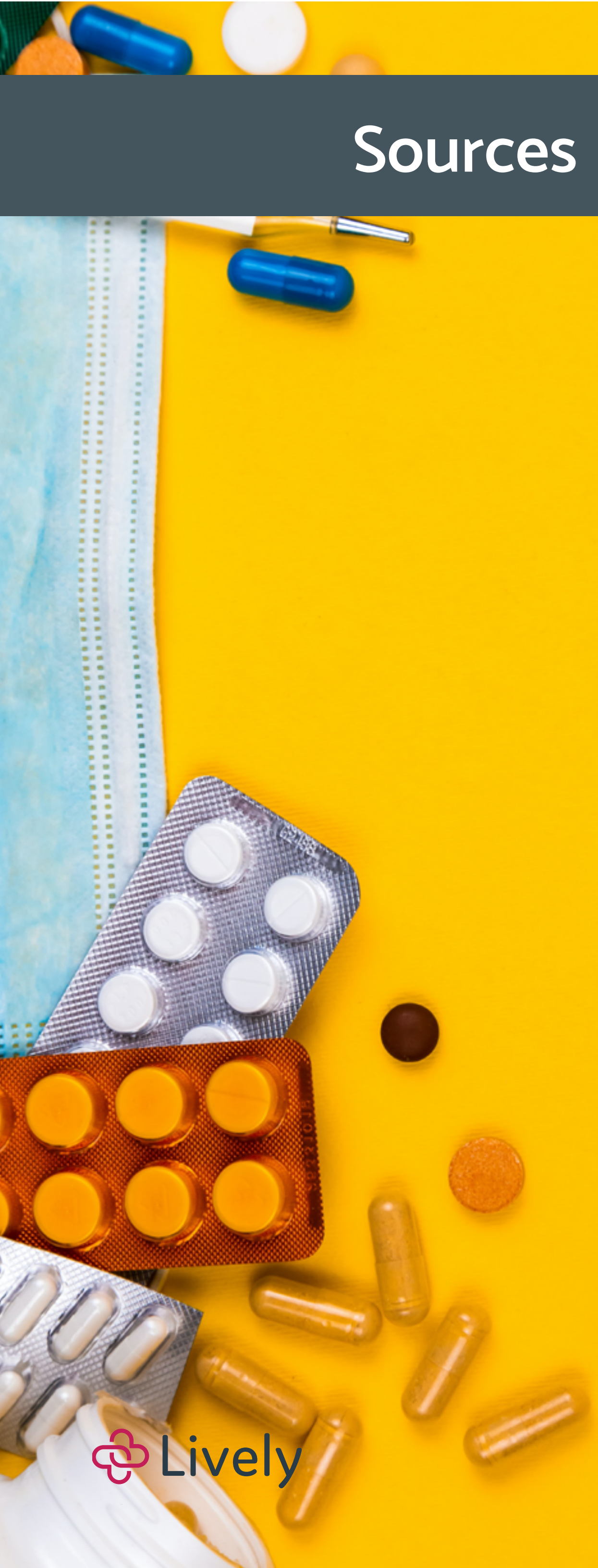

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About Lively, Inc.

Lively is a modern Health Savings Account (HSA) platform for employers and individuals, built by pioneers of the HSA industry with decades of health, benefits, financial, and insurance industry.

Lively's top-rated, user-centric solution creates an intuitive user experience allowing consumers to get the most out of their HSA. Lively HSAs work alongside HSA-compatible plans to make healthcare easier for everyone. Lively's mission is simple: Inspire people to confidently embrace a healthy future.

Lively is headquartered in San Francisco, CA. For more information, please visit Livelyme.com or contact us at sales@livelyme.com.

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