About the Author

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He currently serves as a member of the board of directors of the Employers Council on Flexible Compensation, a member of the American Bankers Association Health Savings Account Council, and secretary and federal legislative chair of the Massachusetts Association of Health Underwriters. He speaks regularly at national and regional conferences, is a frequent visitor to Capitol Hill, and consults with the White House on issues at the intersection of Health Savings Accounts and Medicare. He’s also active at the state level and recently testified about Individual-Coverage HRAs before the Massachusetts governor’s task force evaluating the state’s merged nongroup-small group market.


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About Benefit Strategies, LLC

With three decades of experience, Benefit Strategies is a top-tier provider of outsourcing solutions to human resource teams throughout the United States. Benefit Strategies offers turnkey solutions for many administrative functions including FSA, HRA, HSA account administration, COBRA, direct bill, tuition reimbursement, and commuter benefit solutions. HSA administration is a specialty product offering employees a one-stop resource to manage their account, including investment allocation, setting investment sweep thresholds, requesting distributions, and making contributions.
Introduction

This guide is written for you if you’re:

- enrolled in or are considering a Health Savings Account program, or
- represent an employer offering a program to its workers, or
- a benefits advisor who helps companies select and administer benefit plans, or
- a financial or retirement advisor who counsels clients on how to maximize wealth and spendable retirement income.

Today, Americans hold more than $70 billion in more than 26 million Health Savings Accounts. To put $70 billion in perspective, it’s more than the total output of goods and services in half a dozen states. And these figures grow by low double digits annually.

Health Savings Accounts programs a number of benefits to participants:

- The underlying medical coverage has lower premiums than similar plans.
- Owners avoid taxes on contributions and distributions, making the accounts ideal to reimburse immediate qualified expenses and build balances for future reimbursement.
- Owners experience peace of mind when they build a balance to pay an unexpected medical bill.

But too few people understand the power of Health Savings Accounts. All too often, they miss the opportunity because the underlying medical plan is labeled a High-Deductible Health Plan – an immediate turn-off that doesn’t reference the lower premium. Or they confuse it with a Health FSA, a program with similar immediate tax benefits that includes a risk of forfeiting unused balances. Or they don’t understand how to integrate a Health Savings Account into their investment portfolio and retirement planning.

This guide is designed to demystify Health Savings Accounts. It explains how the underlying medical plan works, outlines eligibility requirements, highlights contribution and distribution rules, and explains how to manage an account. It’s written in plain English so that anyone – regardless of familiarity with medical coverage or tax law – can understand how these accounts work and how they might benefit by enrolling in HSA-qualified coverage and opening and contributing to a Health Savings Account.

This guide explains Health Savings Accounts at a high level. You’ll want to learn more as you explore whether to choose this coverage and explore this opportunity. You can learn more by visiting our Web site, www.benstrat.com, or contacting us at sales@benstrat.com.

Important Note: This guide is for informational purposes only and doesn’t constitute, nor should you construe it as, legal advice. It’s not possible to capture every detail of the law in a short document, and every person’s financial and tax situation is different. We recommend that you consult with your trusted legal, tax, or financial advisor to discuss how Health Savings Accounts fit into your particular situation.
HSA-Qualified Plan

The initial test of eligibility is coverage on an HSA-qualified medical plan. You’re responsible for knowing whether your coverage meets the federal requirements for an HSA-qualified plan. Your insurer can help you make this determination.

Warning: Insurers know whether their plan is HSA-qualified (and often include HSA in the plan name). Third parties such as your company’s benefits advisors, state- and federal-facilitated insurance marketplaces and private marketplaces don’t always provide correct information. Be sure that you receive accurate information from a reliable source.

- Congress set the requirements for an HSA-qualified plans in 2003, with provisions that certain dollar values be adjusted annually.
- All non-preventive services are subject to the deductible. This feature differentiates HSA-qualified coverage from many other deductible plans, which often cover office visits subject to copays or coinsurance and prescription drugs subject to copays or coinsurance.
- If a health plan covers any non-preventive service outside the deductible, it’s not HSA-qualified, regardless of the deductible.

**EXAMPLE:** A plan that covers the first three office visits subject to copay is not HSA-qualified.

Minimum Deductible

The IRS sets the statutory minimum annual deductible each year, adjusting the figure to reflect changes in general (not medical) inflation. The 2020 figures are:

<table>
<thead>
<tr>
<th>Deductible Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-only policy</td>
<td>$1,400</td>
</tr>
<tr>
<td>Family policy</td>
<td>$2,800</td>
</tr>
</tbody>
</table>

The annual adjustments are made in $50 increments and must keep the self-only and family minimum deductibles in a 1:2 ratio. The IRS releases the annual adjustments in the spring for the following calendar year.

The deductible on a family policy can be aggregate or embedded.

- **Aggregate:** A family has a single deductible that applies to all family members. Any one person or combination of members can satisfy the deductible.

  **EXAMPLE:** The contract has a $6,000 family deductible.

- **Embedded:** Each family member has his or her own deductible, with a family maximum.

  **EXAMPLE:** The family has a $6,000 deductible, with each family member’s liability capped at $3,000.

If a family policy has an embedded family deductible, no individual member’s deductible can be less than the statutory minimum annual deductible for a family contract ($2,800 in 2020).

If a plan with a deductible at the statutory minimum annual deductible renews mid-year and the IRS increases the following year’s minimum deductible level effective January 1, a company doesn’t have to offer coverage with the new higher figure until that year’s plan renewal.
Sometimes, a plan has a deductible period longer than 12 months, typically because of a one-time credit or annual carryover. In these cases, the statutory minimum annual deductible is adjusted, and the plan must have a higher deductible to be HSA-qualified.

**Maximum Out-of-Pocket**

The IRS sets the statutory out-of-pocket maximum each year, adjusting that figure annually to reflect changes in the CPI. The 2020 figures are:

<table>
<thead>
<tr>
<th>Policy Type</th>
<th>Maximum Out-of-Pocket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-only policy</td>
<td>$6,900</td>
</tr>
<tr>
<td>Family policy</td>
<td>$13,800</td>
</tr>
</tbody>
</table>

Family coverage must be designed so that no family members incur out-of-pocket expenses that exceed the federal out-of-pocket maximum set by HHS (which is different from the IRS out-of-pocket maximum for an HSA-qualified plan). The HHS maximum out-of-pocket for any covered individual in 2020 is $7,900.

The out-of-pocket maximum applies to in-network services only. If the plan covers out-of-network services, the insurer can set higher limits (up to state law, if applicable).

**Select Preventive Services**

Select preventive services must be covered at no cost at the point of service. The US Preventive Services Task Force (USPSTF), an independent panel of preventive services experts in primary care and prevention, systematically reviews the evidence of effectiveness and develops recommendations for clinical preventive services. Preventive services that are deemed effective (receive a grade of A or B) are covered in full. For more information, go to [www.uspreventiveservicestaskforce.org](http://www.uspreventiveservicestaskforce.org). The box entitled *The Affordable Care Act and USPSTF Recommendations* lists these services. The list changes periodically to reflect new information.

Insurers can (but aren’t required to) cover select preventive prescription drugs outside the deductible at a richer benefit level (including covered in full and covered subject to copay). Your insurer can provide additional information.
Eligibility

Eligibility is often complicated to determine. Be sure that you understand the rules thoroughly. You may want to consult your personal legal, tax, or financial counselor to assess your situation.

Being eligible to enroll in the HSA-qualified medical plan and being eligible to open and contribute to an Health Savings Account (HSA-eligible) are different. Eligibility to enroll in the medical plan is governed by employer and insurer rules, as well as state and federal law. Eligibility to open and make or receive contributions to a Health Savings Account is governed by federal tax law only.

You’re eligible to make or receive contributions to your HSA account if you meet three specific criteria:

- You’re covered by an HSA-qualified medical plan (see the prior section for more information).
- You don’t have any additional coverage that’s not “permitted” or “disregarded.”
- You don’t qualify as someone else’s tax dependent.

Eligibility is determined month-by-month, depending on your status as of the first day of the month. If you’re eligible on the first day of the month, you can contribute for that month, even if you lose your eligibility a day later. Conversely, if you enroll in an HSA-qualified medical plan and meet all eligibility criteria as of the second day of the month, you don’t become HSA-eligible until the first day of the following month.

Eligibility is determined on an individual basis. It’s common for a family to have one or more HSA-eligible individuals (typically the subscriber and often the spouse) and one or more family members not eligible (typically dependent children).

If you’re covered by another medical plan (such as enrollment on a spouse’s medical coverage), that plan must also be HSA-qualified. If it isn’t, you’re not HSA-eligible.

Medicare and Medicaid

If you’re enrolled in any Part of Medicare (most individuals qualify for Part A hospital coverage at no cost when they turn age 65), you’re not HSA-eligible, since Medicare doesn’t offer an HSA-qualified option.

**NOTE:** Unless you’re collecting Social Security or railroad retirement benefits at age 65 or older, you’re not automatically enrolled in any Part of Medicare.

You may be subject to penalties if you don’t enroll in Part B or Part D when you’re first eligible and instead remain covered on a plan that doesn’t meet certain requirements, including Medicare Creditable Coverage (MCC). (For more information, visit [www.benstrat.com/HSA](http://www.benstrat.com/HSA).)

Your spouse or other family member can be enrolled in one or more Parts of Medicare without affecting your Health Savings Account eligibility, since Medicare offers only individual – not family – policies.

If you’re enrolled in Medicaid or any other form of public coverage, you’re not HSA-eligible, since Medicaid isn’t an HSA-qualified plan.

Your spouse or other family member can be enrolled in Medicaid or another form of public coverage without affecting your eligibility to make and receive contributions to a Health Savings Account since these programs offer only individual – not family – policies.
Health FSAs

If an employer offers a Health FSA, employees can elect to receive a portion of their income in the form of tax-free reimbursement of medical, dental, and vision expenses, as well as certain health-related items purchased over-the-counter. Participating employees make a binding annual election (which can be changed only with a qualifying life event) up to a limit set by their employer (within IRS limits), can spend up to their entire annual election at any point in the plan year, and forfeit any unused balances back to their employer. Reimbursement is limited to eligible expenses incurred by the employee and his or her spouse, tax dependents, and children until age 26, whether or not they’re covered on the employee’s medical plan.

Federal tax law treats a Health FSA (otherwise referred to as a flex plan and sometimes nicknamed a Section 125 plan or Cafeteria plan) as a medical plan.

If you can reimburse eligible expenses from your own or your spouse’s Health FSA, you’re not HSA-eligible (unless the Health FSA is designed narrowly, as described below).

A Health FSA represents a 12-month (or longer) commitment. If you or your spouse participate in a Health FSA, you can’t cancel your Health FSA mid-year, and you don’t cease to be covered by that Health FSA once you spend your entire annual election.

If you’re entitled to reimbursement under your own or your spouse’s traditional Health FSA, you can’t become HSA-eligible before the end of the Health FSA plan year. Even then, you may not be eligible.

- If the Health FSA has a two-and-a-half-month grace period, you must spend your entire election before the end of the 12-month plan year (unless your employer agrees to make the grace period a Limited-Purpose Health FSA for all participants).
- If the Health FSA allows carryover of up to $500 of unused funds into the following year, you must either
  - spend your entire election before the end of the 12-month plan year
  - forfeit the rollover, or
  - have your employer carry over the unused balance into a Limited-Purpose Health FSA.

Employers can structure Health FSAs narrowly so that employees (and their spouses and others eligible for reimbursement under the Health FSA) aren’t disqualified from Health Savings Account eligibility due to their enrollment in a Health FSA program.

The most common design is a Limited-Purpose Health FSA.

- This plan reimburses dental and vision services only. The plan document limits reimbursement to this narrow range of expenses. This plan design allows employees to reduce their taxable income further, and enjoy immediate access to their entire annual Health FSA election.

If you’re enrolled on an HSA-qualified medical policy and aren’t HSA-eligible because of your (or your spouse’s) enrollment in a Health FSA, you can reimburse your out-of-pocket under the HSA-qualified plan with your remaining Health FSA balances.
Health Reimbursement Arrangements (HRAs)

An HRA is an employer-funded account designed to offset a portion of employees’ and their dependents’ out-of-pocket responsibility under the employer’s health plan. In a typical plan, the employer provides funds equal to some or all of the health plan deductible, coinsurance, or copays. Employees can’t fund HRAs either directly or indirectly.

Under federal tax law, an HRA is a medical plan. Therefore, individuals enrolled in an HRA through their employer aren’t HSA-eligible unless the HRA itself is an HSA-qualified plan.

Employers can structure HRAs narrowly so that employees (and their spouses and others eligible for reimbursement under the HRA) aren’t disqualified from HSA eligibility due to their enrollment in an HRA program.

The most common narrow design is the Post-Deductible HRA.

• This plan doesn’t begin to reimburse expenses until the employee has met at least $1,400 (if only he is covered by the plan) or at least $2,800 (if at least one other family member is covered) of eligible medical, dental, vision, and over-the-counter expenses. This arrangement allows an employer to offset a portion of their employees’ deductible responsibility.

Employers sometimes offer a Suspended HRA or Retirement HRA. Under either of these designs, employees retain the right to use their HRA funds at a future date but can’t reimburse their current expenses from the account.

Other Federal Coverage

Individuals eligible for services through the Department of Veterans Affairs (VA) don’t lose their eligibility merely by being eligible for such coverage. They lose HSA eligibility for three months after receiving care through the VA system unless:

• the care is preventive, or
• the care is for a service-related disability.

Individuals eligible for services through the Indian Health Service (IHS) don’t lose their HSA eligibility merely by being eligible for such coverage. They lose eligibility for three months after receiving care through the IHS system, unless the care is preventive.

Individuals enrolled in TRICARE (the program that provides coverage for military personnel, military retirees, certain reservists, and their dependents) are not HSA-eligible because TRICARE doesn’t offer an HSA-qualified option.

Patients who receive care through a direct-primary care arrangement aren’t HSA-eligible.

A telemedicine benefit that offer access to care at no cost or a deductible rate before the deductible is disqualifying.

Access to give free or discount non-preventive care below the deductible is disqualifying.

Disregarded and Permitted Coverage

Individuals don’t lose eligibility if they’re covered by disregarded or permitted insurance.
Disregarded insurance includes:

- Dental
- Vision
- Short-term and long-term disability
- Accident
- Long-term care

Permitted insurance includes:

- Specified disease or illness policies (pay a fixed amount per occurrence)
- Hospitalization policies (pay a fixed amount per day hospitalized or per admission)
- Expenses covered by worker’s compensation coverage
- Expenses covered by tort
- Expenses covered by ownership or use-of-property insurance

**Tax Dependent**

You’re not HSA-eligible if you qualify as someone’s tax dependent, whether or not that taxpayer claims you as a dependent. Section 152 of the Internal Revenue Code defines a tax dependent.

**Where to Find More Information:**

Here are some good sources of information about Health Savings Account:

- IRS Publication 969 (published annually) – Information for taxpayers about Health Savings Account eligibility, contributions, and distributions.
- IRS Publication 502 (published annually) – List and description of eligible expenses, a discussion of health-related items not eligible for tax-free reimbursement, and information about tax dependents.
- Benefit Strategies, LLC Web site – Our library of information to help benefits advisors, employers, employees, and account owners understand and manage a Health Savings Account program. Visit us at [www.benstrat.com](http://www.benstrat.com).
Contributions

Individuals who meet eligibility criteria can open a Health Savings Account and make contributions for all months that they’re HSA-eligible. As with other aspects of HSA compliance, the onus is on account owners to know how much they can contribute to their accounts, given IRS limits and their specific situations.

- You’re not required to open a Health Savings Account, even if you’re HSA-eligible, and even if your company agrees to make an employer contribution to each employee’s account.
- There is no minimum amount that you must contribute.
- You don’t make an annual election or contribution commitment to your Health Savings Account, as you do with a Health FSA.
- You’re not locked into level contributions to your account during the year, even if you contribute through payroll deductions. You can adjust your contributions prospectively at least monthly.
- If your employer offers the option, you can make pre-tax payroll contributions. That way, you contribute before federal payroll (FICA), federal income and state income taxes are assessed (except in California and New Jersey, where contributions are subject to state income tax).
- Your employer doesn’t pay FICA taxes when you make pre-tax payroll contributions – an incentive for companies to offer this benefit to employees.
- Because pre-tax payroll contributions aren’t subject to FICA taxes, your taxable income reported for Social Security calculations is reduced by the amount of the pre-tax contributions. This reduction may slightly reduce your future Social Security benefits. You should discuss this issue with your personal financial advisor.
- You can contribute personal funds outside of pre-tax payroll and deduct your contributions on your personal income tax return. You receive credit for your federal and state income taxes paid (except for state income taxes in California and New Jersey), but neither you nor your employer can recover FICA taxes paid.
- Anyone can contribute to your account. Unless the contribution comes from your employer, you – not the donor – receive the tax deduction.
- Contributions are not limited to earned income. You can deposit earned income, passive income, personal savings, or gifts into your account.
- Contributions are tracked on the tax (calendar) year, regardless of when your medical coverage renews.
- Contributions – including amounts made by your employer – vest immediately.
- Your annual contribution limits aren’t affected by the value of your account or earnings.
Contribution Limits and Time Frames

The IRS sets contribution limits, which are reviewed annually and adjusted for inflation in $50 increments. Unlike the statutory minimum annual deductible and the statutory out-of-pocket maximum, the figures don’t have to have a 1:2 ratio between self-only and family contracts (though they often do).

The 2020 contribution limits are:

<table>
<thead>
<tr>
<th>Policy Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-only policy</td>
<td>$3,550</td>
</tr>
<tr>
<td>Family policy</td>
<td>$7,100</td>
</tr>
</tbody>
</table>

If you’re age 55 or older, you can deposit up to an additional $1,000 "catch-up" contribution annually. This figure isn’t adjusted for inflation.

Individuals must make catch-up contributions into an account that they own. Thus, if both you and your spouse are age 55+ and making catch-up contributions, each of you must have a Health Savings Account.

Limits include contributions from all sources (typically you and your employer, but others as well, such as gifts).

If both you and your spouse contribute to your own accounts, your combined deposits can’t exceed the statutory maximum family contribution, even if you’re covered on separate medical plans.

Contributions are based on the size of the contract, not how many individuals enrolled are HSA-eligible.

You can make contributions for a calendar year up to the latter of the day that you file your personal income tax returns or the due date of those returns (usually April 15 of the following year).

**TIP:** Indicate to your Health Savings Account provider the year to which your deposit should be posted if you’re contributing between January 1 and April 15 of the following year for the prior year.

Partial-Year Eligibility

If you lose your eligibility before December 1, you must pro-rate your contribution for that year.

- Divide the statutory maximum annual contribution by 12 and multiply by the number of months that you’re HSA-eligible as of the first day of the month

If you become HSA-eligible between January 2 and December 1, you can choose one of two approaches:

- **OPTION 1:** Pro-rate your contribution.

- **OPTION 2:** Contribute up to the statutory maximum for your policy type. If you fail to remain HSA-eligible through the end of the following calendar year (the "testing period"), your contribution in excess of the pro-rated amount to which you were entitled is included in your taxable income and you pay a 6% excise tax.

If you exceed your contribution limit for a year, you can avoid the excise tax by removing the excess amount and any earnings associated with it and including that amount in your taxable income for that year. You must withdraw the excess contribution before the due date of your income tax return.
Distributions

You can make withdrawals from your Health Savings Accounts at any time for any purpose. If the distribution is to reimburse eligible expenses incurred by certain family members during an eligible time period, it’s tax-free. If not, it’s taxable and possibly subject to penalty.

Eligible Time Period

You can reimburse tax-free any eligible expense that you incur once you’ve established your HSA.

- Check with your account provider to determine when you established your Health Savings Account. This determination follows the state trust law of the state that governs your account, and those rules differ from state to state. In most cases, you establish your HSA when the initial deposit is posted to the account.

You can’t reimburse tax-free an expense incurred before you establish your account.

Once you establish your account, you can continue to make tax-free distributions for eligible expenses for the rest of your life, even when you’re no longer HSA-eligible, until you exhaust your account balance.

Eligible Family Members

You can reimburse tax-free eligible expenses incurred by you, your spouse, and your tax dependents when they have this status as of the date of the expense.

You can reimburse your spouse’s and tax dependents’ eligible expenses whether or not they themselves are HSA-eligible.

You can reimburse your spouse’s and tax dependents’ eligible expenses whether or not they themselves are enrolled on your medical plan.

You can’t reimburse tax-free an ex-spouse’s, or non-dependent child’s eligible expenses from your HSA, even if they’re enrolled on your medical plan. You can reimburse a domestic partner’s only if they’re your tax dependent as well.

A domestic partner, ex-spouse, or non-dependent child who is HSA-eligible can open and contribute to an HSA and reimburse his or her own eligible expenses tax-free.

Eligible Expenses

Health-related expenses eligible for tax-free reimbursement from an HSA include:

- Medical insurance cost-sharing (copays, deductibles, and coinsurance)
- Medically necessary care not covered by the medical plan
- Prescription drugs
- Insulin and related diabetic supplies
- Non-cosmetic dental services, including orthodontia
- Non-cosmetic vision services and hardware, including vision correction surgery
Over-the-counter medical equipment and supplies

Over-the-counter drugs and medicine with a valid prescription

You can reimburse certain insurance premiums tax-free from your account, including:

- Medical plan premiums, but only when you continue employer-based coverage through COBRA or are collecting unemployment benefits
- Medicare Part B (outpatient services) and Part D (prescription drugs) premiums, plus Part A (inpatient services) if you don’t receive this coverage at no cost
- Medicare Advantage (Part C) premiums
- Long-term care insurance premiums at any age (subject to IRS limitations)

You can’t reimburse your own or your spouse’s Medicare premiums tax-free until you, the account owner, turn age 65. You can reimburse all other eligible expenses tax-free.

**EXAMPLE:** Your spouse enrolls in Medicare when you’re age 62. You can reimburse your spouse’s Medicare deductibles, coinsurance, and copays; dental; vision; and over-the-counter supplies and equipment tax-free from your account, but not your spouse’s Medicare premiums until you reach age 65.

For a more comprehensive list of which expenses are eligible (and some that aren’t), read IRS Publication 502, published annually. This booklet lists services eligible for the federal tax deduction. It’s the closest that the IRS comes to listing HSA-eligible expenses.

**Other Distribution Notes**

You can make distributions from your Health Savings Account at any time for any purpose. Withdrawals for expenses that aren’t HSA-eligible are included in your taxable income in the year of distribution and are subject to an additional 20% tax. Exception: The additional 20% tax isn’t assessed for non-eligible expenses once you reach age 65, are disabled, or die.

You’re not required to substantiate your distributions to prove that you withdrew funds only for eligible expenses. You self-report your activity on your personal income tax return and are advised to retain receipts in case the IRS audits your tax return.

Neither your account provider nor your employer can require you to substantiate any withdrawal from your account. Your Health Savings Account is your personal account, and you alone are responsible for managing it in accordance with federal tax law.

Current tax law doesn’t limit the dollar value of distributions in any given year. You can withdraw up to the balance in your account.

Current tax law doesn’t impose a time limit on withdrawals.

Your account provider can help you reverse a mistaken distribution by returning the funds to your account without taxes or penalty, as long as you return the funds before you file your personal income tax return for that year.
Rollovers and Transfers

A Health Savings Account is an individual account owned by a single person. Even though you may be able to reimburse your spouse’s and tax-dependent children’s eligible expenses tax-free, the account is in your name only. There are no “family” accounts.

You can own more than one Health Savings Account.

You can’t move money from your account to one owned by another person without making a distribution subject to taxes and penalties.

Exception: A one-time move of funds as part of a divorce settlement to your ex-spouse’s Health Savings Account or upon your death to your spouse’s account if you named your spouse as the beneficiary of your account.

You have some flexibility in moving money between a Health Savings Account and certain retirement accounts or another Health Savings Account, as described below.

You can make unlimited trustee-to-trustee transfers between two Health Savings Account that you own, whether or not you’re HSA-eligible at the time of the transfer. You never take possession of the balances when you request that one trustee or administrator transfer balances to another.

You can make one rollover annually from one Health Savings Account to another, whether or not you’re HSA-eligible at the time of the rollover. You take money from one account and must place it in the new account within 60 days of the original distribution. Otherwise, the entire distribution is included in your taxable income and subject to an additional 10% tax.

You can’t roll over funds from a Health FSA or an HRA to a Health Savings Account.

You can make a one-time rollover from an Individual Retirement Arrangement (IRA) to a Health Savings Account. The rollover counts against your annual contribution limit. If you don’t remain HSA-eligible for 12 full months after the rollover, the entire amount is included in your taxable income and subject to an additional 10% tax. See IRS Notice 2008-51 for more information.
Account Providers

Health Savings Account trustees or custodians are IRS-approved financial institutions that hold your account balances.

An account provider manages the administration of the plan (mainly customer service and record keeping). Sometimes the trustee serves as the administrator, although the more common model is to have an administrator service the account and a trustee financial institution hold the HSA balances.

Administrators treat the account like a tax-advantaged checking account. Your trustee or administrator provides general information but doesn’t offer legal, financial or investment advice.

Administrators are responsible for maintaining basic banking services for you, typically including:

- A cash account, usually DFIC-insured
- Debit card
- Another means of withdrawing funds (usually online billpay, self-reimbursement or, increasingly less frequently, paper checks)
- Monthly statements and annual tax statements
- Online account access (including mobile application)
- Customer service (toll-free phone, e-mail, text, live online chat)
- Investment options

Account providers charge monthly administrative fees, which are paid by you or, in some cases, your employer. Fees are often waived when the balance in your account, or your total assets under management, exceed a certain figure.

Administrators aren’t responsible for ensuring that you don’t exceed your annual contribution limits. They typically set their systems not to accept contributions in excess of the statutory maximum annual contribution limit for a family contract ($7,100 in 2020) or that figure plus the catch-up contribution limit (total $8,100 in 2020) if you represent yourself as being age 55 or older. They typically don’t know, however, whether you’re enrolled on a self-only contract, have contributed to a second account or lost your HSA eligibility to make or receive contributions during the year.

Administrators don’t request substantiation for any distribution to determine whether an expense is eligible for tax-free reimbursement.

Account providers and trustees don’t offer investment advice. Some provide access to an investment advisory service staffed by licensed investment professionals, and some providers’ investment platform partners offer this service.
Quick Checklist:

If you were never HSA-eligible...

- You can’t open and contribute to a Health Savings Account.
- You can own an account only if you inherit it from your spouse or open it as part of a divorce settlement.

If you were HSA-eligible, opened and contributed to an account and are no longer HSA-eligible...

- You can’t make additional contributions.
- You can continue to reimburse eligible expenses tax-free for the rest of your life (or until you exhaust your account balance), including unreimbursed eligible expenses that you incurred any time after you established your account.
- You can execute unlimited trustee-to-trustee transfers and a single annual rollover from one Health Savings Account to another.
- You can’t roll over funds from an IRA to a Health Savings.

If you remain HSA-eligible...

- You can make or receive contributions to your account up to the statutory maximum annual contribution limits (less any reductions if you’re not eligible all 12 months of the calendar year) up to the time that you file your personal income tax return for that year.
- You can make a catch-up contribution if you’re age 55 or older (and your spouse, if age 55 or older, can do so also), less any reductions if you’re not HSA-eligible all 12 months of the calendar year.
- You can make tax-free distributions for eligible expenses.
- You can execute unlimited trustee-to-trustee transfers and a single annual rollover from one Health Savings Account to another.
- You can exercise your once-per-lifetime option to roll over funds from an IRA to your Health Savings Account.