

HSAs and VA Care, IHS, and TRICARE

The rules around Health Savings Account (HSA) eligibility are simple on the surface but decidedly more complex when they involve certain federal government medical programs.

In this paper, we travel to the intersection of HSAs and Department of Veterans Affairs (VA) services, Indian Health Services (IHS) care, and TRICARE coverage to see how these programs affect eligibility to fund an HSA.

1 I'm eligible to receive care through the VA. Does this affect my HSA eligibility?

No. Merely being *eligible* to receive care at a VA facility isn't disqualifying.

2 What happens to my HSA eligibility if I receive care at a VA facility?

It depends on the care. Your eligibility is not affected if you receive the following services at a VA facility:

- Select preventive care (see the US Preventive Services Task Force list of preventive services that receive a grade of A or B).
- Diagnosis, treatment, cure, or mitigation of an injury, illness, or condition that's service-related.

If you receive care for any other services, you lose your eligibility to fund your account for three full months following the month that you receive care.

3 How does losing eligibility for three months affect my annual contribution limit?

Depending on when you lose your eligibility during the year, you have two options listed below:

Pro-rate Your Contribution (available all year)

You adjust your contributions so that you don't contribute more than 9/12 of the amount to which you're otherwise entitled.

EXAMPLE: You're under 55 and covered on a family contract. You have your gall bladder removed at a VA facility July 3, 2020. You lose your HSA-eligibility for August, September, and October. You can contribute 9/12 of the statutory maximum annual family contribution of \$7,100, or a total of \$5,325. (The figure for self-only coverage is 9/12 of \$3,550, or \$2,662.47.)

Use the Last-Month Rule to Increase Your Contribution (available only for dates of service between January 1 and August 31)

The Last-Month Rule states that if you're HSA-eligible on December 1, you can contribute up to the maximum contribution for your contract type as long as you remain HSA-eligible through December 31 of the following year.

EXAMPLE: In the example above, because you regain your HSA eligibility November 1, you can contribute up to the full \$7,100 statutory limit for 2020. You must remain HSA-eligible through the end of 2021 (the "testing period"). If you fail to remain HSA-eligible through the testing period, any contribution in excess of the pro-rated amount is included in your taxable income. You're also assessed a 10% additional tax unless your failure to remain eligible during the testing period due to disability or death.

If your date of care is September 1 or later, you lose your HSA eligibility for a period that includes December 1. In that case, you can't use the Last-Month Rule and must therefore pro-rate your contribution.

4 When does it make sense to receive care through the VA and when doesn't it?

Select preventive care is covered in full on your HSA-qualified plan and through the VA, so receiving these services isn't disqualifying. You decide where you want to receive care for a service-related disability, as receiving care through the VA doesn't affect your eligibility to fund your HSA.

For other care, you need to consider your assessment of the doctor and staff, your financial responsibility, convenience, timing and other relevant factors. Understand that receiving VA care may affect your contribution limit that year and perhaps the following year (if your three-month loss of eligibility extends into the next calendar year). If the procedure is subject to a high deductible on your medical plan and you haven't incurred deductible expenses that year, you may benefit from lower out-of-pocket costs through your VA coverage – even if you can't make HSA contributions for the three months following your treatment.

5 I have access to care through the federal IHS program. Does being eligible to receive care at an IHS facility affect my ability to open and contribute to an HSA?

No, merely being *eligible* to receive care through IHS isn't disqualifying.

6 I received care through an IHS facility. How is my HSA eligibility affected?

It depends on the nature of the care. Your HSA eligibility isn't affected if you receive only select preventive services. If you receive any care that diagnoses, treats, cures, or mitigates an injury, illness, or condition, you lose your eligibility for three full months.

7 As a veteran, I maintain TRICARE as secondary coverage. Does TRICARE affect my eligibility to fund an HSA?

Yes. TRICARE, the federal program that covers active and retired military, doesn't offer an HSA qualified plan design. If you retain TRICARE coverage, you're disqualified from funding an HSA. That holds true even if you're enrolled on an HSA-qualified plan, you meet all other eligibility requirements, and TRICARE is secondary coverage. Even if you don't receive reimbursements from TRICARE, the coverage itself disqualifies you from opening and making or receiving contributions to an HSA.

How does losing my eligibility for three months affect my annual contribution limits?

See Question 3 above for a discussion of your contribution options in this situation.

Disclaimer

This information is accurate as of May 1, 2020. Please note that this discussion is for informational purposes only and is based on current regulations. It doesn't represent, and shouldn't be construed as, a substitute for professional advice. Please consult your personal legal, financial, or tax counsel to discuss your personal situation and refer to IRS Publication 969.

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