Frequently asked questions

Understanding health savings accounts

What is a health savings account?

A health savings account (HSA) is a tax-advantaged account that must be paired with an eligible high deductible health plan (HDHP). You can use health savings account funds to pay for eligible out-of-pocket medical expenses (also called qualified medical expenses) incurred in the same year you contribute the funds. You also may carry over account balances to pay for future medical expenses, such as those in retirement.

When you contribute to your health savings account through your paycheck, you reduce your taxable income by the amount you contribute. In the event you are no longer employed, you can also contribute to an HSA outside of work, but you still need to be covered by an HSA-eligible health plan and can file for a deduction on your annual tax return.

When your account balance reaches a certain minimum (determined by your employer), you have an opportunity to invest HSA funds in mutual funds. Your invested money has the potential to earn interest and grow. You do not pay taxes on the interest earned or on withdrawals when the money is used to pay for qualified medical expenses. No other type of account provides these types of advantages.

Unlike a flexible spending account (FSA), whatever you don't spend from your HSA stays in your account and carries over from one year to the next. The funds are yours to use when you need them, even if you change health plans, your job or retire.

What are the differences between healthcare flexible spending accounts (FSAs) and health savings accounts?

Both health savings accounts and FSAs allow you to pay for qualified medical expenses with pretax dollars. However, health savings account balances can roll over from year to year, while FSA money left unspent at year end is forfeited, although some employers may allow a small carryover balance from one year to the next. You can have both a health savings account and an FSA as long as the FSA is considered a "limited use" FSA, which means it can only be used to pay for certain medical costs such as vision and dental expenses.

The IRS sets maximum annual contribution limits for both FSAs and health savings accounts. Health savings account limits are higher, offer higher contribution limits for family coverage and allow catch-up contributions once you reach age 55.

What are the differences between a health savings account and a 401(k) or 403(b) retirement plan?

A health savings account is similar to a retirement plan in that they both allow you to save money on a pretax basis. However, there are important differences to consider:

IRS contribution maximums to a retirement plan are significantly higher and catch-up contributions are allowed at an earlier age. However, funds may not be accessed before age 59½ without incurring a penalty. Additionally, withdrawals of pretax contributions and their earnings from a retirement plan will incur income taxes upon withdrawal.

You may withdraw money from your health savings account for qualified medical expenses at any age without penalty. Note that withdrawals before age 65 for nonqualified medical expenses will incur a penalty and income taxes. However, after age 65, you may withdraw funds for any reason: money used for qualified medical

*State and local tax treatment of health savings accounts and distributions may vary. Health savings account holders should discuss their specific situation with their legal, tax or financial professional.

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expenses will be tax free, and any monies used for other expenses will incur income taxes.

When used solely for qualified medical expenses, the health savings account has added benefits, including no required minimum distributions in retirement.

Both a retirement plan and health savings account are great resources for saving for retirement. The best plan for your retirement may be to couple a health savings account with your retirement plan for maximum advantage. You should consult with an advisor or tax consultant to help you make your decisions.

What are the advantages of a health savings account?

There are many benefits to owning a health savings account, including:

- **Tax advantages:** Health savings accounts can offer triple tax-free advantages—contributions you make through payroll deductions, interest or investment growth, and distributions for qualified medical expenses are not subject to federal income taxes.*
- **Flexibility:** You can choose to spend your health savings account balance now on current out-of-pocket medical costs. You can also save your account balance and even consider investing a portion of your balance to grow your account tax free to pay for future medical expenses in retirement.
- **Portability:** Your health savings account is portable. It is yours, just as an IRA is yours. Once you open a health savings account, it stays with you whether you change health plans, your job or retire.
- **Control:** Owning a health savings account and using it to pay for qualified medical expenses puts you in the driver's seat of how to allocate your healthcare spending.
- **Savings to cover medical plan deductibles:** A health savings account can cover your health plan deductibles and out-of-pocket medical expenses such as over the counter medications.

Eligibility

Who is eligible to contribute to a health savings account?

Employees and employers may both contribute to a health savings account. In order to be eligible for a health savings account contribution, you must be enrolled in an eligible HDHP.

The health savings account holder must not have other health plan coverage such as a spouse's plan, a spouse's full-purpose FSA or be enrolled in Medicare. The account holder may not be claimed as a dependent on another person's tax return. It is the account holder's responsibility to ensure they are eligible to make or receive a health savings account contribution.

Are there any income limits that may affect eligibility?

Income is not a factor in eligibility for the contribution limits to a health savings account.

Contributions

How much can I contribute to a health savings account?

The maximum contribution amount is updated annually by the IRS and includes all contributions including those made by an employer on behalf of an account holder. **(IRS publication 969)**.

Tax year	Maximum health savings account contribution limit[1]	
	Individual	Family
2022*	$3,650	$7,300
2023	$3,850	$7,750
Catch up[2]	+$1,000	+$1,000

*Prior year contributions can be made up until April 15 of the current year.

[1] Annual maximum contribution amount is employer and employee contributions combined.

[2] If you are over the age of 55, you may also make an additional "catch-up" contribution of $1,000.

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How do I make contributions to a health savings account?

Many employers that offer an eligible HDHP also provide payroll deduction to a health savings account. Payroll deduction is the easiest and most convenient way to contribute because contributions are pretax. You may also choose to make contributions directly to a heath savings account administrator or custodian. When making direct contributions, you can reduce your taxable income by taking a deduction on your annual tax return.

- **Payroll deduction:** If your employer offers this option, you may specify a regular contribution to be deducted from your paycheck. This contribution will be made before Social Security, federal and most state income taxes are deducted. Many employers offer the ability to change contributions during the year. Check with your employer for specific contribution rules.
- **Direct contributions:** You may choose to make all or part or your annual account contribution to your health savings account directly with the administrator or custodian. These contributions may be deducted on your income tax return, using IRS Form 1040 and Form 8889.
- **Employer contributions:** Your employer may make contributions to your account. These contributions must be included in your annual limit, but they are also excluded from gross income.

If you change health plans and are no longer in an eligible HDHP or you enroll in Medicare, you'll no longer be eligible to make or receive contributions to a health savings account. You'll continue having full access to existing funds in your health savings account and can use the account to pay for any qualified out-of-pocket medical expenses you may incur. Your health savings account goes wherever you go.

Spending your health savings account

What healthcare expenses does my health savings account cover?

Your health savings account can be used tax free to pay for **qualified medical expenses** including deductibles, coinsurance, prescriptions, dental, vision care and more. There are also numerous over-the-counter products that are considered qualified medical expenses that you can purchase with your HSA debit card. Go to HSAstore.com for a convenient way to purchase guaranteed HSA-eligible products. More details regarding reimbursable healthcare expenses can be found in **IRS Publication 502**.

Can I pay out-of-pocket eligible expenses with after-tax dollars instead of using my health savings account funds?

Yes. You can pay out-of-pocket qualified medical expenses with other funds instead of using your health savings account. If you do use other funds to pay your current eligible healthcare expenses, be certain to save your receipts and other documentation. You may choose to reimburse yourself for these eligible expenses now or at any time in the future.

Can I use my health savings account to pay for qualified medical expenses of family members that may not be covered under my health plan?

Yes. You may use your health savings account to reimburse yourself for expenses of your spouse and any dependent you claim on your income taxes, even if they are not covered under your health plan. You also may claim expenses incurred by children who are claimed on an ex-spouse's return.

What happens to my health savings account if I leave my job?

Your health savings account goes wherever you go. The health savings account belongs to you regardless of your employment. It is portable and stays with you even if you change jobs or retire. If you choose COBRA continuation coverage, you can even use your health savings account to pay for your COBRA premiums and other out-of-pocket medical expenses. If you ever enroll in an eligible HDHP in the future, you may be able to continue making contributions to your existing health savings account or consolidate your account with a new administrator or custodian.

Are there any taxes or penalties for withdrawals made to pay for nonqualified medical expenses?

If you withdraw funds from a health savings account for any purpose other than qualified medical expenses prior to age 65, you will pay ordinary income tax plus a 20% penalty tax on the amount withdrawn. Once you attain

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age 65, the 20% penalty tax no longer applies and the health savings account is treated like an IRA, 401(k) or 403(b) plan withdrawal when used for non-healthcare expenses. If the health savings account is used for eligible medical expenses, the withdrawal is always considered tax free.

Saving and investing your health savings account funds

Will my health savings account earn interest?

Contributions to a health savings account are deposited into an FDIC-insured interest-bearing account and you do not pay taxes on the interest earned.

Can I invest my health savings account funds?

Once a health savings account balance reaches a certain balance, you may choose to invest future contributions among a variety of available mutual funds to potentially grow your health savings account value.

Reaching age 65

What happens to the money in my health savings account after I reach age 65 and am still working?

If you're still employed and NOT enrolled in Medicare, you may continue contributions to a health savings account while enrolled in an eligible HDHP. Once you enroll in Medicare, you are no longer eligible to make contributions to a health savings account; however, you may continue to access your HSA funds. Some individuals may elect to receive Social Security income benefits early. If you begin Social Security income benefits, you will be automatically enrolled in Medicare Part A when you turn age 65 even if you remain enrolled in your employer's HDHP.

What if I retire before age 65?

If you retire before age 65, you can use your health savings account for a wide range of qualified medical expenses. You can use it to pay for COBRA continuation coverage premiums or you may choose to enroll in an individual health plan. You may use your health savings account to pay premiums, deductible copays or other eligible out-of-pocket medical expenses. You also may use your HSA to pay for portions of long-term care insurance premiums. The allowed amount increases with age. When you withdraw your health savings account to pay for qualified medical expenses, the withdrawals remain tax free. If you use the funds for nonqualified expenses, the distribution becomes taxable and will be subject to the 20% penalty.

Death benefits

What happens to my health savings account when I die?

Once you enroll in your HSA, you may designate beneficiaries for your account. A spouse beneficiary may continue to withdraw funds tax free for qualified medical expenses. Non-spouse beneficiaries are required to withdraw the entire account and pay ordinary income in the year of your death. There is NO penalty tax on withdrawals made by non-spouse beneficiaries. If no beneficiary is named, your health savings account will become a part of your estate upon your death.

- If you designate someone other than your spouse as the beneficiary of your health savings account:
  1. The account stops being a health savings account on the date of your death;
  2. The fair market value of the health savings account becomes taxable to the beneficiary in the year in which you die (without penalties); and
  3. The amount taxable to a beneficiary (other than your estate) is reduced by any qualified medical expenses you incurred prior to your death that are paid from the health savings account by the beneficiary within one year after the date of death.
- If your estate is the beneficiary of your health savings account, the value of your account is included on your final income tax return.

I have an HSA from a prior employer. Can I transfer it to TIAA?

Yes, you will first need to enroll in the TIAA HSA found on **TIAA.org** if you do not already have one. Once you receive your TIAA HSA Welcome Kit, you can complete the **HSA transfer form**.

To learn more, visit the **TIAA Health Savings Account Resource Center.**

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