

What is a Health Savings Account (HSA)?

An HSA is a special bank account owned by an individual where contributions to the account are used to pay for current and future medical expenses.

How do HSAs work?

When combined with a qualified High Deductible Health Plan (HDHP), the High Deductible Health Plan covers serious illness or injury, while the HSA pays for medical expenses until the deductibles are met. The HDHP can be an HMO, PPO, or indemnity plan, if it meets the requirements set forth by the Treasury Dept.

What is the difference between an HRA and an HSA?

A Health Reimbursement Arrangement (HRA), commonly referred to as a health reimbursement account, is an IRS-approved, employer-funded, tax-advantaged employer health benefit plan that reimburses employees for out-of-pocket medical expenses and individual health insurance premiums. The HSA account is set up and controlled by the individual; it is not established by the employer. It requires the individual to enroll in a High Deductible Health Plan (HDHP) prior to establishing an HSA account. [For a comparison between HSAs and HRAs on the AIA Trust website, please click here.](#)

How do you set up an HSA?

There are four rules for establishing and opening an HSA:

1. You must enroll in a high deductible HSA compatible health plan.
2. You cannot be enrolled in Medicare A, B, C or D.
3. You must complete the individual enrollment form or enroll online for your HDHP.
4. You cannot be claimed as a dependent on another person's tax return.
5. You need to contact your bank or financial institution to establish the Health Saving Account, make your initial deposit and set up your recurring deposit amount.

What are the rules to determine what qualifies as a High Deductible Health Plan (HDHP)?

An HDHP is a health insurance plan with a minimum deductible, indexed for inflation, of:

Single coverage \$1,500 (2023)

Family coverage \$3,000 (2023)

Annual out-of-pocket (including deductibles and co-pays) indexed for inflation cannot exceed:

Single coverage \$7,500 (2023)

Family coverage \$15,000 (2023)

What are some of the major advantages of HSAs?

When compared to other consumer-driven health care options, HSAs have many advantages, including:

➤ *Control*

HSAs are owned by the individual (not an employer). The individual decides:

- whether he or she should contribute
- how much to use for medical expenses
- which medical expenses to pay from the HSA account
- whether to pay for medical expenses from the HSA account or save it for future use
- which Financial Institution will hold the HSA account
- what type of investments are used to grow the account.

➤ *Taxes*

Annual contributions reduce the individual's taxable income and qualified medical expenses are never taxed. All the money set aside in an HSA grows tax deferred until age 65, when funds can be withdrawn for any non-medical purpose at ordinary tax rates, or tax-free when used for medical expenses.

➤ *Flexibility*

Unlike most other health care options, HSAs roll over from year to year, and because the HSA account belongs to the individual, the account is portable if the individual changes jobs. Availability is not limited by employer size, all amounts in the HSA are fully vested, and unspent balances remain in the account until spent.

➤ *Investment growth*

Accounts can grow through investment earnings, just like an IRA. HSAs are governed by the same investment options, limitations and restrictions on self-dealing as IRA's.

Who is eligible for HSAs?

Any individual who:

- is covered by an HDHP
- is not covered by other health insurance
- is not enrolled in Medicare
- can't be claimed as a dependent on someone else's tax return (Children cannot establish HSAs.)

How much can I contribute to an HSA?

Maximum contributions for HSAs are:

Single coverage \$3,850 (2023)

Family coverage \$7,300 (2023)

Individuals 55 and older who are covered by an HDHP can make additional contributions, referred to as "catch-up" contributions, in anticipation of medical expenses that will not be covered under Medicare, such as a portion of prescription drug costs or Medicare Parts A & B premiums. The 2023 maximum annual "catch-up" contributions to an HSA is \$1,000.

To find out more about HSAs, including instructions and contribution limits, visit:

<https://www.healthcare.gov/glossary/health-savings-account-HSA/> or
<https://www.treasury.gov/resource-center/faqs/Taxes/Pages/Health-Savings-Accounts.aspx>