Employee Benefits

Q&A

What is a Health Savings Account (HSA)?

An HSA is a tax-advantaged trust or custodial account that individuals can use to pay for (or reimburse themselves for) qualifying medical expenses. Unlike health reimbursement arrangements (HRAs) and health flexible spending accounts (FSAs), HSAs must be paired with high-deductible health plans (HDHPs). Also different from HRAs and health FSAs, the employee is the owner of the HSA, not the employer.

To be eligible to contribute to an HSA, an individual must be covered by a qualifying HDHP. In addition, the individual cannot be covered by any other health coverage (with some narrow exceptions), enrolled in Medicare or claimed as a dependent on another person's tax return.

Both employers and employees are able to make HSA contributions; this is in contrast to an HRA where only employers can make contributions. An individual who contributes to his or her own HSA (separate from an employer) may take an above-the-line tax deduction for the contributions. Employers can also take a tax deduction for HSA contributions. If an employer sponsors a Section 125 plan (cafeteria plan), employee HSA contributions may be made on a pre-tax basis through the cafeteria plan.

HSAs are subject to maximum annual contribution amounts. The amounts vary depending on whether the individual has self-only or family HDHP coverage, and they are indexed annually by the IRS. Employees who receive employer contributions to their HSA must take this contribution amount into account when determining their own contribution, so as to not go over the IRS limit.

Individuals may use their HSAs to pay for (or reimburse themselves for) their own qualifying medical expenses, as well as their spouses' and dependents' qualifying medical expense, on a tax-free basis. Qualifying medical expenses are unreimbursed medical care expenses (as defined under Section 213(d) of the Internal Revenue Code) that are incurred after the HSA is established.

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HSAs are different from HRAs and health FSAs because they can be used to pay for non-medical expenses Howver, if HSA funds are used for purposes other than qualifying medical expenses, the amount used for those expenses is included in the owner’s income and is generally subject to an additional tax of 20 percent.

At the end of the year, unused HSA funds roll over to the next year, which is not true for health FSAs.

HSAs are portable, meaning employees can maintain their HSA account and funds when they leave their jobs, and they do not forfeit any amounts upon retirement or termination of employment.