

# What is a Health Savings Account?

---

Health Savings Accounts (HSAs)



UNIVERSITY OF  
SOUTH ALABAMA

# What is a HSA?

---

A health savings account (HSA) is an account that can be used to pay medical expenses.

- Your HSA must be used in conjunction with a high deductible health plan (HDHP).
- You own your HSA account, both you and USA can contribute funds.
- Some tax-advantages to having an HSA: Contributions are pre-tax. Your funds accrue tax-free. You do not pay taxes when using funds for eligible medical expenses.



# Benefits of an HSA

---

- Triple tax advantage means you save money on your health care expenses.
- Funds rollover each year, so you can use your HSA to save tax-free money for retirement.
- You own the account, even if you leave the company.



# Who is eligible for an HSA

---

Anyone who is:

- Covered by a HDHP.
- Not enrolled in Medicare.
- Not covered under other health insurance.\*
- Not another person's dependent.

\*Medicare, Tricare, or have received VA benefits within three months



# HSA Contribution Limits

---

- Each year, the IRS sets contribution limits.
  - These limits are for the total funds contributed, including company contributions, your contributions and any other contributions.
- 2025 limits:
  - \$4,300 for individual coverage.
  - \$8,550 for family coverage.



# Catch-up Contributions

---

For individuals ages 55-plus, the IRS allows additional “catch-up contributions”.

Eligible individuals may contribute an extra \$1,000 for the year.

# HSA Distribution Rules

---

- Distributions from your HSA are tax-free if they are taken for “qualified medical expenses”.
- Your HSA can only be used for expenses that are incurred on or after the date the HSA was established.
- However, HSA funds can be used for expenses from a prior year, if the expenses were incurred on or after the date the HSA was established.



# HSA Distribution Rules

---

HSA distributions can be taken for qualified medical expenses for the following people:

- The account holder (person covered by the HDHP.)
- Spouse of that individual (even if not covered by the HDHP.)
- Dependents of that individual (even if not covered by the HDHP.)
  - To use your HSA funds for your adult dependent child's health expenses, the adult child must be claimed as a tax dependent on your taxes.





# Qualified Medical Expenses

---

- The IRS defines expenses that are considered “qualified medical expenses” for HSA distributions.
- Expenses must be primarily to treat or prevent a physical or mental defect or illness.
- If you use HSA funds for expenses beyond what the IRS defines as qualified, you will be subject to income tax on the distribution and an additional 20% penalty.



# Qualified Medical Expenses

---

- Examples of qualified medical expenses include:
  - Most medical care that is subject to your deductible (coinsurance, doctor visits, inpatient or outpatient treatment, etc.)
  - Prescription drugs.
  - Dental and vision care.
  - COBRA, qualified long-term care insurance, health insurance premiums paid while receiving unemployment benefits.
- To see a complete list of eligible expenses go to [www.irs.gov/publications/p502](http://www.irs.gov/publications/p502).

# Ineligible Medical Expenses

---

- Expenses that are not considered “qualified medical expenses” include:
  - Insurance premiums (other than the exceptions listed on the previous slide.)
  - Surgery for cosmetic reasons.
  - Expenses covered by another insurance plan.
- For eligible expenses employees can visit IRS website at <https://www.irs.gov/publications/p502>



# Recordkeeping

---

- Whenever you use HSA funds to pay for a medical expense, you should keep your receipt.
- You may need to demonstrate to the IRS that HSA distributions were for qualified medical expenses.
- If the IRS requests receipts for verification purposes, failure to provide those receipts could result in having to pay a penalty.



# Questions?

---

- If you have additional questions, please contact HR.



UNIVERSITY OF  
SOUTH ALABAMA

