

## Health Savings Accounts for Individuals and the Self-employed

An HSA is a savings account attached to a high-deductible, qualified HSA health plan (HDHP.) For 2020, the health insurance policy must have a deductible of at least \$1400 per year to qualify for individual coverage, and \$2800 per year for family coverage (2 or more people.) Money can be contributed to the HSA on a monthly, sporadic or lump sum basis, but must be in the account before December 31 of the qualifying tax year. Money in the account may be used to pay for “qualified medical expenses”, usually by using a debit card attached to an HSA savings account. \*See addendum

Most any bank that offers an HSA account can set up the HSA; however, some insurance companies offer a preferred or suggested bank for this use. \*See resources

Any individual can contribute to the qualified HSA account (the owner of the account, an employer, etc.) and the amount contributed is ***not taxed, the funds are exempt from capital gains and other investment related taxes, the funds can earn interest.*** Money that is not used up can be rolled over into the next year indefinitely. The accumulated, unused portion can eventually be used to pay the account owner’s Medicare part B and Part D premiums.

## 2020 HSA Contribution Limits

Because there are two main distinctions of HSAs, there are two sets of contribution limits:

- For the 2020 calendar year, the contribution limit for *individual* HSAs will increase to **\$3,550** per year, up from \$3,500 in 2019.
- For the 2020 calendar year, the contribution limit for *family* HSAs will increase to **\$7,100** per year, up from \$7,000 in 2019.
- If the HSA owner is 55 years of age or older, they can make an additional **\$1,000** catch-up contribution into their HSA – a good reason for families to have separate HSA accounts (more savings).

Employees can make HSA contributions at any time during the year, but if they want to maximize their 2020 contributions, breaking it down into monthly contributions through pre-tax payroll deductions can make it much easier. The money in the HSA account can be used for any “qualified HSA medical expense.”

There are some items that may be over the counter but still require a physician’s prescription to be covered. Massage therapy is covered if medically necessary. \*See addendum.

## **Resources:**

Your tax preparer

[www.irs.gov](http://www.irs.gov)

[www.hsaedge.com](http://www.hsaedge.com)

[www.healthequity.com](http://www.healthequity.com)

<https://learn.healthequity.com/qme/> for exhaustive list of qualified HSA medical expense

[www.hsastore.com](http://www.hsastore.com) – online shopping for HSA qualified products

## **Addendum**

When the HSA bank account is set up, a debit card attached to the account will be issued. This card should *only* be used to purchase the qualified medical products so that the withdrawal can be easily tracked. If the debit card is not used, you must save a receipt that shows the item or service purchased any applicable billing codes, date and place of service.

- All qualified medical expenses are reported on IRS form #8889.
- A detailed list of qualified HSA expenses can be found on IRS form #502.
- If you pay for anything other than qualified expenses with your HSA, the amount will be taxable. If you are 64 or

younger, you will also pay an additional 20 percent tax penalty. If you are 65 or older, the tax penalty does not apply, but the amount must be reported as taxable income.

- The client/patient must maintain proof of medical necessity in their tax records to verify any HSA qualified medical expense.
- All records should be kept for 3 years in case of audit.

Information provided by:

Lori Taylor, Independent Broker  
Health Insurance Northwest  
[www.healthinsuranceNorthwest.com](http://www.healthinsuranceNorthwest.com)

An HSA account is a financial entity tied to a high deductible HSA qualified health plan.

Please confirm your individual HSA qualifications with your tax preparer.