

## Health Savings Accounts (HSAs)

### Overview

HSAs are tax-advantaged savings accounts available to individuals enrolled in high deductible health plans (HDHPs). Distributions from the account are tax-free if used for qualified medical expenses.

Individuals may make pre-tax or tax-deductible contributions to their account (contributions are generally pre-tax when made by payroll deduction and tax-deductible otherwise). Because contributions are pre-tax or tax-deductible, an individual contributing to an HSA reduces his or her taxable income. Account funds may also be invested and earn interest. Annual contributions are limited based on, among other things, an individual's age. For 2019, the maximum contribution was \$7,000 (if the HDHP provided family coverage) or \$3,500 (individual coverage).

HSAs are one of three main types of health accounts allowed under federal law. The others are Health Reimbursement Arrangements (HRAs) and Health Care Flexible Spending Accounts (HCFASAs, also called FSAs).

### *HSA Eligibility*

Generally, an individual qualifies for an HSA if he or she is covered by an HDHP and not:

1. covered by any other traditional health insurance,
2. a dependent claimed on someone else's tax return, or
3. enrolled in Medicare (other types of savings accounts, including a Medicare Advantage MSA, may be used by Medicare enrollees).

*HSAs allow an individual to save for qualified medical expenses and reduce his or her taxable income.*

### High Deductible Health Plans

HDHPs are plans with lower premiums than other types of health insurance, but higher deductibles. With the exception of preventive care, an individual must meet the deductible before the plan pays benefits.

For 2019, HDHPs must have a minimum deductible of at least \$2,750 for family coverage or \$1,350 for individual coverage and maximum deductibles of \$13,500 or \$6,750, respectively.

HSA funds can be used to pay for qualifying medical expenses, including expenses incurred prior to meeting a deductible. Additionally, the plan may contribute a portion of the premium to an individual's HSA.

## Qualified Medical Expenses

Qualified medical expenses are costs associated with the diagnosis, cure, mitigation, or prevention of disease or for the purpose of affecting bodily functions. These include medical equipment and supplies costs, as well as costs for services rendered by licensed practitioners. In addition, prescription drugs, over-the-counter drugs for which an individual obtains a prescription, and insulin, are all considered qualified medical expenses. Qualified expenses do not include expenses that are beneficial to overall health but not related to a specific treatment, such as vitamins. Examples of qualified medical expenses are included in [IRS Publication 502](#).

## HSA and Premiums

In general, HSA funds cannot be used for insurance premiums, unless the premiums are for:

1. long-term care insurance,
2. health insurance continuation coverage (e.g., COBRA coverage),
3. health care coverage while receiving state or federal unemployment benefits, or
4. Medicare, under certain circumstances ([IRS Publication 969](#)).

## Other Savings Accounts

HSAs, HRAs, and FSAs are all tax-advantaged savings accounts allowed under federal law. However, eligibility, contribution limits, annual balance rollovers or forfeitures, interest accrual, and the range of qualified expenses differ based on account type. For more information, see the federal Office of Personnel Management [comparison chart](#).

## HDHPs and the Safe Harbor Provision: State Policy Considerations

Generally, state policy changes to deductible requirements are limited by federal law. In order to meet IRS qualifications, HDHPs cannot limit deductibles except for certain preventive care items provided for in a safe harbor provision. Thus, with certain exceptions noted below, eliminating deductibles on non-preventive care services jeopardizes the tax benefits of HDHPs. This is one reason recent state legislation aimed at reducing out-of-pocket expenses restricts how it applies to HDHPs (e.g., [PA 19-117](#) §§ 209 & 210).

According to the IRS, a preventive care service:

1. excludes “any service or benefit intended to treat an existing illness, injury, or condition,” and
2. includes preventive services under the Affordable Care Act (ACA) (i.e., USPSTF “A” and “B” rated services) as ([IRS Notice 2018-12](#)).

The IRS specifically notes that state law requirements do not determine whether health care constitutes preventive care ([IRS Notice 2004-23](#), see page 725). As a result, it does not appear that the state can legislatively define preventive care services.

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OPM Healthcare, “[Health Savings Accounts](#)”

[IRS Publication 969](#)

Healthcare.gov, “[High Deductible Health Plan](#)”

[IRS Publication 502](#)

