

Introduction to HSAs



Learning Objectives

- ✔ Explain HSA eligibility and contribution rules
- ✔ Better assist clients in establishing an HSA
- ✔ Understand the requirements of a high deductible health plan (HDHP)
- ✔ Define the difference between qualified and nonqualified HSA distributions

HSA History



IRA-like accounts that cover medical expenses of HSA owner, spouse, and dependents

2004





HSA History

- Cost savings
- Tax advantage
- Covers wide range of expenses
- Flexible
- No “use it or lose it” rule
- Portable

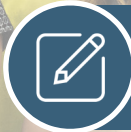
Eligible Individuals



Covered by an HDHP



Generally not covered by another nonHDHP



Not enrolled in Medicare



Not eligible to be claimed as a dependent

HSA Eligibility Documentation

- Not an IRS requirement
- Reviews eligibility requirements
- Certifies eligibility



HSA Contribution
Eligibility Form

HDHP Requirements

Minimum Annual Deductible	2019	2020
Self-Only Coverage	\$1,350	\$1,400
Family Coverage	\$2,700	\$2,800
Maximum Annual Out-of-Pocket	2019	2020
Self-Only Coverage	\$6,750	\$6,900
Family Coverage	\$13,500	\$13,800

Establishing an HSA



Lila and Wyatt's HSA



Lila's HSA



Wyatt's HSA

Establishing an HSA



IRS Required Document

- Plan agreement



Additional Documents

(required by some financial organizations)

- Application
- Disclosure statement
- Regulatory documents

Regular Contributions



Deductible contributions



Limit depends on HDHP coverage



Contributions may be prorated



Spouses with family coverage
split limit



Anyone may contribute

Regular Contributions	2019	2020
Self-Only Coverage Annual Limit	\$3,500	\$3,550
Family Coverage Annual Limit	\$7,000	\$7,100

Prorated Contribution Eligibility

January	February	March	April
May	June	July	August
September	October	November	December



Contribution limit
is sum of monthly
limits

Full-Year Contribution Eligibility

Contribution limit is greater of
sum of monthly limits, or

January	February	March	April	May	June
July	August	September	October (first eligible)	November	December

annual contribution limit

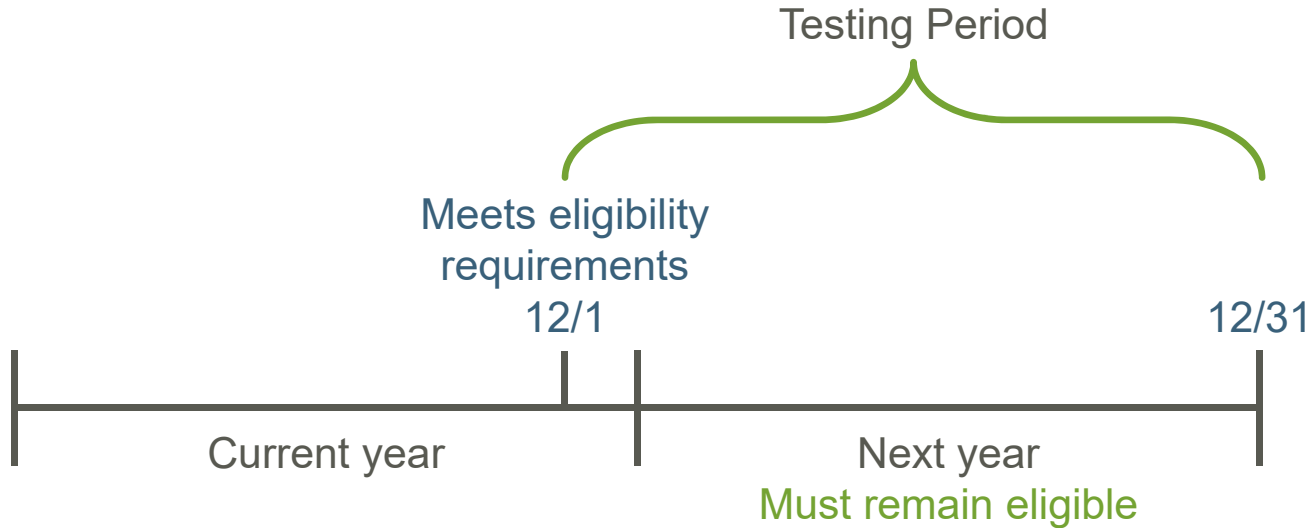
January	February	March	April	May	June
July	August	September	October (first eligible)	November	December



HSA-eligible as
of December 1

Testing Period

If using last month rule, HSA owner must meet testing period to avoid taxes and penalties.



Catch-Up Contributions



Age 55 or older
by December 31



Contributions may
be prorated



Each spouse with
family coverage is
eligible to contribute
to own HSA

Catch-Up Contributions	2019	2020
Annual Limit	\$1,000	\$1,000

Aggregated Contributions



All other HSA contributions

+



Archer MSA contributions

+



HSA funding distributions



Eligible contribution limit

HSA Contributions Example

Esther, age 53, and Thad, age 56, are married and have family coverage for 2019.

Esther contributes \$4,000 to her HSA

How much is Thad allowed to contribute to his HSA?
Why?

\$4,000

Thad is eligible to contribute the remaining family coverage limit of \$3,000 ($\$7,000 - \$4,000$), plus the \$1,000 catch-up contribution because he is age 56.



HSA Catch-Up Contributions Example

Melissa, age 57, and David, age 55, are married. They have family coverage under Melissa's HDHP and are otherwise eligible individuals.

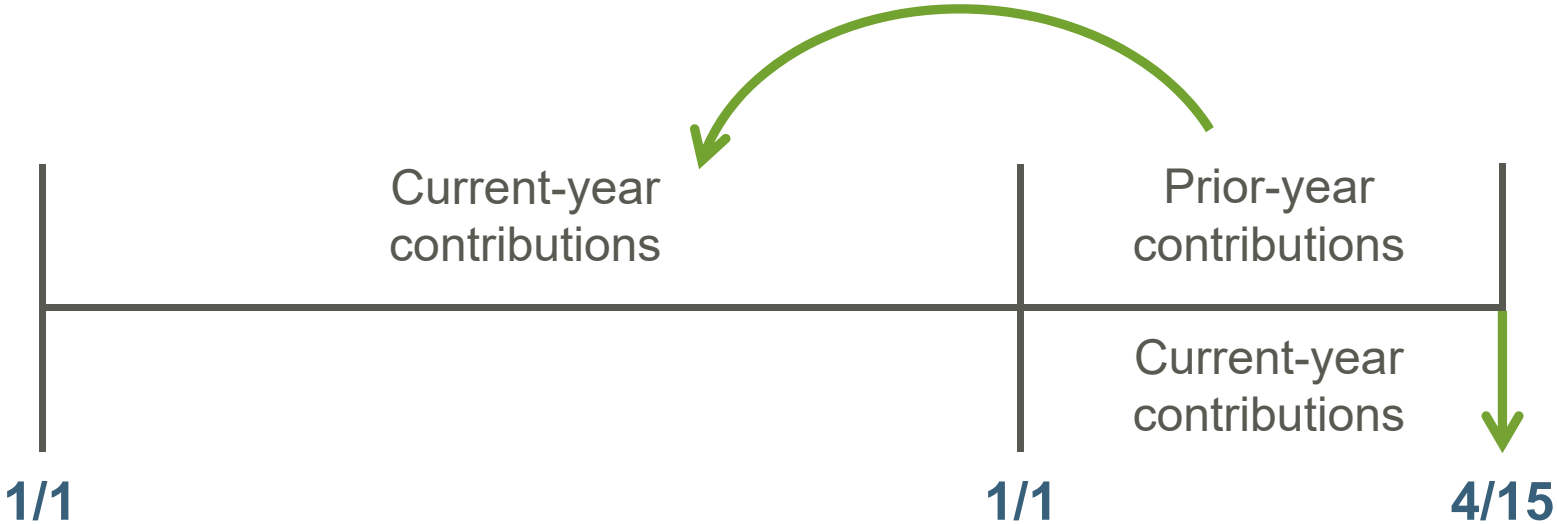
If Melissa makes the maximum contribution to her HSA, what amount can David contribute to his HSA? Why?

\$1,000

David is still eligible to make the catch-up contribution, but no other amount because Melissa contributed up to the annual limit.



Annual Contribution Deadline



Prior-Year Contributions



In writing



Irrevocable



Timely if
postmarked
by deadline

HSA Distributions

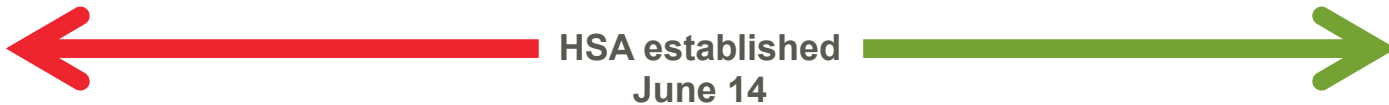


Payable on demand

HSA Distributions

May use distributions in current year to pay or reimburse expenses incurred since HSA was established, even if no longer HSA-eligible

May							June							July						
	1	2	3	4	5	6					1	2	3						1	
7	8	9	10	11	12	13	4	5	6	7	8	9	10	2	3	4	5	6	7	8
14	15	16	17	18	19	20	11	12	13	14	15	16	17	9	10	11	12	13	14	15
21	22	23	24	25	26	27	18	19	20	21	22	23	24	16	17	18	19	20	21	22
28	29	30	31				25	26	27	28	29	30		23	24	25	26	27	28	29
														30	31					



HSA Distributions Example

In 2019, Joel, age 23, began self-only coverage and established and funded an HSA.

He continues to make annual HSA contributions for the next 15 years.

He takes no HSA distributions.

In 2034, Joel changes coverage to a nonHDHP.



HSA Distributions Example

Joel's balance has grown to \$50,000.

He is no longer eligible to make HSA contributions.

He may take qualified distributions to pay for expenses that occurred after he established his HSA in 2019.



Qualified Distributions



Qualified medical
expenses



No income taxes



No penalty taxes

Qualified Distributions

**Medical expenses
that are**



Incurred or paid by HSA owner, spouse,
or dependents

Incurred after HSA established

Not covered by insurance

Qualified Distributions

Allowed to pay for qualified medical expenses even if spouse or dependents are not HSA-eligible

HSA owners determine if qualified





Department of the Treasury
Internal Revenue Service

Publication 502
Cat. No. 150920

Medical and Dental Expenses

**(Including the Health
Coverage Tax Credit)**

For use in preparing
2018 Returns



Get forms and other information faster and easier at:
• IRS.gov/English • IRS.gov/Korean (K-ENG)
• IRS.gov/Spanish (Español) • IRS.gov/Japanese (J-ENG)
• IRS.gov/Chinese (中文) • IRS.gov/Vietnamese (Tiếng Việt)

Jan 09, 2019

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Future Developments

For the latest information about developments related to Pub. 502, such as legislation enacted after it was published, go to IRS.gov/Pub502.

What's New

Standard mileage rate. The standard mileage rate allowed for operating expenses for a car when you use it for medical reasons is 16 cents a mile. See [Transportation](#) under *What Medical Expenses Are Includible*, later.

Reminders

Photographs of missing children. The IRS is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Qualified Medical Expenses

- Generally qualify for medical and dental expense tax deduction
- IRS Pub. 502

Nonqualified Distributions



Nonqualified expenses



Taxable



20% penalty tax unless exception



Penalty Tax Exceptions



Death



Disability



Age 65

HSA Overview Exercise

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HSA Overview Exercise

Jenny, age 48, and Jonathan, age 57, had family HDHP coverage for all of 2019. So far in 2019, Jenny has contributed \$3,000 to her HSA.

How much more can Jenny contribute to her HSA for tax year 2019?

\$4,000

If Jenny makes the maximum contribution to her HSA, how much may Jonathan contribute to his own HSA for 2019?

\$1,000



HSA Overview Exercise

Molly began her new job on June 1, 2019. There was a 30-day waiting period before she was covered by the HDHP. When was Molly eligible to establish an HSA?

July 1, 2019



HSA Overview Exercise

Hazel, single and age 57, has self-only coverage under her HDHP and is otherwise an eligible individual. She is eligible to establish an HSA in August 2019. How much is Hazel eligible to contribute for 2019?

\$4,500 (assuming she remains eligible through December 31, 2020)



HSA Overview Exercise

Roy was an eligible individual for all of 2018. He opened his HSA on April 15, 2019, with a contribution of \$2,000 for 2018. His total unreimbursed medical expenses for 2019 are \$150 from his doctor visit on January 10, 2019. If he withdraws the amount from his HSA, does he have a qualified distribution or a nonqualified distribution? Why?

Nonqualified distribution

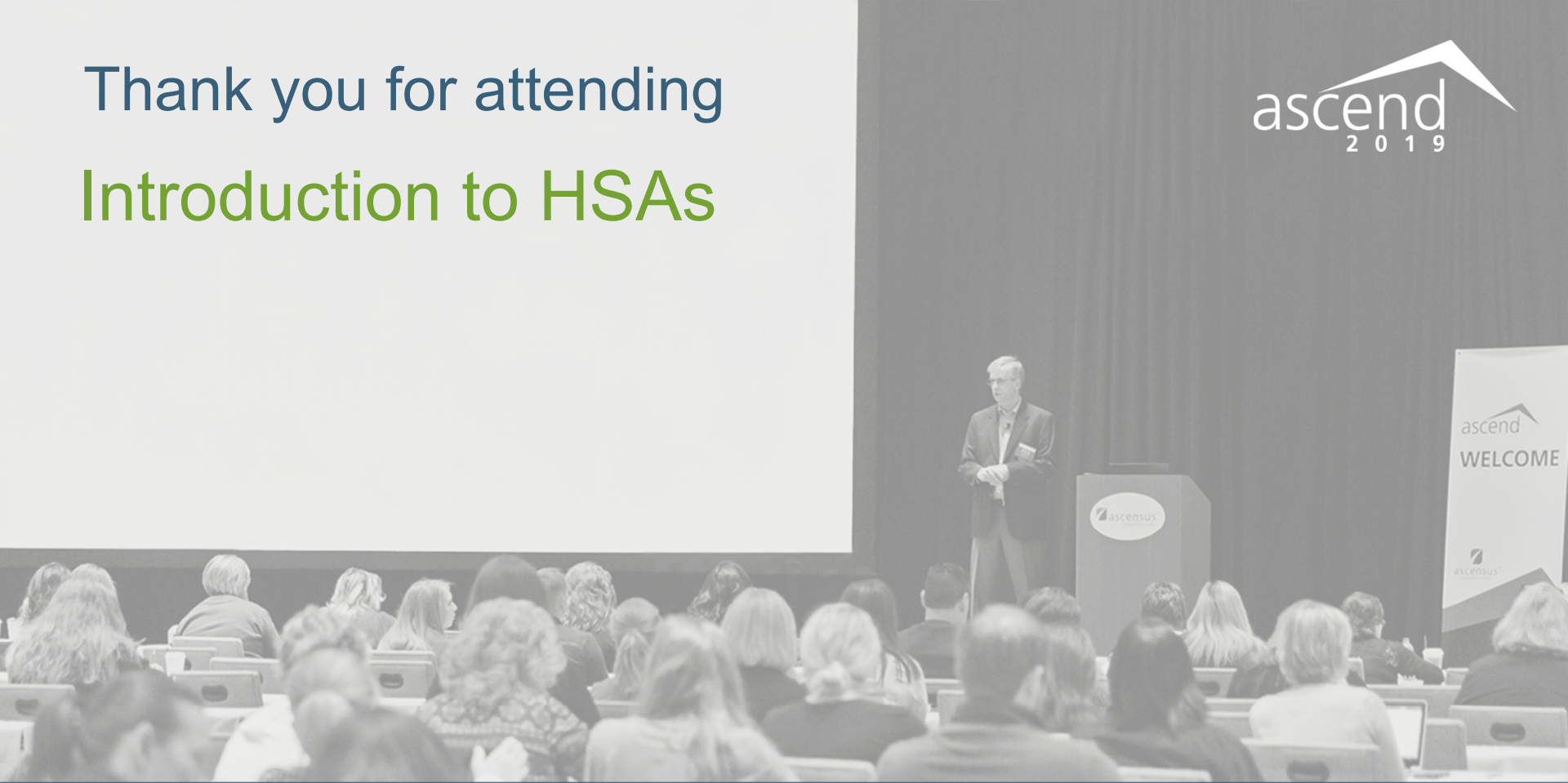
The medical expense was incurred before the HSA was established.



Questions?

Thank you for attending Introduction to HSAs

ascend
2019



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