

Health Savings Account FAQs

What is a Health Savings Account?

A Health Savings Account (HSA) works in conjunction with a High Deductible Health Plan (HDHP). An HSA allows you to pay for health expenses and save for future qualified medical expenses on a pre-tax basis. Any unused funds at the end of the plan year stay in the account and continue to earn interest. Once you reach age 65, funds can be withdrawn without tax penalty (similar to an IRA).

Who is eligible for a HSA?

To open and contribute to an HSA, you must be covered by a qualified HDHP. A HDHP's premiums are typically less than traditional policy premiums, allowing you to set aside the cost savings pre-tax and use them for qualified medical expenses and/or invest them. The minimum deductible (based on IRS guidelines for 2024) is \$1,600 for an individual, \$3,200 for two or more individuals in a family. You cannot be enrolled in Medicare, be claimed as a dependent on someone else's tax return or have other first-dollar medical coverage. An HDHP's total yearly out-of-pocket expenses (including deductibles, copayments, and coinsurance) can't be more than \$8,050 for an individual or \$16,100 for a family.

Can I start and stop contributing to an HSA at any time?

As long as you are covered by a HSA qualified health plan you can open and start depositing to an HSA at any time. You are not required to maintain a specific election to the HSA throughout a plan year, and can start and stop deductions to the account without a life event occurring or it being open enrollment for benefits at your employer.

Who controls the account?

You are the owner of the account and as such control the funds and how they are used.

What are the tax advantages of a HSA?

An HSA provides you triple tax savings:

1. Reduction of taxable income through pre-tax contributions to the HSA
2. Tax-free earnings on the account
3. Tax-free withdrawals for qualified medical expenses

How do I contribute to my HSA?

As long as you are covered by an HDHP, you can make deposits to your account in person, by transfer from another account or with direct deposit through payroll. As with traditional IRAs, you can make prior-year contributions up to April 15.

How much can I contribute to a HSA?

For the plan year 2024, the maximum contribution for individual HDHP coverage is \$4,150 and \$8,300 for family coverage. People age 55+ may contribute an additional \$1,000 (catch-up contribution).

How do I access the funds in my HSA?

Your HSA operates like an interest-earning checking account, with a Pinnacle Health & Benefits debit card for qualified purchases and payments plus a mobile app for Apple or Android smartphone and a secure online portal. It is your responsibility to keep records of your expenditures for tax purposes. The debit card can only be used at merchants that sell qualified items and at healthcare practices and facilities that provide qualified services. Any non-medical expenditure could be subject to a tax penalty.

Pinnacle Financial Partners does not offer tax or legal advice. Please consult your personal tax or legal advisor regarding your individual situation.

Can I transfer funds from an IRA to my HSA?

Yes, regulations allow a one-time rollover from an IRA to an HSA up to the annual HSA contribution maximum. Prior to transferring funds, please consult your tax advisor to discuss the benefits and tax reporting requirements.

Can I use my HSA to pay for medical expenses incurred before I set up my account?

No. You cannot reimburse qualified medical expenses incurred before your account is established. We recommend you establish your HSA account as soon as you begin participating in a HDHP Medical Plan.

Are over the counter medications an eligible expense?

Yes. Over the counter products that are for medical care and primarily for a medical purpose are eligible as of Jan. 1, 2020.

Are there penalties for non-qualified distributions?

Yes. The excise tax levied on non-qualified HSA distributions (withdrawals taken before age 65 that are not for qualified medical expenses) is 20%. Non-qualified distributions after age 65, or upon the death or disability of the HSA owner, are taxable but are exempt from the 20% penalty.

What medical expenses are eligible purchases from my HSA?

Some examples of qualified medical expenses include:

- Unreimbursed medical expenses for yourself, your spouse and any IRS-qualifying dependents
- Out-of-pocket expenses such as deductibles and co-pays
- Dental expenses, including braces for your dependents
- Vision expenses, including Lasik eye surgery
- Chiropractic visits and acupuncture treatments
- Medical insurance premium if you are unemployed and collecting Federal Unemployment
- Benefits or COBRA continuation coverage through a former employer
- Long-term care expenses and insurance

You can find a list of allowable expenses for an HSA at <http://www.irs.gov/pub/irs-pdf/p502.pdf>.

Can health insurance be purchased with my HSA funds?

Health Insurance cannot be purchased with HSA funds unless it is for one of these four exceptions:

1. Health plan during any period of continuation coverage required under any federal law (example: COBRA, TN three-month continuation of coverage)
2. Qualified Long-term care insurance
3. Health plan during a period in which the individual is receiving unemployment compensation under federal or state law
4. Individuals over age 65, premiums for Medicare Part A or B, Medicare HMO contracts and/or the employee share of premiums for the employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance

Can I invest the funds in my HSA?

Yes. To invest HSA funds, you must keep a minimum of \$2,000 cash balance in your health savings deposit account. You can invest the rest in increments of \$100 or more. You will need to opt in to investments to set up any sweeps between accounts.

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