2022
edition

The Complete HSA Guidebook

How to make health savings accounts work for you

Stephen D. Neeleman, MD

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How to make Health Savings Accounts work for you

2022 Edition

Updated to reflect recent health policy
and tax changes

Stephen D. Neeleman, M.D.

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Foreword

When HealthEquity opened its doors in 2002, Health Savings Accounts (HSAs) were about a year away from being codified into law. As the bill that allowed for HSAs became law, both employers and individuals looked forward to the new accounts; they knew HSAs would provide important tax advantages and more direct control over personal health savings and decisions on care. To help advance the promise of HSAs, we began work on the first edition of The Complete HSA Guidebook, published in 2004.

The publication of this, the 2022 edition, coincides with the 20th anniversary of HealthEquity. During this season of celebration, I find myself reflecting on the truly significant progress HSAs have made. The mission with which I founded HealthEquity—to connect health and wealth—resonates with account holders and becomes more important over time. HealthEquity members have now saved more than $19.5 billion in 7.2 million HSAs, and our team of more than 3,500 HSA enthusiasts help those numbers grow every year.[1]

We also measure success in other ways. HealthEquity members have built equity with their healthcare dollars, experienced greater peace of mind during challenging times,[2] and felt more confident about retirement.[3] HealthEquity members comprise an important part of the 67 million Americans who own more than 32.5 million HSAs, containing over $98 billion in personally owned, portable, investable funds, according to the latest data from Devenir Research.[4]

I feel confident the HSA experiment is working, but the fact that millions of Americans do not (or cannot) open HSAs continues to motivate me. I have learned that education plays a critical role in expanding the reach of HSAs. Everyone deserves to understand how their benefits work for them, yet roughly one-third of employees say they either know nothing about or don't fully understand their healthcare coverage.[5]

With this newest edition of *The Complete HSA Guidebook*, we continue to ensure that everyone has the education they need to use HSAs to their full potential.

In these pages, you'll find:

- Step-by-step HSA processes and descriptions, with the latest data on contribution limits and qualifying coverage
- Chapters that flow from the basics to more advanced information
- Chapter introductions and end-of-chapter summaries with quick, on-the-go information
- More than 30 illustrating examples of how HSAs work and how they help Americans save on healthcare

We believe that HSAs remain the best way to make excellent healthcare coverage available to businesses and consumers, to save taxes, and to reduce premium costs—and we will continue to work with both businesses and legislative leaders to increase access to HSAs so every American can effectively manage their out-of-pocket health costs. Every day we move closer to fulfilling our vision "to make HSAs as widespread and popular as retirement accounts."

On behalf of our entire team, I hope this publication helps you understand HSAs and encourages you to open one—or to better manage the one you already have.

Sincerely,

Stephen D. Neeleman, M.D.
HealthEquity Founder and Vice Chairman
Salt Lake City, Utah

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1 HealthEquity 2022 Annual Report, released March 31, 2022

2 HealthEquity market research, 2021: https://blog.healthequity.com/did-the-pandemic-boost-the-case-for-hsas

3 HealthEquity market research, 2020: https://blog.healthequity.com/there-are-crucial-differences-in-how-working-families-think-about-and-use-hsas-healthequity-survey-finds

4 2021 Devenir & HSA Council Demographic Survey, released July 11, 2022

5 HR Dive, 2019: https://www.hrdive.com/news/one-third-of-employees-dont-understand-their-health-benefits/547224/

HealthEquity, Inc. is a publicly traded (NASDAQ: HQY) non-bank custodian of Health Savings Accounts (HSAs).

This publication provides a general explanation of HSAs—not legal, financial, or tax advice. As always, consult your own legal, tax, and financial advisors for the best advice tailored to your specific needs.

HSAs are never taxed at a federal income tax level (when used appropriately for qualified medical expenses) and are seldom taxed at the state level. Please consult a tax advisor to learn your state's specific rules.

HealthEquity bases its opinions and decisions on sound research and data and recognizes that readers' experiences with HSAs may vary.

Examples, results, and calculations included in this publication serve illustrative purposes only. In this edition, we cite the Internal Revenue Code (IRC) and have made every effort to ensure accuracy. Even so, we cannot guarantee the accuracy or currency of all citations. Report errors or direct questions and comments to **HSAGuidebook@healthequitycom.**

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Overview

Imagine a savings account that allows you to make tax-advantaged deposits. As the account increases in value, your earnings remain untaxed—even if you invest the funds. In addition, you pay no tax on money you withdraw, provided you use the money for qualified expenses.

Only a Health Savings Account (HSA) provides this "triple-tax" benefit. At no point, from earning to spending (for qualified expenses), do the funds in your HSA incur either federal or state income tax.[1] Other retirement saving plans, such as traditional IRAs, Roth IRAs, and 401(k)s, generally apply taxes either to contributions or withdrawals.

Health Savings Account benefits

Individuals

Because HSAs provide more tax advantages than any other savings vehicle in the United States today, you should learn how to become eligible to open one—to reduce your tax burden, protect yourself against rising medical costs, save for unexpected healthcare expenses, and increase your retirement savings.

You own your HSA. This means HSA funds automatically roll over every year and the account becomes part of your estate upon death. (Or the account can transfer to your spouse as an HSA.)

HSAs provide flexibility (you can use the funds before and after you retire) as well as more tax advantages than retirement accounts. If you contribute to an IRA or 401(k), you don't pay tax on your contributions, but you do pay taxes on the funds you withdraw during retirement (your original contributions plus account earnings). For a Roth IRA or Roth 401(k), you pay tax on the money you contribute, but you don't pay tax on distributions (including account growth).

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1 Note that California and New Jersey tax HSA contributions. (https://www.ncsl.org/research/health/hsas-health-savings-accounts.aspx)

If you have a health Flexible Spending Arrangement (FSA), you contribute and spend tax-free dollars, but may lose funds you have not spent at the end of the plan year, unless your employer offers a carryover or grace period feature.

Only HSAs provide the flexibility of a retirement savings plan but with a triple-tax benefit: you make tax-advantaged contributions, your account grows and earns interest free of federal income tax (and free of income tax in most state taxes), and your distributions (when used for qualified medical expenses) also remain tax-free. In addition, you can invest your HSA funds which, while riskier, increases the potential for tax-free growth.

Because of these significant tax savings, the Internal Revenue Service (IRS) limits who can contribute to an HSA. Only individuals covered by an HSA-qualified health plan (sometimes called high-deductible or consumer choice health plan) may open or contribute to an HSA. An HSA-qualified health plan must meet government-mandated limits on minimum deductibles and maximum out-of-pocket expenses. These requirements, along with contribution limits, change slightly from year to year.

Several other restrictions exist:[2]

- You may not have other health coverage (except certain permitted coverage).
- You may not be enrolled in Medicare.
- No one can claim you as a dependent for tax purposes.

In addition to the significant tax benefits HSAs provide, they can encourage more choice and flexibility than traditional healthcare and help individuals manage chronic illness by encouraging the development of more knowledgeable and engaged healthcare consumers. To the extent that individuals better manage their health, they are rewarded by tax-free growth of unused contributions in their HSA.

Employers

HSA-qualified health plans provide a means of controlling ever-rising healthcare costs without impairing employees' access to high-quality healthcare. Besides saving money on overall premium costs, employers also reduce their tax burden because they do not pay taxes on the money they or their employees contribute to their employees' HSAs.

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2 IRS Publication 969

Healthcare

HSA-qualified plans provide financial incentives to individuals both to manage medical expenses and to take a more active role in healthcare decisions—especially decisions concerning medications, tests, and procedures. The fact that HSA owners can pocket the money they save (for example, when choosing in- or out-of-network providers or facilities) encourages participants to become careful healthcare consumers who demand and receive better value for their healthcare dollars—increasing overall accountability, competitive pricing, and responsible consumption.

Organization

This publication has three sections to help you easily find the information you need.

Section 1 explains foundational terms and concepts. It also describes HSAs in depth and then steps back to provide context about how HSAs compare to and interact with other consumer-driven healthcare products.

Section 2 provides an owner's manual for HSAs—everything you need to know to wisely use this important savings vehicle to meet your present and future financial and healthcare needs—presented in an easy-to-read, sequential format.

Topics include:

- Opening an HSA
- Contributing to an HSA
- Spending HSA funds
- Saving and investing HSA funds

Section 3 helps you set up a recordkeeping system, explains the paperwork you will receive, and provides information for employers who want to make HSAs available to their employees.

By strategically contributing to your HSA and other retirement accounts, you can reduce your tax burden and increase financial stability in your retirement years. According to the latest retiree healthcare cost estimate by Employee Benefit Research Institute (EBRI), a married couple with median prescription drug expenses will need approximately $296,000, on average, to pay for their medical needs in retirement.[3]

Employees of all ages should consider making HSAs a part of their overall retirement and healthcare strategy. It's never too early or too late to save for healthcare expenses now and into retirement. Young people just starting their careers have the potential to save hundreds of thousands of dollars to help meet financial objectives. On the other hand, those close to retirement who may have recently discovered the usefulness of an HSA still have time to take advantage of the many benefits HSAs offer.

Choosing an HSA-qualified health plan may require you to make some changes in the way you think about and use healthcare, but you do not have to compromise the quality of the healthcare you receive.

For us to provide the best possible resource for exploring this important savings option, please help us help you. If you find a typographical or content error, please let us know by sending an email to HSAGuidebook@healthequity.com.

3 EBRI Issue Brief #549

Summary

HSAs provide a triple-tax benefit: tax-advantaged contributions, tax-free account growth, and tax-free distributions (if used for qualified medical expenses). Other health savings and retirement savings vehicles offer only one or two of the three tax advantages.

- Restrictions on who can contribute to an HSA include:
    - No impermissible healthcare coverage
    - No Medicare
    - Not included as a dependent on someone else's tax return.
- An HSA-qualified health plan solves several important health-coverage-related problems, besides making tax-free funds available to pay consumers' qualified out-of-pocket medical expenses:
    - Provides more choice and flexibility than traditional healthcare
    - Helps manage expenses associated with chronic illness
    - Develops more knowledgeable and engaged healthcare consumers. As individuals take more control of their health and reduce healthcare spending, HSA balances grow, creating rewards for better health.
    - Benefits employers by reducing their tax burden
- HSAs benefit healthcare in general by increasing consumer awareness—especially by encouraging comparison shopping and research.

Chapter 1

Definitions and Explanations

Chapter overview

This chapter defines and explains foundational concepts used throughout the rest of the publication. Consider marking this chapter so you can refer to it as you read. In addition, take a moment to glance at the glossary in Appendix A to see explanations for other health insurance and tax-related terms. Finally, make a note of the chart at the end of this chapter, which compares government-mandated contribution limits for various types of accounts—for last year, this year, and next year.

The terms and concepts in this chapter will help you understand the unique benefits of Health Savings Accounts (HSAs) and enable you to compare the features of various types of health plans.

As mentioned previously, to open and contribute to an HSA, you must meet the following Internal Revenue Service (IRS) requirements:

- You must have coverage under an HSA-qualified health plan on the first day of the month in which you open (or make an initial contribution to) an HSA.[1]
- You have no other health coverage (except certain permitted coverage).[2]
- You are not enrolled in Medicare.
- No one claims you as a dependent for tax purposes.[3]

These requirements apply only to your eligibility to open and contribute to an HSA. They do not apply to your eligibility to maintain the account, earn tax-free interest and investment dividends, or distribute money from the account for qualified medical expenses. You can keep, grow, and spend all the money in the account, even if you leave your employer, lose your qualifying coverage, or obtain other impermissible coverage.[4]

1 IRC §223(c)(1)(A)(i)
2 IRC §223(c)(1)(A)(ii)
3 IRC §223(b)(6)
4 IRS Notice 2004-2 Q&A 20

Health coverage terms

Deductible

HealthCare.gov defines a deductible as the amount of covered expenses that you must pay before your health plan starts to pay. Some services, such as preventive care, may not be subject to your deductible. (For more information, see the "First-dollar coverage" section later in this chapter.) This deductible typically resets or starts over every plan year.

The plan year may align with the calendar year (January 1 to December 31) or refer to some other 12-month period that your employer or insurer chooses. Some plans allow deductibles to accumulate for more than 12 months. (See the "Carry-over deductible" section later in this chapter.)

HSA-qualified health plans must adhere to statutory limits for both minimum deductible and maximum out-of-pocket expenses. These limits may change year to year, based on changes in the Consumer Price Index (CPI). The IRS typically announces changes in May or June before the change takes effect the following tax year.[5]

HSA-Qualified Health Plan Guidelines

	Minimum annual deductible		Out-of-pocket maximum	
	Single	**Family**	**Single**	**Family**
2021	≥$1,400	≥$2,800	≤$7,000	≤$14,000
2022	≥$1,400	≥$2,800	≤$7,050	≤$14,100
2023	≥$1,500	≥$3,000	≤$7,500	≤$15,000

Embedded deductible

Some HSA-qualified health plans provide an embedded deductible. In such plans, when an embedded individual deductible equals or exceeds the statutory minimum family deductible, the plan qualifies for an HSA.[6] In other words, even though you have family coverage, if you meet the individual embedded deductible that exceeds the statutory minimum family deductible for one family member under such a plan, you have met your entire deductible for the family.

5 Rev. Proc. 2020-32
6 IRS Notice 2004-50 Q&A 20