Top 5 Tips For HSAs: Insights To Give You An Edge

As HSA Administrators we are constantly asked questions about Health Savings Accounts (HSAs) by our agents and account holders. We've gathered our Top 5 HSA Insights for this article. Don't let these areas catch you or your clients by surprise.

Tip #1 – Open Your HSA Right Away To Avoid Trap
My customer wants to wait to wait to open the HSA until she has a medical expense, is this a good strategy?

Generally no. You are only eligible to use your HSA to pay for medical expenses incurred *after* your account has been established. Accordingly, it makes sense to set up the HSA right away to begin eligibility. A minimum amount works to set the date and additional funds can be added as needed.

For example, Lucy opened an HSA on January 1 with only $35. On February 1 she incurred a $1,035 medical expense. Since she had already opened the HSA, she can add an additional $1,000 to her HSA and use it to pay the expense from the HSA. If she had not opened the HSA before the expense was incurred, she would not be able to reimburse herself for the expense, thus losing the tax advantage of the account.

Note: If she's not allowed to contribute the $1,000 to her HSA because of contribution limits, she could pay with personal funds and reimburse herself next year from her HSA. In fact, she can carry forward the ability to reimburse herself indefinitely.

Tip #2 - Get $5,450 Deduction Without Spouse And Spouse Can Still Use The HSA
Can my client contribute and deduct a full $5,450 even if his spouse is covered under a traditional health plan?

Yes, in some cases. Individuals can fully fund their HSA if they have family health insurance coverage. The key here is the definition of "family coverage." "Family coverage" means coverage of more than just the individual which could be coverage of a spouse, kids or other dependents. Accordingly, if your client is buying a HDHP for himself and his children, but not his spouse, he has family coverage and is allowed to deduct the lesser of the high deductible amount or $5,450.

Better yet, the HSA can even be used to pay the non-HDHP spouse's qualified medical expenses. Only eligible individuals may contribute to HSAs, but once the money is in the HSA it can be used tax-free for all family members; including those covered under non-HDHP plans.

Tip # 3 - Use Non-HSA Funds To Increase Tax Benefit And Flexibility
Does it ever make sense to use non-HSA to pay for medical expenses?

For some people it makes sense to use personal funds rather than the HSA to pay for medical expenses. The benefit of this approach is that you get the full tax advantages of the HSA. Getting a deduction for your HSA contribution represents most of the HSAs tax benefit and you get that benefit whether you spend the money in your HSA or save it. A secondary tax benefit of the HSA is that income earned in the HSA grows tax-deferred. You only benefit from this secondary tax benefit, if you save money in the HSA and it grows. The best part of this rule, is that you can change your mind later.

For example, John contributes $5,000 to his HSA in 2005 and incurs $4,000 in *eligible medical expenses. John pays the $4,000 out of personal funds, not the HSA. Five years later John is short of funds. John could take a $4,000 withdrawal from his HSA to reimburse himself for his $4,000 in 2005 eligible medical expenses – tax free.*

Tip #4 - Use HSA To Pay For Cold Medicine And Over-The-Counter Drugs
Can you use an HSA to pay for aspirin?

Generally, yes. Qualified medical expenses include non-prescription drugs that are used to alleviate an injury or medical condition. For example, a pain reliever (aspirin), cold medicine or antacid used to alleviate an injury or medical condition is a qualified medical expense. However, non-prescription drugs that are used to improve general health are not eligible. Vitamins, for example, are not an eligible medical expense.

Tip #5 - Use HSA To Pay Insurance Premiums
Can you use an HSA to pay for insurance premiums?

Generally no, HSAs can not be used to pay for insurance premiums however, a few key exceptions to this general rule exist:
o COBRA Benefits
o Medicare Premiums for individuals enrolled in Medicare
o Insurance Premiums after age 65
o Long-term care insurance.