

**2021  
Health Savings Account  
(HSA)**

An HSA is a tax advantaged trust or custodial account for the benefit of an individual who is covered under a High Deductible Health Plan.

**High Deductible Health Plan (HDHP)**

- Employee only minimum annual deductible - \$ 1,400.00
- Employee/family minimum annual deductible - \$ 2,800.00
- Employee only maximum out of pocket - \$ 7,200.00
- Employee/family maximum out of pocket - \$14, 000.00
- Doctor office co-pays are not allowed
- Prescription drug coverage before the deductible is satisfied is not allowed

**Annual HSA Contributions:**

- Employee Only \$ 3,600.00
- Employee/Family \$ 7,200.00

**Catch Up Contributions:**

- Individual's age 55 or older \$ 1,000.00

An **Embedded** deductible allows each person with family coverage to receive full benefits after he/she reaches a specified deductible.

An **Aggregate** deductible requires that the entire family deductible must be met before any one person in the family may receive plan benefits.

**Mid Year Enrollment Maximum Contributions**

If you enroll in an HSA mid-year, the maximum contribution amount is based on the type of coverage. Should your HDHP coverage cease before the completion of a full 12-month period, you will be penalized based on the amount of money you could have contributed and by the amount of time you remained in the HDHP relative to 12 months. The calculated amount is added to your taxable income and subjected to a 20% tax penalty.

Example: Enroll in HDHP with employee only coverage for 3 months, then change to non-HDHP coverage. You contribute maximum amount of \$3,600.00.  
Taxable amount:  $9/12$  of \$3,600.00 = \$2,700.00 + 20% to be added to taxable income = \$2,662.50 + \$532.50 = \$3,195.00.

## **Contributions**

Employee contributions are tax deductible. Employer contributions are excludable from gross income and not subject to employer taxes. If contributions are as a result of a salary reduction by the employer, then the HSA must be part of the employer's Cafeteria Plan and it will be subject to non-discrimination rules. All interest accrues tax-free. All HSA funds are owned by the employee and are portable.

## **Qualified Medical Expenses**

- ❑ Medical expenses as defined under Code Section 213(d) ([www.irs.gov](http://www.irs.gov))
- ❑ Expenses for diagnosis, cure, treatment or prevention of disease, including prescription drugs
- ❑ Qualified long term care (LTC) insurance premiums
- ❑ Premiums for COBRA coverage
- ❑ Premiums for health care coverage while receiving unemployment compensation under Federal or State Law
- ❑ Medicare and other health care coverage if you were 65 or older (other than premiums for a Medicare supplemental policy)

## **Eligible Participants**

- ❑ Must be enrolled in an HDHP
- ❑ Cannot have any other non-HDHP coverage that provides benefits other than permitted coverage, permitted insurance and preventive care
- ❑ Not entitled to benefits under Medicare
- ❑ Not claimed as a dependent on another person's tax return
- ❑ Not covered under a Health Reimbursement Arrangement (HRA) unless coverage is limited to specific benefits not provided by the HRA

## **IRS Notification**

All distributions are reported to the IRS on form **1099SA**.

All contributions are reported to the IRS on form **5498SA**.

***Participants must file an 8889 with their 1040, if contributions were made or HSA distributions were received for 2021.***

***Participants should consult their tax advisor with any questions concerning their HSA accounts.***

## **Distribution**

Distributions used exclusively to pay qualified medical expenses of the account beneficiary, spouse or dependents are excludable from gross income. Distributions used to pay non-qualified medical expenses are included in gross income and are subject to an additional 20% tax. Distributions for age 65 and over, for non-qualified medical expenses, are included in gross income, but not subject to an additional 20% tax.

This information is a general overview responding to the most frequently asked questions concerning HSA's. It is not intended to be an authoritative resource and is not to be construed as tax advice. For additional information about HSA's and taxes, go to the US Department of Treasury Website at [www.ustreas.gov](http://www.ustreas.gov). **Additionally, we recommend that you consult your tax professional.**