Lively

The 10 Most Common HSA Questions

2022 Edition

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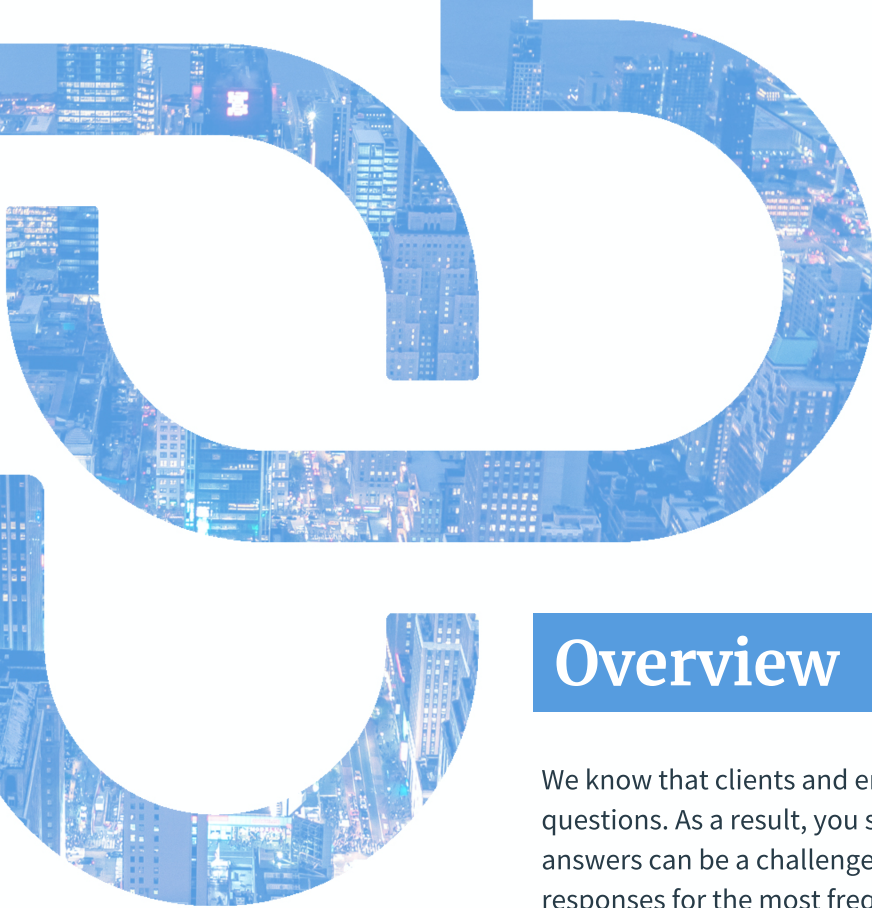

Overview

We know that clients and employees come to you with a number of HSA questions. As a result, you spend time researching, but confidently sourcing answers can be a challenge. Lively is here to equip you with informed responses for the most frequently asked HSA questions. If you need to dig deeper into a topic, we also provide the sources and further reading to enable you to do so.

The questions are presented in ranked order based on the last 12 months of Lively data and anonymous Lively HSA account holders.

HSA Questions & Answers

Question #1

What are HSA Reimbursement Rules?

HSAs can be used to pay for thousands of qualified expenses approved by the IRS. Today, tomorrow, or 20 years from now. Qualified HSA expenses are set and regularly updated by the IRS. You can see the full qualified HSA expense list here. In addition to everyday expenses, some extra HSA expenses are eligible if prescribed by a doctor or with a note of medical necessity. The only requirements are that the account holder had the HSA established at the time the expense was incurred (date of service) and that the expense was not reimbursed in any other way.

What happens if you spend your tax-free HSA money on non-qualified HSA expenses? The long and short of it is, if you are audited by the IRS, you can incur a 20% penalty plus income taxes. Because these expenses are regulated by the IRS, it's up to you to stay compliant. Not only this year, but from the time you opened your HSA.

In order to substantiate a qualified medical expense purchase to the IRS in case of an audit, you will need documentation (a copy of the receipt of expense). At Lively, we give you the ability to store various documents tied to an expense, for all of those just in case situations.

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What is an HSA?

An HSA is a personal savings account for health expenses. HSAs are triple tax-advantaged (tax-deductible contributions, tax-free interest, and tax-free withdrawals for qualifying medical expenses). An HSA can be used for qualifying IRS approved healthcare expenses.The account holder can contribute into an HSA when enrolled in a qualifying high-deductible health plan (HDHP), traditionally known for lower premiums and high-deductibles.

HSAs are owned by individuals (not employers) and can be transferred from job-to-job or institution-to-institution, similar to a 401(k) or IRA. Contributions are 100% tax-deductible (until the maximum annual contribution limit is reached).

Question #2

Can I Make HSA Mid-Year Contribution Limit Changes?

Becoming eligible for an HSA mid-year is a common occurrence. It may happen if your employer changes insurance plans mid-year, or if you get a new job with a different insurance plan.

Remember, HSA eligibility always starts on the first of the month. Let's say you got a new job with an individual HDHP and you meet all HSA eligibility requirements. You enroll in the plan on June 15, and you become HSA-eligible on July 1.

Let's say you stay at the job all year and your insurance plan and eligibility don't change. That means you are HSA-eligible for six months (July, August, September, October, November, and December).

Your contribution amount will be prorated. This is based on your eligibility start data (by month) and prorated for the number of months you are HSA eligible.

The same prorating happens if you stop being HSA-eligible mid-year. This happens often for people enrolled in medicare coverage.

The Last Month Rule. There's an important caveat to the info above—the Last Month Rule (also called the "full contribution rule"). The last month rule says if you are HSA-eligible on December 1, then you can choose to contribute the full amount for the year, even if you weren't eligible for the whole year.

The catch? There is a testing period of twelve months. This means you must stay eligible through the end of the next year, or else you will face taxes and penalties.

For example, let's look at the individual above who became HSA-eligible on December 1. They choose to contribute the full $3,650 for the year. They must continue to be eligible all the way through December 31, 2022. If they don't, their excess contributions will be taxable and subject to a 10% penalty.

The **last month rule** presents an opportunity for you to weigh the risks and rewards of making a full contribution. If you foresee no change to your job or eligibility status, and you want to build up your HSA savings, then it may be the right thing for you to do. But if you are planning on changing your job or changing your coverage, then it may not be the right move.

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HSA Eligibility

Health Plan Requirements for HSA Eligibility

1. In 2022 your health insurance must have an annual minimum deductible of $1,400 for individuals and $2,800 for families. In 2023 your health insurance must have an annual minimum deductible of $1,500 for individuals and $3,000 for families.
2. In 2022, the annual out-of-pocket maximum can't be more than $7,050 for individuals and $14,100 for families. This definition only applies to in-network services. The minimum annual deductible and maximum out-of-pocket amounts are indexed annually for inflation and subject to change annually.
3. In 2023, the annual out-of-pocket maximum can't be more than $7,500 for individuals and $15,000 for families. This definition only applies to in-network services.
4. The health insurance plan must be structured so that the individual/family pays the first costs of healthcare (including prescriptions) up to the deductible, before any insurance payments kick in. Preventative care is excluded from this definition.
5. Family coverage is defined by having an insurance policy that covers the insured and at least one other person.
6. A plan which meets all of these requirements is known as a qualified high-deductible health plan. You may often see it referred to as an HDHP.

Personal Requirements for HSA Eligibility

Before you can open an HSA, you must be covered by a qualifying HDHP.

1. You can't be concurrently enrolled in any other non-HSA qualified health insurance plan.
2. You can't have or use a general purpose Flexible Spending Account (FSA). However, you are allowed to simultaneously have a limited-purpose FSA for dental, vision, and/or dependent care if your HDHP doesn't cover those services.
3. You can't be claimed as a dependent on someone else's tax return.
4. You can't be enrolled in Medicare (Part A and Part B) or Medicaid.

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Question #3

I Have HSA Excess Contributions, What can I do?

If you go over your contribution limits, the IRS considers that money an excess contribution.

Penalties for Excess Contributions

There are three consequences for making excess HSA contributions:

- 6% excise tax on the excess contribution
- Income taxes on the excess contribution
- Income taxes on any earnings the excess contribution made

It is important to be aware that excess contributions and earnings from those contributions are subject to income tax, particularly if your HSA is invested.

If you realize you have made excess contributions to your HSA, it can feel like a big mistake. But the good news is that there are ways to fix it and move forward.

Option 1: Removing the Excess Contributions

This is by far the most straightforward option, and it is one that many people choose when they make excess contributions.

If you realize you have made an excess contribution before the tax year ends (usually April 15), take it out immediately. You can take out the excess contribution by making a request with your HSA provider, which may involve filling out a form or two. If you have been contributing to your HSA via payroll, you should also inform your employer. Once you take the money out it will be regular taxable income earned.

If you remove the excess contribution before the deadline for filing your personal income tax return, you won't be subject to excise tax. If you remove it before the end of the calendar year, you typically won't need corrected tax forms. If you remove it after the end of the calendar year, but before the end of the tax year, you won't be subject to excise tax, but you may need corrected tax forms. If you remove it after the tax year has ended, you will be subject to excise tax for that year (and all other years you keep the excess contribution in your account).

Option 2: Do Nothing

It may be tempting to ignore excess contributions and hope that nothing will go wrong, but this is a bad option.

If you do nothing, your excess contributions (and associated earnings) will be subject to income tax and excise tax in the year you made them. This alone may seem bad enough, but they will also be subject to excise tax every year until they are removed. That's definitely a good reason to take action the moment you figure out you have excess contributions.

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Question #4

Can I Contribute to My HSA In Retirement?

The simple answer is: Yes!

Once you turn 65, you can still contribute to your HSA post-retirement **as long as you aren't enrolled in Medicare** and have a qualifying HDHP.

Your HSA eligibility isn't determined by employment (you can contribute to an HSA regardless of whether you have an employer-sponsored health plan or not), but is instead dependent on the type of health insurance plan under which you're covered as well as your age. These facts, combined with the tax-advantaged structure of HSAs makes them an ideal tool to save for retirement.

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HSA Contribution Limits

For 2022, HSA-eligible account holders are allowed to contribute $3,650 for individual coverage and $7,300 for family coverage.

For 2023, HSA-eligible account holders are allowed to contribute $3,850 for individual coverage and $7,750 for family coverage.

If you are 55 years or older, you're still eligible to contribute an extra $1,000 catch-up contribution

Question #5

What Happens if I am No Longer Eligible for an HSA?

To be eligible to contribute to a health savings account (HSA), you must be enrolled in a qualified HDHP (HDHP). However, as we know, life happens, and situations (and your health insurance) can change. You may get a new job that doesn't have an HDHP as an option, or just decide that a different type of health insurance is more aligned with your needs.

So, what happens to the money in your HSA? Your HSA money is yours for life! It never expires and can be transferred from provider to provider. The funds in your HSA won't disappear even if you ever become ineligible to contribute to an HSA. It won't impact your credit score, trigger any tax rules, or incur any sort of penalties to you.

If you leave your HDHP while you have an HSA, you can still spend the money, or use the funds to reimburse yourself for qualified medical expenses. However, once the money is gone, you'll no longer be able to make contributions to the account. In addition, you can still invest the money in your HSA even when you're no longer eligible to contribute to your account.

The money in your account still gets the same benefits as before. You still get tax-free distributions to spend on qualified medical expenses. If you want to, you can let the money roll over year to year just like when you're enrolled in an HDHP.

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Question #6

What is an HSA Catch-Up Contribution?

If you are enrolled in a HDHP (HDHP) that is HSA-eligible, and you are at least 55 years old—or will turn 55 any time in the calendar year—you can make an additional $1,000 contribution to an HSA. Once you are enrolled in Medicare—typically age 65—you are no longer allowed to contribute to an HSA. But using the 10-year window between the ages of 55 and 65 to make higher "catch-up" contributions can be valuable come retirement. Saving that extra $1,000 a year for 10 years and earning an annualized 5% would give you around $13,200 in tax-free dollars at age 65 you could use for out-of-pocket medical expenses at any time in retirement.

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Question #7

What is the HSA Last Month Rule?

The Last Month Rule (also called the “full contribution rule”) says if you are HSA-eligible on December 1, then you can choose to contribute the full amount for the year, even if you weren’t eligible for the whole year.

The catch? There is a testing period of twelve months. This means you must stay eligible through the end of the next year, or else you will face taxes and penalties.

For example, let’s look at the individual above who became HSA-eligible on December 1. They choose to contribute the full $3,650 for the year. They must continue to be eligible all the way through December 31, 2022. If they don't, their excess contributions will be taxable and subject to a 10% penalty.

The last month rule presents an opportunity for you to weigh the risks and rewards of making a full contribution. If you foresee no change to your job or eligibility status, and you want to build up your HSA savings, then it may be the right thing for you to do. But if you are planning on changing your job or changing your coverage, then it may not be the right move.

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Newly Eligible Items

The last 23-months saw unprecedented times. These resulted in swift changes from the IRS and federal government to increase HSA (and FSA) eligible expenses. Here is what you need to know.

Personal Protective Equipment is now HSA-eligible. Personal Protective Equipment (PPE) purchased for the primary purpose of preventing the spread of COVID-19 a qualified expense. PPE includes face masks, hand sanitizer, and sanitizing wipes, but could include other things. This includes both HSA and FSA eligibility.

Over-the-Counter medical products are now HSA-eligible. The CARES Act has expanded HSA-eligible items to include Over-the-Counter (OTC) medical products without a prescription, or letter of medical necessity from a physician. This is effective as of March 27, 2020, and applies to all qualified purchases made after January 1, 2020. This permanent change enables the purchase of eligible OTC drugs and medicines, with HSA funds, for the account owner, their spouse, or tax dependents. Examples include pain relievers such as acetaminophen (Tylenol) and ibuprofen (Advil, Motrin), cough medication and decongestants, allergy medication, and others.

Telemedicine or telehealth services are temporarily covered. This is effective for any appointments or services covered under HSA-eligible health plans that begin between March 27, 2020 and December 31, 2021. During this time, an HSA-qualified plan that covers any portion of telehealth and/or remote care services before the deductible will not lose their HSA eligibility because of the telehealth coverage. Also, to the extent that these telehealth and/or remote care services cost anything, they can be paid for using your HSA dollars approximately the next two years.

Menstrual hygiene products now HSA-eligible. Menstrual care products such as tampons, menstrual cups ("diva cup"), panty liners (pantiliner or panty shield), period panties, sponges, and feminine wipes have been slated as "medical care" by the IRS, making them HSA-eligible. This is effective March 27, 2020 for any feminine hygiene products purchased as of January 1, 2020.

See the full list of recent legislative changes here and all HSA-eligible items here.

Question #8

If I have an HSA and I die, what happens?

The HSA is transferred to the spouse, a non-spouse beneficiary, an estate, or completes a no beneficiary designated transfer.

Whether an account holder of an individual or family health plan, an HSA account is ultimately owned by the individual. Therefore, the Health Savings Account is an integral part of the estate planning process. And there are tax considerations that will determine whether an HSA transfer from an individual to a spouse, beneficiary, or estate is the best option.

> **Spouse transfer**: There are no tax implications. The HSA is transferred directly to the spouse. He/she can then continue using the HSA money for spending, saving, or investing within the standard IRS guidelines. It remains an HSA, and the same tax-advantaged rules continue to apply.
>
> **Beneficiary (not a spouse) transfer**: The HSA ends on the date of the individual's death. The funds are then distributed and taxed as income to the beneficiary at fair market value. However, the beneficiary can use the HSA funds to pay for medical expenses of the account holder for up to 12-months after their death.
>
> **Estate or no beneficiary designated transfer**: The HSA will be distributed to the estate and taxed as income on their final income tax return.

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Question #9

What is the difference between a rollover and a trustee-to-trustee transfer?

A **rollover** requires the account holder to deposit withdrawn funds with a new custodian. The trustee-to-trustee transfer occurs without the account holder taking possession of the funds.
A direct rollover involves withdrawing funds from an HSA in the form of a check and then transferring (depositing) those funds with a new HSA provider. The account holder has 60 days from withdrawal to deposit the funds with a new custodian—or face a 20% income tax. The account holder is limited to one HSA rollover every 12 months.

A **trustee-to-trustee transfer** is when the previous health savings account provider makes a direct transfer to the new account provider. In this instance, the account holder never takes possession of the funds. There is no limit to the number of trustee-to-trustee transfers an account holder can make.

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Question #10

How does money get into my HSA account?

HSA money can come from a variety of sources:

1. If your Employer is working directly with Lively, then Lively will pull your HSA contributions from your Employer (both employer contributions, if applicable, and your payroll deductions)
2. If your Employer doesn't work with any HSA provider and tells you to pick your own, then you can provide your Employer with your Lively account number and routing number and they will push funds into your account electronically (via ACH)
3. If you are an individual making contributions directly, you can link an external bank account (checking or savings), and make direct contributions

Other ways of getting funds into your account include:

1. An IRA to HSA transfer - this can be done once in a lifetime and counts against your annual contribution limit. You also have to be eligible to make contributions into an HSA account in the year that you do this.
2. A rollover or trustee-to-trustee transfer - this is when you move existing HSA funds from a different provider into Lively.

Account holders can schedule any one-time contributions or ongoing monthly contributions.

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About Lively, Inc.

Lively is the benefit solutions provider that gets it right.

We designed our solutions to take the guesswork out of managing benefits. And our innovative features are grounded in your everyday needs and circumstances. That's why our experience is optimized to put you in control at every step. Managing your wellness and wealth takes more than a series of transactions. By combining robust features with unparalleled service, we make benefits effortless, even when your time and energy are limited. With Lively, maximizing your benefits is as simple as it should be.

Lively is headquartered in San Francisco, CA with additional offices in Boise, ID. For more information, please visit livelyme.com or contact us at sales@livelyme.com.