HSAs: Who's eligible? Who's not?

A Health Savings Account (HSA) allows you to set aside pre-tax dollars for future medical, retirement, COBRA, or long-term care premium expenses. Invest these funds as you wish within the range of choices offered by your HSA vendor; then use them for qualified expenses. The funds can roll over from year to year, and you can take them with you when you change jobs or retire. An HSA is a separate account, independent of your medical plan. Think of it like a "Healthcare IRA". There are stringent rules as to who can open and contribute to an HSA.

- To open an HSA in your name, you must be enrolled in a qualified high-deductible health plan (HDHP) for the months for which contributions are made to the HSA. For 2024, the minimum annual deductible is $1,600 for a self-only plan or $3,200 for a family plan. The HDHP can be in your name or your spouse's.
- You cannot be covered by another medical plan that is not a HDHP (dental, vision, life and disability plans are OK). Certain types of insurance like disease or illness specific plans,(e.g. cancer insurance that pays a specific dollar amount) are not considered "health insurance" and will NOT jeopardize your eligibility for an HSA. Wellness programs offered by your employer are also permitted if they do not pay significant medical benefits.
- You do not need to be an "employee" to be eligible for an HSA. More-than-2% shareholders in a Subchapter S corporation, partners in a partnership, sole proprietors, self-employed individuals, and even unemployed individuals can establish and contribute to HSAs, if you otherwise qualify as an eligible individual.
- A Flexible Spending Arrangement (FSA) and an HSA are probably OK if the FSA is:
  - A "Limited purpose" FSA (limited to dental, vision, or preventive care)
  - A "Post-deductible" FSA (for medical expenses after the plan deductible is met)

  Note: If your spouse enrolls in his or her employer's FSA and you qualify as his or her tax dependent under cafeteria 125 rules (and you most likely do) that means you are also eligible for benefits in that FSA, which makes you ineligible for an HSA.
- A Health Reimbursement Arrangement (HRA) and an HSA are probably OK if the HRA is:
  - A "Limited Purpose" HRA (limited to dental, vision, or preventive care)
  - A "Post-Deductible" HRA (for medical expenses after the plan deductible is met)
  - Can only be used when you retire
- According to the rules, HSAs are essentially limited to adults – you cannot establish a standalone HSA for your children if they are eligible to be claimed as dependents for tax purposes. This is true even if the deduction is not actually claimed. A spouse is not considered to be a tax dependent under Code § 151 (or under Code § 152). Even though you may claim an exemption for your spouse, you and your spouse can each set up your own HSA accounts as long as you meet the other HSA rules.
- Once either spouse enrolls in Medicare, that spouse can no longer contribute any funds, including catch-up amounts, to his or her Health Savings Account. If you enroll in Social Security, you will be automatically enrolled in Medicare Part A, which will disqualify you from contributing to an HSA. You can delay enrollment in Medicare Part A only if you delay taking Social Security. You can delay taking Social Security up until age 70 and one half years old. If you had an HSA before you enrolled in Medicare you can use those funds to pay for qualified expenses incurred both before and after your Medicare eligibility goes into effect.
- You cannot be receiving benefits from a Medicaid program.
- Tricare does not currently offer an HSA qualified high deductible health plan. Therefore, if you are on Tricare you cannot have an HSA. Once Tricare offers an HSA qualified high deductible health plan and you select it, you can have an HSA.
- You do not need to incur medical expenses in a particular year to be eligible for an HSA. For example, if you never become ill, go to a doctor, etc., you still can establish and fully fund your HSA.
- You do not have to have a job or earned income from employment to be eligible for an HSA – in other words, the money can be from your own personal savings, income from dividends, unemployment, etc.
- There are no income limits that affect HSA eligibility. However, if you do not file a Federal Income Tax Return, you may not receive all the tax benefits HSAs offer.

The reasons to start an HSA are many and compelling – the money in your Health Savings Account is your own and it goes with you when you change jobs. There is no time limit for when you can reimburse yourself for your health care expenses; you just need to keep legible receipts and records in case you do reimburse yourself, or in case you are audited. You decide whether to spend from the account for your medical expenses, how much to spend, or whether to spend out-of-pocket and to save the HSA money for the future.