FAQs: Health Savings Accounts

What is a Health Savings Account?

A Health Savings Account (HSA) is a savings product that allows individuals to pay for current qualified medical expenses and save toward future medical expenses on a tax-free basis. To qualify for an HSA, you must first be enrolled in a qualified High-Deductible Health Plan (HDHP).

Who is responsible for managing my HSA?

As the account holder of your HSA, it is your responsibility to keep track of your deposits and withdrawals. You can always access your account online to view your transaction history, check your current balance and obtain statements for your records (if you enroll in "online statements"). You should keep receipts of your qualified medical expenses.

Who is eligible to open an HSA?

In order to open and fund an HSA, an individual must be enrolled in an HSA-qualified HDHP. To be eligible, you cannot be enrolled in Medicare or Medicaid, you cannot be claimed as a dependent on another person's tax return, you must be over the age of 18, and you cannot be covered by another insurance plan, unless it is another HSA-qualified HDHP.

Who may contribute funds to my HSA?

You, your employer and/or any third party may contribute funds to your HSA, up to the maximum amount allowed by the IRS each year.
Note: You can only contribute funds to your HSA while you are covered under an HDHP. However, if you are no longer covered by a qualified HDHP or you enroll in Medicare, you may continue to draw down existing funds to pay for qualified expenses.

If I choose to contribute to my HSA each month, do I have to commit to a predetermined amount?

No. You may contribute any amount you wish as frequently as you wish, up to the maximum amount allowed by the IRS each year. We offer a variety of ways to make contributions to your account, and we make it easy for any lifestyle.

Do I have to use the funds in my HSA each year?

No. Your contributions will remain in your account until you are ready to use them – there is no annual requirement to "use or lose" your funds. You do not have to make withdrawals each year. Also, there is no time limit for reimbursement from an HSA. If you pay for a medical expense out-of-pocket, you can later reimburse yourself. This is true for any medical expense you incur after you establish your HSA.

Can a husband and wife establish a "joint" HSA if they are covered under a family HDHP plan? No. HSAs are individually owned; joint accounts are not permitted. You may, however, authorize your spouse to be a signer on your HSA, with privileges to contribute to and withdraw from the account. Each spouse is permitted to open an HSA, but the combined contributions to their HSAs may not be more than the family contribution limit for the year.

How much can I contribute to my HSA?

The maximum annual contribution you can make to your HSA for **2026** is:
- **$4,400** for an individual, with individual coverage
- **$8,750** for family coverage

Account holders over the age of 55 who have not yet enrolled in Medicare are eligible to make an additional $1,000 "catch-up" contribution to their HSA for 2026. Please note that only one catch-up contribution is permitted per account per year.

How much may I contribute to the account if I establish my HDHP after January 1st?

If you are enrolled in a High Deductible Health Plan (HDHP) as of January 1, you are eligible to make the full annual HSA contribution for that tax year. If you enroll in an HDHP after January 1, you may still contribute the full annual amount if you are covered by an HSA-qualified HDHP as of December 1 of that same year. This is known as the "last-month rule." Under this rule, you must remain an eligible individual—meaning you stay covered under an HSA-qualified HDHP—through December 31 of the following year (the "12-month testing period"). If you do not remain eligible through the end of that testing period, the portion of your contribution that exceeds the prorated amount (based on the number of months you were covered in the year) becomes taxable income and is subject to an additional 10 percent tax penalty.

Example of the 12-month testing period: An individual enrolls in a High Deductible Health Plan (HDHP) effective December 1, 2025 and is otherwise an eligible individual for that month. The individual was not an eligible individual in any other month of 2025.

Under the last-month rule, the individual is treated as having been an eligible individual for all of 2025, and therefore may contribute the full annual maximum HSA contribution for 2025 (based on self-only or family coverage as of December 1, 2025). However, the individual must remain an eligible individual — that is, continue to be covered by an HSA-qualified HDHP — through December 31, 2026 (the end of the "testing period," which runs for 12 months following the last month of the tax year). If the individual ceases to be an eligible individual before December 31, 2026 (for example, by dropping HDHP coverage), the portion of the contribution that exceeds the prorated amount (based on 1/12 per month of eligibility in 2025) becomes taxable income, and the individual must also pay a 10% penalty on that amount.

In this example, because the individual was only covered in December 2025, they were eligible for 1/12 of the annual maximum contribution if they fail the testing period. Any excess above that amount would be subject to income tax and the 10% penalty.

Can I use funds from my IRA to fund my HSA?

An individual may make a one-time contribution to an HSA of an amount distributed from an IRA. The contribution must be made in a direct trustee-to-trustee transfer. Amounts distributed from the IRA are not includible in the individual's income to the extent that the distribution would otherwise be includible in income. Such distributions from an IRA are not subject to the additional 20 percent tax on early distributions.

The amount that can be distributed from an IRA and contributed to an HSA is limited to the maximum annual contribution amount allowed by the IRS for individual or family coverage, whichever is applicable, under the HDHP at the time of the contribution. The amount that can be contributed to the HSA for the year is reduced by the amount contributed from the IRA. No deduction is allowed for the amount contributed from an IRA to an HSA.

An individual is allowed only one contribution from an IRA to an HSA during his or her lifetime. There is one exception to that rule: If the contribution is made during a month in which an individual has individual coverage as of the first day of the month and later that tax year he/she changes to family coverage, an additional contribution from an IRA to an HSA may be made once the individual has changed to family coverage. The additional contribution must be made during the same tax year as the first contribution, and the combined contributions cannot exceed the maximum annual contribution allowed by the IRS.

Now that I am eligible to carry my dependents up to age 26 on my HDHP, can I use my HSA funds to pay for their medical expenses?

This is only true if the adult child is considered a dependent for tax purposes. The Patient Protection and Affordable Care Act states that an adult child need not be considered a dependent nor live in his/her parent's household in order to be covered by a parent's health plan. The IRS has not changed HSA requirements to coincide with the updated healthcare regulations. Parents may only use the HSA funds to pay for healthcare expenses of an adult child if that individual is listed on their tax return as a dependent. Please note that an adult child may open their own Health Savings Account to take advantage of the same tax benefits, as long as they are covered by their own or a parent's HSA-qualified HDHP.

How do I make withdrawals (or take distributions) from my HSA?

You can make tax-free withdrawals (also known as distributions) from your HSA to pay for qualified medical expenses at any time during the year. When your account is opened, you receive a debit card for easy access to your funds. Other withdrawal methods include our free online bill payment and funds transfer services. For additional details on exactly how you may access the funds within your HSA, visit your online portal and navigate to "Account Features > Banking Services."

If you make withdrawals from your HSA for non-qualified medical expenses or other non-qualified expenses, the amount withdrawn will be subject to income tax and may be subject to an excise tax, as well. Be sure to track all of your withdrawals from your HSA so you can supply documentation of your expenditures, if required by the IRS. It is up to you to monitor the deposits and withdrawals made to and from your HSA.

How do I report HSA distributions on my tax return?

How you report your distributions depends on whether you used the distribution for a qualified medical expense:

- If you use a distribution from your HSA for a qualified medical expense, you do not pay tax on the distribution, but you have to report the distribution on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040.

- If you use a distribution from your HSA for something other than a qualified medical expense, you must pay tax on the distribution and report the amount on IRS Form 8889. Follow the instructions for the form and attach it to your IRS Form 1040. You must also report the distribution on your IRS Form 1040 and pay an additional tax, unless you meet one of the exceptions established by the IRS. Contact the IRS or your tax advisor for more information on theexceptions.

What is the tax penalty for using HSA funds for non-qualified expenses, and how do I report it?

The penalty levied on non-qualified HSA distributions (withdrawals taken before age 65 that are not for qualified medical expenses) increased from 10 percent to **20 percent.** The account owner is required to report the additional tax in the "Other Taxes" section of IRS Form 1040.

Exceptions to the additional tax: There is no additional tax if you are disabled, age 65 or older, or die during the year. Once someone has reached retirement age of 65, they may use HSA funds for non-medical expenses, and the amount would only be taxed as income.

Can I use my HSA funds for over-the-counter medications?

Yes. Account holders can now purchase over-the-counter (OTC) medicines or drugs and menstrual care products without a prescription or doctor's note. Sample of eligible items includes:

- Allergy & Sinus medications
- Cough, Cold & Flu remedies
- Pain Relievers (Oral or Topical)
- Sleep Aids & Sedatives
- Stomach Remedies
- Tampons
- Menstrual Cups
- Menstrual Pads
- Menstrual Sponges
- Menstrual Liners

Many OTC medications are now exempt. To find a complete listing of HSA-eligible medical expenses see our website at www.theharrisongrouponline.com.

Are health insurance premiums qualified medical expenses?

No. In most cases, health insurance premiums are not qualified medical expenses.

Are there any exceptions?

Yes. The following health insurance premiums are exceptions and considered HSA-qualified expenses:

- Premiums for COBRA health care continuation coverage

- Premiums for health coverage while an individual is receiving unemployment compensation

- Premiums for qualified long-term care insurance

- For individuals age 65 and older, premiums for Medicare Part A, Medicare Part B and a Medicare HMO, and the employee's share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance. Note that premiums for Medigap policies are not qualified medical expenses.

I received an email that my HSA account is going through an IDV or Identity Verification Process. What is that?

Any time a new bank account is opened under the USA Patriot Act, the federal government requires verification of the legal identity of the account holder. Since a health savings account (HSA) is a financial account, your information is processed through a Customer Identification Program (CIP) to verify your identity. If you've recently moved or changed social security numbers, you may need to provide additional documentation to us to verify your identity. You can easily submit this information to us by uploading the information to your online portal. You will receive notification of the IDV process via the email address provided at enrollment, as well as an Action Alert Message when you log in to your online portal. If we do not receive your additional documentation within sixty (60) days, we will have to cancel your HSA account.

THE HARRISON GROUP, INC
3 Raymond Drive Suite 201 Havertown, PA 19083
Phone: (610) 853-9075 Toll Free (855) 222-5727
www.theharrisongrouponline.com