Health Savings Account F.A.Q.

KCT CREDIT UNION
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Eligibility

What is an HSA?

Health savings accounts (HSA) are designed to help you save for future qualified medical expenses on a tax-free basis. HSAs are individually-owned accounts to which you can make tax-deductible contributions, accumulate tax-deferred earnings, and take tax-free distributions whenever you need to pay for qualified medical expenses.

HSAs are used by individuals who have a high deductible health plan (HDHP). You can use the money in your HSA to pay for qualified medical expenses until your insurance deductible has been met and insurance starts paying for your medical expenses. HSA assets can also be used to pay for qualified medical expenses that are not paid by insurance, even after the deductible has been met.

Can anyone get an HSA?

You must have a high deductible health plan (HDHP) to be eligible for this account. Your health insurance provider would be able to tell you if you have an HSA-eligible HDHP. Your health plan is an HDHP if it meets certain requirements, which vary based on the type of coverage you have (self-only or family).

2024 HDHP Requirements		
Coverage	Minimum Deductible	Maximum Out-Of-Pocket
Self-Only	$1,650	$8,050
Family	$3,300	$16,100

What are the benefits for eligible members?

- Contributions are tax deductible
- No monthly maintenance fees
- No paper statement fee (exempt)
- Earn dividends (tax-exempt)
- Visa® Debit Card
- Tax free withdrawals for qualified medical expenses (Penalty if used otherwise)

Switching to an HDHP typically lowers your monthly health insurance premiums, which you or your employer may view as savings that can be used for making HSA contributions.

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You can use the money in your HSA to pay your insurance deductible when qualified medical expenses arise. And one of the biggest advantages for having a HSA is that unlike flexible spending accounts (FSAs), any unused savings in the HSA accumulates year over year with tax-deferred (potentially tax-free) earnings and can be used to pay for qualified medical expenses in the current or future years for you, your spouse, or your dependents.

With HSAs, you use pretax dollars to pay for future medical expenses. The contributions you make to your HSA are tax-deductible, and the earnings accumulate on a tax-deferred basis. Your HSA distributions will be tax-free if they are used to pay for qualified medical expenses. Any unspent account balance will continue to accrue earnings each year, so there's no "use it or lose it" provision.

What is the minimum opening deposit to establish an HSA?

$100

Can I order checks for my HSA?

KCT Credit Union does not offer checks with an HSA

Contributions

How much can I contribute to my HSA?

- $4,300 for an individual (2025)
- $8,550 for a family (2025)
- $1000 Annual Catch-Up Amount (Must be over 55 for 2025)

The maximum amount that you can contribute to an HSA each year depends on

- Whether or not the HSA owner is eligible for a contribution, and if so, if he/she is eligible for a catch-up contribution (age 55 or older);
- What type of HDHP coverage the HSA owner carries throughout the year (self-only or family); and
- How many months the HSA owner is covered by a qualified HDHP (looked at on the first day of each month).

Total contributions made by or on behalf of an HSA owner cannot exceed the annual contribution limit for the given year.

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If an HSA owner is eligible for an entire year, she may contribute the maximum contribution for the year based on her HDHP coverage—self-only or family. (Whatever type of coverage—self-only or family—that you have in December is deemed to be the type of coverage you carried for the entire year.)

If an HSA owner is not eligible for the entire year, he may still make a full-year contribution (plus catch-up if eligible), as long he remains eligible throughout the “testing period.” The testing period runs from the first day of the last month of the initial eligibility year through the end of the following 12-month period.

For example, if John enrolls in an HDHP in July 2024, he is allowed to make a full-year HSA contribution for 2024 if he remains enrolled from December 1, 2024, through December 31, 2025. If John becomes ineligible during 2024, he will be subject to taxes and penalties for the amounts attributable to the 6 months in 2024 for which he was not eligible to contribute.

If eligible, you can contribute the annual limit in a lump-sum amount or divide it into any amount or frequency that you wish, as long as you do not exceed the annual limit.

What happens if I don’t use the dollars I have contributed this year?

There is not a “use it or lose it” policy; funds automatically roll over year-to-year.

By when do I have to contribute to an HSA each year?

You have until your federal income tax return due date, not including extensions, to make your contribution(s). For example, you can make your 2025 HSA contribution anytime between January 1, 2025, and April 18, 2026.

What happens if I lose HSA eligiblity during the year?

If you made a full-year contribution, but your situation changes and you are no longer eligible to contribute the full-year amount, you must prorate the full-year contribution amount for the months that you were ineligible (i.e., divide the annual contribution limit by 12 to calculate the monthly limit). The HSA contribution amount attributable to the months that you were not eligible must be added to your gross income and will be subject to a 10 percent penalty tax.

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Distributions

How can I use my HSA assets?

As the HSA owner, you can take money out of your HSA at any time to pay for qualified medical expenses tax-free, even if you are no longer an HSA-eligible individual at the time of the distribution. Distributions from your HSA can be used to cover qualified medical expenses for you, your spouse, and your dependents. You can also use these tax-free distributions to pay for or reimburse any qualified medical expenses incurred after you set up your first HSA, including expenses that occurred in a prior year.

As the HSA owner, you are responsible for determining whether an expense is a qualified medical expense and therefore, a qualified distribution, so review the information answering the question below, “What are qualified medical expenses?” You should also keep your receipts and maintain good records for any tax-free distributions you take from your HSA, in case you need to defend your expenditures or decisions during an IRS audit.

What other distribution rules apply to HSAs?

HSA assets that are used to pay for nonqualified medical expenses or nonmedical expenses are subject to federal income tax and a 20 percent penalty tax. The penalty is waived if the HSA owner is permanently disabled, at least 65 years old, or the distribution is made to a non-spouse beneficiary after the HSA owner’s death.

You are considered permanently disabled if you can prove that you cannot do any substantial gainful activity because of your physical or mental condition. To qualify for this exception, a physician must determine that your condition can be expected to result in death or to be of long continued and indefinite duration.

If your spouse is your HSA beneficiary and receives your HSA following your death, it becomes your spouse's HSA to use for his medical expenses. If anyone else receives your HSA as beneficiary, the HSA must be distributed to that beneficiary and is then considered taxable income.

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What are qualified medical expenses?

Qualified medical expenses are medical expenses that are

- Incurred on behalf of the HSA owner, his spouse, or dependents;
- Incurred after an HSA has been established;
- Not covered by insurance; and
- Paid by the HSA owner, his spouse, or dependents.

HSA qualified medical expenses are expenses that would generally qualify for the medical and dental expense tax deduction, including amounts paid for doctor's fees, prescriptions, and certain dental and vision care—but excluding most insurance premiums. Examples of qualified medical expenses include the following.

- Diagnosis, cure, mitigation, treatment, or prevention of disease or for the purpose of affecting any structure or function of the body
- Transportation for the essential medical care referred to above
- Qualified long-term care services
- Premiums for qualified long-term care insurance, COBRA health care continuation coverage, or health care coverage while an individual is receiving unemployment compensation
- For individuals over age 65, premiums for Medicare Part A or B, Medicare HMO, and the employee share of premiums for certain employer-sponsored health insurance (including premiums for employer-sponsored retiree health insurance)
- Certain amounts paid for lodging away from home necessary to obtain health care

A more complete list of allowable expenses is provided in IRS Publication 502.

HSA Transaction Terms

- **HSA Transfer**
  - A Transaction in which money is moved directly from an HAS or Archer MSA to an HSA, without the owner ever having access to the assets
- **HSA Rollover**
  - A transaction in which the HSA owner receives an HAS distribution, and subsequently makes a contribution to the same or different HSA. The HSA owner has access to the money between the receipt of the distribution and the contribution. A rollover can be done once every 12 months.

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HSA Transaction Terms (Continued)

- **Regular Contribution HSA**
  - A contribution to a HSA. Contributions can be made by the HSA owner or anyone on behalf of the HSA owner. Eligibility is determined by the HSA owner being covered under a high deductible health plan, (HDHP) not covered any another health plan that is not an HDHP, (exception apply) not claimed as a dependent on another's tax return, and not enrolled in Medicare.

What other ways can I fund my HSA?

HSA-to-HSA

If you are the original owner of the HSA, you can either transfer or roll over money to another HSA that you own.

To complete a rollover, you distribute assets from your HSA and then deposit as a rollover the same or lesser amount to the same or another HSA. To perform an HSA-to-HSA rollover, both of the following must be true.

- You roll over the money to the HSA within 60 days following your original distribution.
- You have not rolled over assets to an HSA within the last 12 months.

To perform a transfer, you should instruct the financial organization administering your HSA to directly move the HSA money to the financial organization where you have another HSA. *With a transfer, you avoid the 60-day and once-per-12-months rules that apply to rollovers.*

IRA-to-HSA

You may complete a qualified HSA funding distribution to move money from your Traditional or Roth IRA to an HSA, as long as your IRA does not receive SEP contributions from an ongoing SEP plan. Simply instruct the financial organization holding your IRA to directly move a specific amount, no greater than the annual HSA contribution limit, to the financial organization where you have set up an HSA. This transaction will be treated as a regular contribution for the current year; therefore, your HSA annual contribution limits apply.

Note: You may transfer IRA assets to an HSA only once in a lifetime

Archer MSA-to-HSA

If you own an Archer medical savings account (MSA), you can transfer or roll over money from the Archer MSA to your HSA. The same rules that apply to transfers and rollovers from one HSA to another HSA also apply to an Archer MSA. *(Not offered by KCTCU)*

FAQs are not intended to provide tax advice. Contact a tax professional.