BlueCross BlueShield of Illinois

Think Blue℠

Understanding Health Savings Accounts

What is an HSA?

A Health Savings Account, or HSA, helps you put money away for future health care expenses as well as save on your taxes.

There are several ways to fund an HSA. You, your employer, or both may contribute to the account with pre-tax dollars. The interest the account earns is also tax free. Since the money always belongs to you, and unused funds carry over from year to year, you never have to worry about losing your money. For 2021, the annual contribution limit for individuals is $3,600, while for families it is $7,200.

To be eligible to contribute to an HSA, you need to get a certain kind of health plan called a high deductible health plan. A high deductible health plan typically costs less than major medical plans with lower deductibles, because you agree to assume a greater share of the cost of your health care expenses initially. In addition, a qualified high deductible health plan may offer tax advantages and greater control on how your money is spent on your health care expenses.

Questions? Visit **ThinkBlueIL.com** or call **888-809-2810** 8 a.m. to 5 p.m. CT

Understanding an HSA

An HSA allows you to save for future health care expenses. For example, your HSA funds can be used if you are between jobs. HSA funds can be used to pay your health care coverage premiums. As you near retirement, you can count on having the money in the account to offset costs of medical care when you retire. You can also use the funds to pay for qualified long-term care premiums, as well as for Medicare insurance and expenses.

How does an HSA work?

Typically, a bank will provide you with a debit card and/or a checkbook to manage and access funds in your HSA account. When you pay for a qualified medical expense, you use the debit card or check to make the payment.

You can use HSA funds for IRS-approved items. Below are a few examples. Visit irs.gov for a full list of approved items.

Examples include:

- Doctor's office visits
- Prescription drugs and some over-the-counter (OTC) medications when prescribed by a doctor
- Physical therapy, speech therapy, and chiropractic expenses
- Eye exams, eyeglasses, contact lenses and solution, and laser surgery
- Hearing aids

Using Your HSA

You can spend only the money that's actually in your HSA. If your health care expense is more than your HSA balance, you will need to pay the remaining cost from another source, such as cash or personal check. You can get paid back after more money is added to your HSA.

HSA plans don't have a "use it or lose it" provision. HSA plans let you roll over your unused dollars from one year to the next, so you don't have to worry about losing your money if you don't spend it all in one year.

It is important to know there are penalties if you use your HSA account funds for non-qualified medical expenses. If you are under age 65, withdraw monies from your HSA and do not use them for qualified medical expenses, that money will be taxed as income. You will also incur a 20% early withdrawal penalty.

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