

Southwestern University

Health Savings Accounts

HSA Distributions:

A Health Savings Account holder always has 100% ownership of the funds in his/her account. Neither the trustee (banking institution), nor an employer who has contributed to the HSA, may restrict how the account holder uses the funds. Trustees are permitted to limit the number of withdrawals per month or require a minimum dollar amount for disbursements. For example, a trustee may require a minimum withdrawal of \$50 or allow only six withdrawals per month.

The use of funds determines the tax status of the withdrawals. Funds withdrawn from a HSA account to pay for “qualified expenses” are tax free distributions. Funds used to pay for “nonqualified” expenses are taxable and an additional 20% tax penalty will apply.

Qualified Expenses:

Amounts used to pay for health expenses for the account holder, spouse (federal definition) and/or tax dependents of the account holder.

Health care expenses can include:

- Medical
- Drugs (note that over-the-counter drugs must have a doctor's prescription in order to be eligible)
- Dental
- Vision
- Hearing
- Qualified long term care expenses
- Other health care expenses that are tax deductible and not reimbursed under another plan (e.g., a medical plan)
- Premiums for the following:
 - COBRA premiums
 - Qualified Long Term Care premiums (up to specific dollar limits)
 - Premiums paid for health coverage during a period of unemployment (individual must be receiving unemployment benefits)



Nonqualified Withdrawals:

- Health care expenses that are not deductible (e.g., cosmetic treatments)
- Payment of MediGap premiums
- Payment of health care contributions under an employer's retiree health care plan for individuals under age 65
- Payment of health care expenses for a non-tax dependent

Nonqualified withdrawals are taxable income to the account holder. In addition a 20% tax penalty applies to nonqualified withdrawals.

NEXT :

Health Savings Accounts—What happens when your employment ends?