Commonly Asked HSA Questions

Get to know Health Savings Accounts

Use this handy guide to get answers to common HSA questions. Have more questions? Ask your HR team or visit Lively's Frequently Asked Questions.

"What is an HSA?"

An HSA is a savings account that works alongside your HSA-qualified health plan. Using an HSA helps you reduce qualified out-of-pocket healthcare expenses up to 35%[1], including the deductible part of your HSA-qualified health plan. Funds in your HSA earn interest or can be invested[2], like a 401(k). Read more about HSAs.

"How does an HSA work?"

First, you make an election at work for the amount you'd like to contribute to your HSA, up to the maximum annual contribution limit. Then, money is deposited into your HSA pre-tax from each paycheck. The tax savings can be up to 35% on every dollar deposited. You can also make deposits outside of payroll. In which case, you can deduct the contribution from your gross income on your tax filing.

Use your HSA debit card or mobile wallet to pay for health services or products. You can also use Bill Pay to pay. The funds can pay for today's qualified medical expenses. Or money can be saved to pay for future or unexpected expenses. Keep receipts for expenses paid with your HSA in case the IRS requests to see them in the future.

"What expenses are qualified for payment with my HSA?"

Pay for any expense subject to your health plan deductible. Fees for doctor's visits, prescriptions, lab work, and hospitalizations. Plus dental, vision, chiropractic, and mental health services. IRS Publication 502 has the full list of qualified expenses, or use Lively's "What's Eligible" search tool. Please note: if HSA funds pay for something other than a qualified medical expense, the withdrawal is subject to income tax plus a 20% penalty tax.

"Whose expenses can I pay with my HSA?"

You can pay for your qualified expenses with your HSA. Also, pay your spouse's or tax-dependent children's expenses (if you have them)—even if they aren't on your health plan.

"Do HSA funds expire?"

HSA funds never expire and can always be spent, even if you change health plans or employers. HSAs are owned by individuals (not employers) and can be transferred from job-to-job or bank-to-bank.

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"Is there a limit to how much I can contribute?"

Each year you can contribute up to the maximum annual contribution limit set by the IRS. For 2023, the limit is $3,850 if your health plan covers only you. And $7,750 if your plan covers you plus at least one other family member. If you are 55 or older in 2023, you can also contribute a "catch-up" contribution, an additional $1,000 on top of your limit.

"How do HSA tax savings work?"

HSAs have many tax advantages. First, HSA contributions are pre-tax when made through your employer's payroll. Meaning, your HSA deposit uses pre-tax income—or it is tax-deductible if made outside payroll. Second, HSAs earn tax-free interest and investment[2] gains[3]. Third, payments for qualified medical expenses are tax-free.

One final benefit when you reach age 65—the 20% tax penalty for using HSA funds on non-qualified expenses no longer applies. So if you want to use your HSA funds to buy a boat at age 65, you'll pay regular income tax on the distribution. Like you would when withdrawing funds from a 401(k) or Traditional IRA.

"Are there eligibility requirements to open and fund an HSA?"

Yes, to be eligible for an HSA you must meet the following criteria:

1. Be covered by an HSA-qualified health plan.
2. Not covered by another health plan. Or a General Purpose Flexible Spending Account (including a spouse's FSA). You can have a Limited Purpose FSA for dental, vision, and/or dependent care.
3. Cannot be claimed as a dependent on someone else's tax return.
4. Not enrolled in Medicare (Part A or B) or Medicaid.

"When can I reimburse myself for qualified expenses?"

You can reimburse yourself for qualified expenses anytime in the future. This benefits you in a few ways:

1. If you do not have the funds available when you incur an expense. Pay it out of pocket and then contribute enough to your HSA to cover the expense, and then reimburse yourself by transferring funds from your HSA to your bank account. You still receive the full tax benefit when doing this.
2. Have funds in your HSA to cover an expense? You still have the option to pay out-of-pocket and then reimburse yourself anytime. That means today, tomorrow, or 20 years from now—even if you no longer have HSA-qualified coverage at the time. You could choose to take advantage of the investment potential of your HSA by withdrawing funds in the future to cover expenses made in the past.

[1] Talk to a tax advisor about your savings potential; your savings may vary. The 35% example includes 24% federal tax savings, 7.65% payroll tax savings, and 3.35% state tax savings. Payroll tax savings are only available on deposits made through your employer's payroll. State tax savings are not available in states without income taxes or in California or New Jersey.

[2] Investments are not guaranteed, not insured, and may lose value.

[3] At the federal level. State taxes vary. Talk to a tax advisor for your personal situation.