SAVING & INVESTING



HEALTH SAVINGS ACCOUNT DISTRIBUTIONS

YOU'RE IN CONTROL

As millions of Americans have discovered, an HSA is one of the best ways to set aside funds to pay for healthcare expenses. Because you own and control your own HSA, you may withdraw assets from your HSA at any time.

What's more, your HSA withdrawals are tax free provided you have incurred qualifying medical expenses.

- TAX-FREE QUALIFIED DISTRIBUTIONS
- NONQUALIFIED DISTRIBUTIONS
- NOT JUST FOR YOUR PERSONAL MEDICAL EXPENSES
- NO "USE IT OR LOSE IT" RULE
- NO TIME LIMIT FOR TAKING QUALIFIED DISTRIBUTIONS
- HSA SAVINGS FOR RETIREMENT
- THE BOTTOM LINE

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TAX-FREE QUALIFIED DISTRIBUTIONS

Distributions from your HSA are tax-free and penalty-free provided they relate to a qualified medical expense. Qualified medical expenses generally include any tax-deductible medical expense that is not covered by health insurance. Accordingly, you can use HSA funds to cover most unreimbursed expenses related to

- medical care and services,
- dental and vision care,
- prescription and nonprescription, over-thecounter drugs, and
- certain other healthcare products and services.

What's more, once you reach age 65, you can also use HSA funds to pay for health insurance premiums (including Medicare premiums).

Note: Medical expenses incurred prior to HSA establishment are not eligible qualified medical expenses.



NONQUALIFIED DISTRIBUTIONS

HSA distributions that are not tied to any unreimbursed qualified medical expenses are taxable and, in some cases, subject to an additional 20 percent penalty. The additional 20 percent penalty on taxable distributions does not apply if you have attained age 65 or are disabled. In addition, the 20 percent penalty does not apply in the case of post-death withdrawals taken by nonspouse beneficiaries.



NOT JUST FOR YOUR PERSONAL MEDICAL EXPENSES

In addition to taking tax-free HSA withdrawals to cover your own qualified medical expenses, you can also take tax-free withdrawals to cover the qualified medical expenses of your spouse and your dependents (regardless of whether your spouse or dependents are covered under a high deductible health plan).



NO "USE IT OR LOSE IT" RULE

Any balance in your HSA at the end of the year is carried over to the next year. Unlike some other types of health savings arrangements, there is no "use-it-or-lose-it" rule with HSAs.



NO TIME LIMIT FOR TAKING QUALIFIED DISTRIBUTIONS

There is no time limit on how quickly you must take an HSA distribution once you have incurred a qualified medical expense. You may choose to take a qualified distribution from your HSA at the time the medical expense is incurred. Alternatively, you may choose to wait months—or even years—before withdrawing funds from your HSA. This timing flexibility is especially crucial for HSA owners who prefer to accumulate long-term savings in their HSAs and withdraw the tax-free qualified distributions in the future.

If you choose to delay taking distributions from your HSA, be sure to keep accurate records (including any receipts or statements) so you can substantiate that

- the distribution was used to pay or reimburse a qualified expense,
- the qualified medical expense to which the distribution relates has not been previously paid or reimbursed from another source, and
- the medical expense has not been taken as an itemized deduction in any prior tax year.



HSA SAVINGS FOR RETIREMENT

While many people use their HSA savings to help meet their ongoing, near-term medical expenses, some have discovered that they can get even more tax-sheltered advantage from their HSA savings by allowing them to grow, tax-sheltered for an extended time. Remember, you don't have to withdraw your HSA funds in the same tax year in which your unreimbursed medical expenses are incurred.

Example

An HSA owner could take a tax-free HSA qualified distribution in 2030 related to unreimbursed medical expenses they incurred in 2020—provided their HSA was established at the time the 2020 qualified medical expenses were incurred. By delaying the HSA withdrawal until a future date, HSA owners are oftentimes able to generate additional tax-free savings.



THE BOTTOM LINE

HSAs provide an excellent, tax-savvy way to set aside funds for medical expenses. To take maximum advantage of your HSA savings, however, it's crucial that you understand the rules governing HSA withdrawals. With proper planning, HSAs can provide tremendous tax benefits: tax-deductible contributions, tax-free growth and tax-free withdrawals.