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U.S. SECURITIES AND
EXCHANGE COMMISSION

Health Savings Accounts (HSAs) – Investor Bulletin

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The SEC's Office of Investor Education and Assistance is issuing this Investor Bulletin to inform investors about health savings accounts (HSAs), which offer tax benefits when used to pay for qualified medical expenses. We encourage you to also consult Internal Revenue Service (https://www.irs.gov/) *(IRS) guidance on HSAs.*

What is a health savings account (HSA)?

A health savings account (HSA) is a tax-advantaged savings account you can use to pay for qualified medical expenses. Qualified medical expenses can include, for example, doctor and hospital bills, prescription medicine, and dental and vision costs.

HSAs come with federal and sometimes state tax benefits, which means using an HSA instead of a traditional checking or savings account to pay for qualified medical expenses (https://www.irs.gov/forms-pubs/about-publication-502) can help you save money.

You can put money in an HSA like you would a typical deposit account. Some HSAs also allow you to invest your money, including in securities like mutual funds or exchange-traded funds (ETFs). You can use HSA money to pay for both current and future medical expenses.

HSAs can be used for spending, saving, and investing. An HSA can be used as a spending account for current medical expenses, a savings account for unexpected medical costs, and an investment account to grow your assets for medical expenses in the future, like during retirement.

How does an HSA work?

Requires a high-deductible health insurance plan (HDHP). By law, you can only contribute money to an HSA if you participate in an HDHP. HSAs are often offered as part of employer-sponsored HDHPs. You can use HSA money to pay for qualified medical expenses not covered by your HDHP.

Contributions. You can deposit money into your HSA like you would a regular savings account. If your HSA is set up through your employer, you might have the option to contribute through payroll deductions. Your employer can also choose to contribute. The IRS sets limits on total annual contributions.

No "use it or lose it." Any unused balance in your HSA is generally carried over year after year. There is no deadline to use your HSA balance, including if you stop participating in an HDHP.

Reimbursement. If you pay for a qualified medical expense out of pocket, you can reimburse yourself for that expense using your HSA money— as long as the expense was incurred after you established the HSA. State law determines when an HSA is established.

What about investing HSA savings?

Opportunity to invest. Some, but not all, HSAs allow you to invest some or all of your HSA balance. In some cases, a minimum account balance may apply before you are eligible to make investments. If you plan to use your HSA for future healthcare costs, you might consider investing some or all of your HSA savings. The longer your money is invested, the more opportunity it has to grow.

Investment choices. The investment options offered by HSAs may vary widely. Some HSAs offer several investment products, while others may offer only a few options. Examples of potential investment options include mutual funds (/introduction-investing/investing-basics/investment-products/mutual-funds-and-exchange-traded-funds-etfs/mutual-funds) and ETFs (/introduction-investing/investing-basics/investment-products/mutual-funds-and-exchange-traded-2) .

Fees. If you invest your money, you may pay additional fees. These additional fees typically include underlying fund fees and transaction fees in addition to any HSA account maintenance fees. Other fees may apply as well. Over time, fees can impact the performance of your investment portfolio. Be sure you understand the total cost of your HSA and any investments you choose to make.

What are the federal tax benefits of using an HSA?

HSAs provide a triple tax advantage.

Contributions. When you contribute money to your HSA through payroll deductions, you are contributing pre-tax dollars. For other contributions, you can claim a tax deduction that reduces your federal taxable income.

Earnings. Any earnings in your HSA (such as from interest or investment gains) are not subject to federal tax while they remain in your HSA.

Withdrawals. HSA withdrawals for qualified medical expenses are not subject to federal tax.

Some, but not all, states offer tax benefits for HSAs. In addition, state and federal laws that affect HSAs could change. You should make sure you understand the tax implications of using an HSA and consider whether to consult a tax adviser.

How can I open an HSA?

You can open an HSA with the financial institution of your choice, as long as you are eligible to open and contribute to an HSA. Consult IRS guidelines to determine if you are eligible (https://www.irs.gov/pub/irs-pdf/p4885.pdf) .

Banks, credit unions, and other financial institutions offer HSAs.

If your employer offers an HDHP, they might also offer you the option of opening an HSA. Some employers may only offer employer contributions and direct payroll deductions into an HSA with a certain provider. ***However, other HSA options may be available to you. Don't be afraid to shop around for the HSA that suits you best.***

Be sure you understand any restrictions and fees that apply before opening an HSA. This will help you make the most of your HSA.

What are some other features of HSAs?

Ease of access. Some HSAs allow you to pay for qualifying expenses directly using a linked debit card or online bill payment system. Others may require you to pay for eligible expenses out of your own pocket and request reimbursement from your HSA.

Account maintenance fees. Some HSAs charge a monthly account maintenance fee. Other HSAs may have no account maintenance fee or may waive the fee if your account has a sufficiently high balance.

Interest. Some HSAs pay interest on money you don't spend immediately or invest.

What happens if I use my HSA for non-medical expenses?

The answer depends on your age.

Before age 65. HSA dollars are subject to federal income taxes and a federal tax penalty if used on any non-medical expenses before age 65.

Age 65 and beyond. After you turn 65, you can use the money in your HSA for anything without paying the penalty. However, you will still have to pay federal income taxes on the money if you don't use it for qualified medical expenses.

Can I move my existing HSA?

If you already have an HSA, such as through your employer, you are allowed to move your HSA assets (cash and/or investments) to an HSA with a different provider. For example, you might consider moving your HSA assets to a provider with investment options that better fit your financial goals.

If you have multiple HSAs, such as from different employers over the years, you might consider consolidating them into one HSA for ease of management.

If you have an HSA through your employer and you change jobs or retire, you can take your HSA with you (keeping it with the existing HSA provider or moving it to a different one).

Moving your HSA assets can be done by transfer or rollover. Transfers and rollovers are very specific processes. Before you transfer or roll over money from one HSA to another, make sure you understand the rules around doing so and any tax consequences. Consider whether to consult your HSA provider, IRS guidance,
your state's tax law and/or a tax professional.

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