Department of Insurance

# Consumer Alert

NEBRASKA

Good Life. Great Opportunity.

## What Is a Health Savings Account?

Understanding the Purpose of an HSA

If you enroll in an eligible high-deductible health insurance plan that meets specific requirements, you have the option to open a health savings account (HSA). An HSA is a type of savings account that allows you to set aside money on a pre-tax basis to pay for qualified medical expenses. The untaxed dollars that you or your employer put in your HSA allow you to pay for deductibles, copayments, coinsurance and other qualified health-related expenses.

### Top Considerations

Not all high-deductible plans are eligible. Check with your health insurer. For HSA purposes, a high-deductible health plan in 2021 is one with a deductible of at least $1,400 for an individual or $2,800 for a family, plus meets other requirements. This means you pay at least $1,400 (or $2,800) out-of-pocket in a year before the health plan starts paying for its share of health costs. Also, the plan cannot cover any costs before the deductible is met, except for preventive services. Finally, an eligible high-deductible health plan must cap the yearly out-of-pocket expenses (including deductibles, copayments, and coinsurance) at $7,000 for an individual or $14,000 for a family. (This limit doesn't apply to out-of-network services.)

Contributions are limited and adjusted annually by the IRS. There are annual limits for contributions to HSAs. For 2021, the limits are $3,600 for individuals and $7,200 for families. Unspent money in an HSA rolls over at the end of the year, so it can be used for future medical expenses. The money belongs to you, so as you change jobs or insurance plans, your funds remain in your account. If you enroll in a health plan that is not HSA-eligible, you won’t be able to make additional contributions to your HSA, but you can still use the funds you have.

There could be taxes and penalties for early withdrawals. If you ever need to withdraw funds from your HSA for non-qualified expenses before you turn 65, you will owe taxes on the money. There is also a 20% penalty. After you turn 65, you will owe the taxes but not the penalty.

### Things You Should Know

Keep a record of your transactions. Always keep receipts for medical expenses you pay using HSA funds. The receipts will prove that your withdrawals were used for qualified medical expenses.

A Health Savings Account is different than a Flexible Spending Account. A Flexible Spending Account (FSA) is another type of account that allows you to contribute before taxes are taken out. Like an HSA, it can be used to pay for eligible health expenses. However, an FSA is owned by the employer and is less flexible—the funds are intended to be used in a single year. The maximum amount an employee can save in an FSA in 2021 is $2,750. You must spend the money in an FSA by the end of the year or specified grace period. Unlike an HSA, if an employee leaves a job, they can't take the FSA account with them.

### More Information

If you have insurance-related questions or concerns, please contact the Nebraska Department of Insurance at 402-471-2201, or call our toll-free consumer hotline at 1-877-564-7323. Additional information is available on our website at **doi.nebraska.gov**.

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