THE FIRST YEAR IN AN HSA

Thinking about switching to a new health plan with a health savings account? After weighing their options during annual enrollment, some people decide to switch from a traditional health plan to an HSA-eligible health plan for several reasons:

- They have minimal health care needs in a normal year, and their doctors are still in-network.
- The premiums are considerably lower than in a traditional health plan, even though the deductible is higher.
- Many employers make a lump-sum contribution to the HSA at the start of the year.
- The HSA has tax advantages: The money you contribute is tax-free, it can grow tax-free, and withdrawals for qualified medical expenses also are tax-free.[1]

Let's take this hypothetical scenario: Susan enrolled in an HSA-eligible health plan last year. Her employer made a $1,000 contribution to her HSA (about average for family coverage) as a lump-sum deposit.[2] She decides to contribute $250 a month, knowing that she can increase her contributions at any time during the year. Susan's $250 HSA contribution reduces her taxable income, so fewer taxes come out of her paycheck:

SUSAN'S INCOME	**$3,000**
SUSAN'S HSA CONTRIBUTION	**($250)**
SUSAN'S TAXABLE INCOME	**$2,750**

Let's look at Susan's first year in an HSA:

	January–March	April–June	July–September	October–December
Starting HSA balance	$1,000	$1,620	$270	$1,270
Susan's HSA contributions	$750	$750	$1,050	$1,050
HSA money available to spend	$1,750	$2,370	$1,320	$2,320
Health care and/or prescriptions purchased	Prescription for asthma inhaler = $130	Urgent care visit, X-rays, and cast for broken arm = $2,100	Telehealth visit for sinus infection = $50	Over-the-counter motion sickness medication = $20
Costs paid using HSA	($130)	($2,100)	($50)	($20)
Ending HSA balance	$1,620	$270	$1,270	$2,300

- Employer makes lump-sum contribution.
- Susan makes monthly contributions of $250.
- After the broken arm, Susan decides to increase her monthly contributions to $350.
- Over-the-counter medications are considered qualified medical expenses.
- Susan has $2,300 to carry over for next year.

In this scenario, Susan would have $2,300 to carry over for next year to spend or save. She might also consider using her HSA for saving or investing for health care costs in retirement. The HSA can be invested, just like any other brokerage account. Some HSA users want to keep some level of cash, say $1,000, readily available in the account, assuming they will spend that much on qualified medical expenses in a given year. Then, they might opt to invest any money over that amount, knowing they can change the amount invested at any time. They plan to choose an investment they're comfortable with.

Ready to enroll in an HSA-eligible health plan and open an HSA? Here are a few resolutions to help make your first year in the plan successful.

- Open your HSA, if you need to, so you will be sure to get your employer contribution.
- Keep in mind you can adjust the amount you contribute to your HSA anytime. You don't need to wait for annual enrollment.
- Know what services are available to you to help manage your costs. You may have telemedicine options or access to an online service that helps you manage your expenses, payments, claims, and receipts all in one place, on any device.
- If you're not able to contribute to your HSA regularly, you can still add money to pay for specific health bills and get the tax advantage.
- Think about the future. You can save the money in your HSA until you really need it—including all the way into retirement. If you're thinking long term, consider investing some of your HSA balance to make it work harder for you.

End notes

[1] Contributions, earnings, and distributions are tax-free for federal tax purposes when used to pay for qualified medical expenses. Each state may decide to follow the federal tax guidelines for HSAs or establish its own. As of the publication date (07/01/2022), only California and New Jersey tax eligible contributions to HSAs. These states regard HSAs as regular taxable brokerage accounts, so residents have to declare any capital gains, interest, and dividends they receive to the state. New Hampshire and Tennessee tax earnings but not contributions.

[2] Note: Some employers make monthly instead of lump-sum HSA contributions. The average employer HSA contribution for family coverage was $987 in 2021, according to the Kaiser Family Foundation 2021 Employer Health Benefits Survey.

Investing involves risk, including risk of loss.

The information provided herein is general in nature. It is not intended, nor should it be construed, as legal or tax advice. Because the administration of an HSA is a taxpayer responsibility, you are strongly encouraged to consult your tax advisor before opening an HSA. You are also encouraged to review information available from the Internal Revenue Service (IRS) for taxpayers, which can be found on the IRS website at IRS.gov. You can find IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans, and IRS Publication 502, Medical and Dental Expenses, online, or you can call the IRS to request a copy of each at 800-829-3676. Consult an attorney or tax professional regarding your specific situation.

Fidelity makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

1037762.1.0