



## 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.
- 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.<sup>1</sup>

Let's take this hypothetical scenario: Susan enrolled in an HSA-eligible health plan for family coverage. She made an initial lump-sum contribution of \$1,000 and then decides to contribute \$250 each month, knowing that she can increase her contributions at any time during the year. Susan's \$250 contributions reduce her monthly taxable income:<sup>2</sup>

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

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

	January–March	April–June	July–September	October–December
<b>Starting HSA balance</b>	\$1,000	\$1,620	\$270	\$1,270
<b>Susan's HSA contributions</b>	\$750	\$750	\$1,050	\$1,050
<b>HSA money available to spend</b>	\$1,750	\$2,370	\$1,320	\$2,320
<b>Health care and/or prescriptions purchased</b>	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
<b>Costs paid using HSA</b>	(\$130)	(\$2,100)	(\$50)	(\$20)
<b>Ending HSA balance</b>	\$1,620	\$270	\$1,270	\$2,300

- Susan 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.

- 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

- <sup>1</sup> 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 (05/01/2023), 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.
- <sup>2</sup> Example assumes contributions are made via payroll deduction. Post-tax contributions to an HSA may be federal income tax-deductible.

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### 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](https://www.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.

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