



STERLING[®]
ADMINISTRATION

HEALTH SAVINGS ACCOUNTS: HOW THEY WORK



WHAT IS AN HSA?

Think of HSAs as “medical” IRAs. They are tax advantaged accounts that individuals with an HSA compatible high deductible health plan (HDHP) can fund and use to pay for qualified medical, dental and vision expenses. Because they are tax advantaged and balances can accumulate over time, HSAs can also be used to accumulate wealth. In addition, HSAs are owned by the individual accountholder and are therefore portable. Since inception in January 2004, HSAs have quickly gained in popularity among individuals and employers alike.

WHAT ARE THE REQUIREMENTS FOR HAVING AN HSA?

1. You must be enrolled in a high deductible HSA qualified health plan with any carrier
2. You cannot be claimed as a dependent on another person's tax return
3. You cannot be enrolled in Medicare
4. You cannot have dual health insurance coverage (be covered by another non-HSA qualified health plan).
5. You cannot have access to a general purpose healthcare FSA or HRA

HOW MUCH CAN BE CONTRIBUTED TO AN HSA?

For 2027, the IRS maximums are \$4,500 for an individual and \$9,000 for a family, as long as the HDHP and HSA are both effective on or before December 1st. The catch-up contribution for individuals age 55 and over is \$1,000 for 2027. A separate HSA account is required for a spouse over age 55 to make a catch-up contribution.

HOW DO I FUND THE HSA?

You fund the HSA using federally tax-free dollars. If your employer has a Section 125/POP plan and allows it, you can elect to have pre-tax contributions made to your HSA via payroll deduction. You can also transfer funds online at www.sterlingadministration.com or send an “after tax” check and take the deduction as an above the line deduction on your federal income tax 1049 return when you file your taxes. Another option is to roll money over from an existing IRA (this is a once in a lifetime option). Please note that HSA contributions are tax-free in 47 states. HSA contributions in AL, CA and NJ are subject to state taxes.

HOW CAN HSA FUNDS BE USED?

The funds can be used for qualified healthcare expenses, including medical, dental and vision. Please see www.IRS.gov Publication 502 section 213(d) for a full listing of qualified expenses. HSA funds can also be used to pay for COBRA premiums, long-term care premiums and Medicare premiums (Part B, C and D). HSA funds can be spent on eligible expenses for an HSA accountholder's spouse and any IRS dependents, regardless of whether or not they are covered on the health plan. If funds are used for non-qualified expenses prior to age 65, a 20% IRS penalty applies.

WHAT HAPPENS WHEN I TURN 65?

You can continue to use funds in an HSA for qualified medical, dental and vision expenses tax free, but another benefit for accountholders 65 and over is that the HSA funds can also be spent on non-qualified expenses without a 20% penalty. Distributions for non-qualified expenses are taxed as “ordinary income”.

AS AN OWNER, CAN I CONTRIBUTE TO AN HSA?

Yes, HSAs are one of the only accounts that owners may participate in on a tax-free basis. Do keep in mind, 2% or greater shareholders and owners of any type of corporation, besides a C-corporation, must contribute to their account with personal funds and after tax dollars. They would then receive an above the line deduction when they file their income taxes. C-corporation shareholders and owners are exempt from this and are treated like employees.

DO I LOSE THE FUNDS IF THEY ARE NOT SPENT AT THE END OF EACH YEAR?

No. Unlike Flexible Spending Accounts (FSA) or Health Reimbursement Arrangements (HRA), there is no “use it or lose it” provision with HSAs. The funds in an HSA roll over from year to year, are interest bearing, and are even portable if the accountholder changes jobs or health insurance carriers. HSAs are often viewed as additional retirement savings accounts for these reasons.

HOW DO I PAY FOR THINGS?

As a Sterling accountholder, you will have a Sterling debit card (smart card) that you can use to purchase items that are qualified expenses. For example, after seeing an in-network doctor you will wait to receive an Explanation of Benefits (EOB) from your insurance carrier. Once you receive a bill from your doctor that matches your insurance carrier EOB, place your debit card numbers in the card options spot on the bill when you receive it. At the pharmacy, for dental, vision and out-of network doctors, you will also have the option of using your debit card at the time of service. If the doctor or provider does not take debit cards, then you can pay out of pocket and request a check by calling Sterling at 800-617-4729. Another option is to pay out

of pocket and reimburse yourself from your Sterling account. You can reimburse yourself using the online banking feature, if you register your account online at www.sterlingadministration.com, or by filling out and sending a request for reimbursement to Sterling.

DO I HAVE INVESTMENT OPTIONS FOR BALANCES IN MY HSA?

Yes, you have full reign to self-direct the funds in your HSA account subject to some IRS limitations. However, it is recommended that you leave your annual deductible, or better yet your HDHP out-of-pocket maximum amount, liquid in your Sterling managed account in case of a medical emergency.

WHY WOULD I CHOOSE AN HSA?

HSAs are beneficial in many ways. Not only do accountholders save money on health insurance premiums, they are also better able to take control over their healthcare choices and expenses. HSAs are the innovative financier of healthcare today and retirement tomorrow. Why spend more than you need to on healthcare premiums and taxes when you could be saving the money for yourself in your HSA?

WHY CHOOSE STERLING?

Sterling is a leader in HSA administration, offering expertise in both Health Savings Accounts (HSAs) and the healthcare industry. We simplify the complexities of HSAs and provide an exceptional level of personalized service that sets us apart from the competition. Our comprehensive suite of services includes:

- Compliance Protection: Expert guidance on eligible HSA expenses and IRS regulations.
- Tax Documentation Preparation: Assistance with all required tax forms and filings.
- Convenient Online and Mobile Access: Easily manage your account, request disbursements, make contributions, and more with our online tools available 24/7.

At Sterling, we make managing your HSA easy, efficient, and stress-free.

For more information on Sterling, visit our website at www.sterlingadministration.com. For predominantly Spanish speaking customers, we offer Spanish speaking customer service representatives.