Health Savings Account (HSA) FAQs 2025

1. **What is a health savings account (HSA)?**
   An HSA is a tax-advantaged savings account used to pay for qualified health care expenses of the account beneficiary or the account beneficiary's spouse or dependents. It must be paired with a high deductible health plan (HDHP). Contributions, investment earnings and amounts distributed for qualified medical expenses are all exempt from federal income tax, FICA tax and most state taxes[1].

2. **What are the advantages of an HSA?**
   Because of its tax advantages, an HSA is an attractive savings vehicle for current and future medical expenses. Employer and employee contributions are excluded from federal taxable income as are qualified distributions (i.e. withdrawals for qualified health care expenses). Also, your HSA balance plus investment earnings carry over year-to-year, tax-free.

3. **Am I eligible to contribute to an HSA?**
   If you enroll in NWC's Health Savings Plan, you are generally eligible to make and receive HSA contributions. To be eligible, you must have no other disqualifying health coverage, and you cannot be claimed as a dependent on another person's tax return. Some examples of other health coverage that will disqualify you from contributing to an HSA include:

   - Other non-HDHP medical coverage (e.g. traditional PPO with copays, HMO, etc.)
   - A spouse's or parent's general-purpose health flexible spending account (FSA) or health reimbursement arrangement (HRA)
   - Medicare, including Part A
   - TRICARE or Veterans Administration (VA) health benefits received within the last three months, except for preventive care. If you are receiving treatment from the VA for a service-connected disability, this exclusion does not apply and you are not disqualified from making HSA contributions.

4. **How do HSAs apply to greater than 2% shareholders of an S corporation?**
   Different HSA requirements apply to >2% shareholders in an S corporation. Any employer contribution must be included as taxable income on the shareholder's W-2, but is not subject to employment taxes. To offset the impact of including the employer's contribution as taxable income, the shareholder may take an above-the-line tax deduction on his/her personal income tax return equal to the employer contribution.

[1] California and New Jersey tax HSA contributions and earnings. New Hampshire taxes HSA interest and dividend earnings above a certain dollar amount. Tennessee taxes HSA earnings and distributions received prior to July 1, 2006.

5. How much is NWC contributing to my HSA in 2025?

NWC will make a $1,000 contribution to your HSA if you enroll in self-only coverage or $2,000 if you enroll in family coverage (employee + one or more dependents). NWC has 26 pay periods per year but will make contributions on 24 pay periods only.

NWC 2025 contribution	Self-only coverage	Family coverage
Initial *On 1/1/2025 or enrollment date*	$250	$500
Per remaining pay period	$32.61	$65.22
Total*	**$1,000**	**$2,000**

*NWC's contribution will be prorated based on the number of pay periods left in the year at the time you enroll.

Although NWC contributes to your HSA, it is your responsibility to calculate your annual contribution limit and make adjustments as necessary.

6. How much can I contribute to my HSA?

The amount you or any other person may contribute to your HSA depends on the type of HDHP coverage you have, your age, and your HSA eligibility date.

For 2025, if you have self-only HDHP coverage you may contribute up to $4,300. If you have family HDHP coverage (employee + one or more dependents), you may contribute up to $8,550. Individuals age 55 and older who are not enrolled in Medicare may contribute an additional $1,000 per year.

> **Example: Chris (age 53) enrolls in family HDHP coverage on 7/1/2025. His employer contributes $125/month.**
> Chris' HSA contribution limit for 2025 is $4,275 ($8,550/12 x 6). After factoring the company's contribution of $750 ($125 x 6), Chris may contribute an additional $3,525 in 2025.

If you were or were considered under the last-month rule (as discussed in the next question), an eligible individual for the entire year and didn't change your type of coverage, you can contribute the full amount based on your type of coverage. However, if you weren't an eligible individual for the entire year or changed your coverage during the year, your contribution limit is the greater of:

- The total of your monthly limits divided by 12, or
- The maximum annual HSA contribution based on your HDHP coverage (self-only or family) on the first day of the last month of your tax year.

7. How is my annual contribution limit calculated under the "last-month rule"?

Under the "last-month rule," you are considered to be an eligible individual for the entire year if you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers). This means you may calculate your contribution limit based on your coverage type as of December 1. To take advantage of the rule, you must satisfy a *13-month "testing period"* (generally December 1 through December 31 of the following year). If you don't maintain HDHP coverage for the entire "testing period," some of your contribution will be subject to taxation plus an additional 10% penalty.

> **Example: Chris (age 53) enrolls in family HDHP coverage on 7/1/2025. His employer contributes $125/month.**
> Under the "last-month rule," Chris' HSA contribution limit for 2025 is $8,550. He must maintain family HDHP coverage through December 31, 2026 (the "testing period") to avoid penalties. After factoring the company's contribution of $750 ($125 x 6), Chris may contribute up to $7,800 in 2025.

8. What happens if during the year I change from self-only coverage to family coverage based on a qualifying life event, like the birth of a child?

In general, your annual contribution limit to an HSA is the sum of the limits determined separately for each month, based on your HDHP coverage type as of the first day of each month.

> **Example: Chris (age 53) enrolls in self-only coverage on 1/1/2025 and changes to family coverage on 7/1/2025.**
> Chris' maximum contribution limit under the monthly rule is 6/12 of $4,300 ($2,150) and 6/12 of $8,550 ($4,275), for a total of $6,425. If he still has family coverage on December 1, 2025, he may contribute up to a total of $8,550 under the last month rule but will be subject to the testing period.

9. Can I change my HSA contributions during the year?

Unlike your medical plan election, you may change your HSA contribution at any time during the year, for whatever reason. You can start or stop making contributions or increase or decrease the amount of your contribution. Changes you make take effect prospectively.

10. How does my spouse's HSA impact my annual contribution limit?

There is a special rule for married individuals. If either spouse has HDHP family coverage, both spouses are treated as having family coverage. If both spouses are eligible to contribute to an HSA, they must determine how to split the limit between them. For example, if both spouses are HSA-eligible and one of the spouses has family HDHP coverage, the spouses' combined contribution limit is the annual maximum amount for individuals with family HDHP coverage. This is true even if one spouse has family HDHP coverage and the other has self-only HDHP coverage, or if each spouse has family HDHP coverage.

11. What happens if I contribute too much to my HSA?

If your HSA contribution exceeds your limit, you must report the excess amount as gross income on your taxes. You will also pay a 6% excise tax on the excess amount. You can avoid the excise tax by removing the excess contribution within the applicable tax year. Please contact HR for assistance.

Although NWC contributes to your HSA, it is your responsibility to calculate your annual contribution limit and make adjustments as necessary.

12. If I contribute to an HSA, can I also contribute to a health FSA?

You generally can't contribute to both an HSA and a health FSA in the same year, unless you have a limited-purpose health FSA that covers only certain expenses, such as dental and vision costs.

13. Can I contribute to an HSA if my spouse or parent has a general-purpose health FSA?

You may not receive or make HSA contributions if your spouse's or parent's general-purpose health FSA can reimburse any of your medical expenses before your HDHP deductible is met.

If you want to open an HSA as soon as possible, your spouse or parent should deplete the funds in his/her account by the last day of his/her employer's FSA plan year (e.g. 12/31 for a calendar year plan). If that's not possible, determine if he or she has the opportunity to roll over unspent funds into a limited-purpose health FSA.

14. What happens to my HSA eligibility if I gain eligibility for TRICARE (military coverage)?

If you become eligible for TRICARE, you are no longer eligible to contribute to your HSA.

15. What happens to my HSA eligibility if I enroll in Medicare during the year?

Participation in Medicare makes you ineligible to contribute to an HSA. You lose eligibility as of the first day of the month that you enroll in Medicare. You may, however, continue to use your HSA for qualified medical expenses. At age 65, you can use your HSA funds to pay for Medicare premiums, or take penalty-free distributions from your HSA for any reason. Standard income tax rates apply if you take distributions for reasons other than qualified medical expenses.

16. What are considered eligible health care expenses under my HSA?

Funds you withdraw from your HSA are tax-free when used to pay for qualified medical expenses as described in Section 213(d) of the Internal Revenue Code, incurred by you, your spouse or any tax dependent. The expenses must be primarily to alleviate or prevent a physical, mental, dental, or vision defect or illness. For a complete list of approved health care expenses, please refer to IRS Publication 502, "Medical and Dental Expenses" at http://www.irs.gov/pub/irs-pdf/p502.pdf

Any funds you withdraw for non-qualified medical expenses will be taxed at your income tax rate plus 20% tax penalty if you're under age 65.

17. Do I need to submit receipts for my HSA expenses?

You do not need to submit receipts to substantiate HSA distributions; however, you should retain supporting medical expense documentation for tax purposes.

18. Can I use my HSA to pay for health care expenses incurred by my spouse, my domestic partner or my children if they are not covered by my HDHP?

Your HSA funds can be used to pay for health care expenses incurred by you, your legal spouse (opposite or same sex) and any dependents you may claim on your income tax return. You may not take a tax-free distribution from your HSA to pay for your domestic partner's expenses, unless your domestic partner qualifies as tax dependent under Code section 152.

19. What happens if I use my HSA for nonqualified health care expenses?

If you withdraw money from your HSA for an ineligible expense, the amount you withdraw will be subject to income tax plus an additional 20% penalty. If you are over 65, you may withdraw money penalty-free for any reason, subject to standard income tax rates.

20. Can I be enrolled in NWC's Health Savings Plan and another health plan?

Yes, you can be enrolled in NWC's Health Savings Plan and another health plan; however, you can't make or receive contributions to an HSA if the secondary plan is a not also an HSA-qualified HDHP. Certain exceptions apply.

You may be covered by the following plans and still be eligible for the HSA: dental; vision; short and long term disability; life and accidental death & dismemberment; long term care; insurance for specific types of diseases or illnesses such as cancer, hospital indemnity insurance; a limited-purpose health FSA (dental and vision only); and a post-deductible health reimbursement arrangement (HRA).

21. What happens to my HSA if my employment terminates?

Your HSA is portable. This means that you can take your HSA with you if you change employers, and you may continue to use the funds you have accumulated. If you elect to continue your HDHP under COBRA, you may use your HSA to pay for COBRA premiums.