Your guide to understanding a Health Savings Account

HSA **Reference Guide**

Fidelity INVESTMENTS

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Fidelity Health Savings Account

A tax-advantaged way to pay for qualified medical expenses

A Health Savings Account (HSA) can be an easy and smart way to save money to pay for qualified medical expenses[1] for you and your dependents. With its triple tax advantages,[2] easy access to funds, and future growth potential, it's a unique savings vehicle that provides benefits today and in the future.

It's no secret that health care costs have been skyrocketing for many years and that the rapid rate of increase is affecting us all. It's estimated that an individual retiring today at age 65 will need $165,500 to cover health care expenses in retirement.[3] That means saving for health care should be an important part of a financial plan, for today and into retirement.

An HSA-eligible health plan (also known as a High Deductible Health Plan or HDHP) paired with an HSA can help you face rising health care costs today and in the future. This combination can potentially save you money on health care while giving you more control over how your medical dollars are spent.

To help you better understand HSA-eligible health plans, HSAs, and how the two work together, here are answers to some commonly asked questions to help you get started.

What is an HSA-eligible health plan?

An HSA-eligible health plan is an HDHP that satisfies certain IRS requirements with respect to deductibles and out-of-pocket expenses. You generally pay less in premiums than in other medical plans, and pay more up front for medical expenses before the plan begins to pay for covered services. General preventative care services are fully covered. Enrollment in an HSA-eligible health plan is one of the requirements to be eligible to open and contribute to an HSA.

What is an HSA?

An HSA is an individual account used in conjunction with an HSA-eligible health plan to cover out-of-pocket qualified medical expenses on a tax-advantaged basis. Your HSA belongs entirely to you, which means it is yours to keep even if you change jobs. HSAs can be used to pay for both current and future qualified medical expenses for you and your eligible dependents. You can contribute to your account, withdraw money to pay for qualified medical expenses, and potentially grow your account on a tax-free[2] basis by investing your savings in a wide array of investment options.

Why should I consider an HSA?

If you have the opportunity to choose an HSA-eligible health plan and HSA, you may want to take a closer look. This combination may offer some significant tax and savings advantages over traditional health care plan options—no matter if you're a low, medium, or high user of health care services.

Control. You determine how much to contribute (up to your maximum annual contribution limit per IRS rules), when and how to invest your contributions, and whether to take an HSA distribution to pay for current qualified medical expenses, or let your contributions stay invested for future growth potential.

Tax savings. HSAs offer a triple tax savings—contributions, any investment earnings, and distributions are federal tax free.

Growth potential. You can invest your HSA money in a variety of investment options—including stocks, bonds, and mutual funds—for potential growth over time. Even the money you keep in cash has the opportunity to earn interest. Any potential growth is tax-free.[2]

Flexibility. Your HSA money never expires. Any unused balance in your account will automatically carry over from year to year. That means whatever you don't use this year you can continue to save for future qualified medical expenses, including in retirement.

Portability. Your HSA always belongs to you, even if you change jobs or become unemployed, change your medical coverage, move to another state, or change your marital status.

Am I eligible to open an HSA?

You must meet several IRS eligibility requirements in order to establish and contribute to an HSA. It is your responsibility to determine if you are eligible:

- You must be enrolled in an HSA-eligible health plan on the first day of the month. For example, if your coverage is effective on May 15, you are not eligible to contribute to or take a distribution from your HSA until June 1.
- You cannot be covered by any other health plan that is not an HSA-eligible health plan.
- You cannot currently be enrolled in Medicare.
- You cannot be claimed as a dependent on another person's tax return.

If you open an HSA and do not meet the above criteria, your contributions, any investment earnings, and distributions may be subject to income taxes, penalties, and/or excise taxes.

Additionally, in order to open and contribute to a Fidelity HSA®, you must have a valid U.S. address.

How do I know if an HSA is right for me?

While many may benefit from an HSA, your personal situation will determine if an HSA-eligible health plan and HSA are the right approach to meet your health care needs. As you explore your options, consider your anticipated health care expenses, your current financial situation, and how much control you want over your medical spending.

Keep in mind that with an HSA you are in charge of tracking, managing, and monitoring your health care and related expenses. The recordkeeping of your HSA is up to you, and it is important to hold on to all receipts, records, and other documentation as proof that the expenses you pay from your HSA are for qualified medical expenses.

What type of expenses does an HSA cover?

Distributions from an HSA used to pay for qualified medical expenses for you, your spouse, and dependents are tax free provided they meet the IRS definition of a qualified medical expense. The good news is that a lot of expenses qualify for payment or reimbursement, such as:

- Health plan deductibles and coinsurance
- Most medical care and services
- Dental and vision care
- Prescription drugs, over-the-counter medications, and insulin
- Medicare premiums (if age 65 or older)

Note that these expenses must not already be covered by insurance and that health insurance premiums generally do not qualify. For more information about HSAs and qualified medical expenses, refer to IRS Publications 969 and 502 at **www.irs.gov** or consult a tax professional.

Should an HSA be used to pay current qualified medical expenses or be saved for the future?

One of the main benefits of an HSA is that it is flexible depending on your needs. You can use your HSA to save and grow your money tax-free for the future, or you can use it to save money on taxes while paying for qualified medical expenses today.

The combination of HSA tax advantages and the breadth of investment options available through a Fidelity HSA provides an opportunity for potential growth. Consider this hypothetical example:

If you contributed $3,000 annually to an HSA and earned a 7% return over a 20-year period, you could potentially grow your balance to $127,291— that's $60,000 from your own contributions plus $67,291 in earnings that you can use to pay for qualified medical expenses, free from federal taxes.[4]

Opening and contributing to your Fidelity HSA

How do I open a Fidelity HSA?

Prior to opening your HSA, you must be enrolled in an HSA-eligible health plan. When you're ready, opening and managing your HSA with Fidelity is fast and easy. You'll get information on investment choices, payment options, and ongoing support to help you build and manage your savings. For convenience, you can open a Fidelity HSA online. To begin, simply log into NetBenefits® at Netbenefits.com. From the homepage, select *Open* next to Health Savings Account. If you do not have access to NetBenefits, contact a Fidelity Representative at 800-544-3716 or your benefits toll-free number for an application.

- **Pretax contributions.** You may elect to contribute to your Fidelity HSA through automatic payroll deductions on a pretax basis. You can elect your payroll contribution amount through your benefits enrollment process and may change it at any time. Contributions made through payroll deductions are exempt from FICA tax.

  HSA-eligible health plans typically have lower premiums than traditional health plans. You may want to consider contributing the money you save on those lower premiums to your HSA.

Over time, that money has the potential to grow tax free[2] while you save to pay for future qualified medical expenses.

- **After-tax contributions.** At any time, you may make an after-tax contribution to your Fidelity HSA. You can even contribute just the amount you need when you need it to pay for qualified medical expenses. It's easy to transfer money from your bank to your Fidelity HSA electronically. Any after-tax contributions are tax-deductible and lower your taxable income amount. After-tax contributions do count towards your annual contribution limit, so pay attention to your total contributions for the year.

You may also transfer assets from another HSA (provided the account type and registration are the same) or make a one-time qualified HSA funding distribution from an IRA.[5]

What are the contribution limits for HSAs?

Each year, the IRS establishes contribution limits for the upcoming year. These limits are for total contributions made to your account, including those made by you, your employer, and any other third party.

Annual IRS Contribution Limits for HSAs

Type of coverage	2024	2025
Individual health care coverage	$4,150	$4,300
Family health care coverage	$8,300	$8,550
Additional catch-up contribution (if age 55 or older)	$1,000	$1,000

Your maximum annual contribution limit depends on several factors, including when you enrolled in an HSA-eligible health plan, whether you have individual or family health care coverage, and your age.[6] If you are age 55 or older, you can contribute up to an additional $1,000 each year as a catch-up contribution. This also applies to your spouse if they are age 55 or older. Note, however, that your spouse must open an HSA for their own catch-up contribution.

How much should I contribute to my HSA?

You should always prepare for the unexpected by saving enough money in your core position to cover your anticipated out-of-pocket medical expenses for the year (including those of your spouse and eligible dependents).

Consider contributing at least up to your plan's deductible, and if you can afford to do so, contribute above that to save and invest for future medical needs.

What investment options are available for my Fidelity HSA?

Your Fidelity HSA is a single account that allows you to manage a portion of your savings in a core position and invest the rest for future medical expenses. You can start investing at any time by making a one-time trade or setting up automatic investing for future contributions. And there's no required minimum to begin investing.[7]

An investment trigger can help you keep enough in the core position to pay for current medical expenses, and any contribution beyond that amount will be automatically invested in your chosen investments.

You can choose to invest in a variety of investment options, including the Fidelity HSA® Funds to Consider list, which is a professionally selected lineup of funds with no minimums or transaction fees, as well as more than 10,000 mutual funds, individual stocks and bonds, ETFs, and CDs available on Fidelity's brokerage platform.[8]

In addition, the HSA Investment Review tool is available, providing assistance on how to invest your HSA savings. This experience takes into account your unique HSA savings goals, risk profile, and financial situation to provide investment advice with fund suggestions from the Fidelity HSA® Funds to Consider[8] lineup.

Using your Fidelity HSA to pay for qualified medical expenses

How do I pay with my Fidelity HSA?

There are multiple ways to use your HSA for payment or reimbursement of qualified medical expenses, including, but not limited to:

- **Your HSA debit card.** Your debit card provides an easy way to pay for qualified medical expenses directly from your Fidelity HSA. The card uses your available balance to pay for qualified expenses at eligible merchants.
- **Fidelity Health® mobile app.** The Fidelity Health app gives you an easier way to manage your health care expenses—all in one place, wherever you are. With the Fidelity Health app you can:
  - Review your HSA balance and transaction history
  - Scan a product's barcode to find out whether it's a qualified medical expense for an HSA or Health Care FSA
  - Pay bills or reimburse yourself using your HSA
  - Save receipts for qualified medical expenses

  You can even store and share your benefits ID cards. The Fidelity Health app is available in the App Store® or Google Play™.

- **Pay a provider directly from your HSA.** Easily pay bills directly from your HSA to your health care provider. Use the Fidelity Health app or NetBenefits to choose a payment amount and payee.
- **Pay out of pocket.** To take advantage of the long-term growth potential of your HSA, you may want to choose to pay for a qualified medical expense out of pocket rather than use the funds in your HSA. If you do pay out of pocket, you have the option to reimburse yourself from your HSA at any time without penalty.

Do I pay for qualified medical expenses at the time of service?

It generally makes sense for your service provider to first submit your claim to your health plan for payment. After your claim is processed, you will then receive an Explanation of Benefits from the health insurance carrier or claims payer that will show the amount, if any, that you owe the service provider. You can then make those payments through any of the payment options previously mentioned.

Can I use my HSA for nonqualified medical expenses?

Your Fidelity HSA is intended to be used for qualified medical expenses. Any distribution taken from your HSA to pay for a nonqualified medical expense must be included in your gross income for tax purposes and may be subject to an additional 20% penalty.[9]

Can I use my HSA for my dependents?

You can use your HSA to pay for qualified medical expenses incurred by your dependents, provided that they are considered dependents for federal tax purposes. Please refer to IRS Publication 501, which can be found at **www.IRS.gov**, for guidance regarding the definition of a dependent.

What paperwork do I need to keep in relation to my Fidelity HSA?

Since an HSA provides a tax benefit, it's important to keep records— including receipts and statements from your insurance company. This will help you in two ways. First, for tax purposes, it documents that you used your HSA exclusively for qualified medical expenses. And secondly, it helps to ensure that you're always paying the right amount for services.

Each year, Fidelity will provide you and the IRS a Form 5498-SA, which summarizes contributions to, and the fair market value of, your HSA. If a distribution is taken from your account, a Form 1099-SA is provided for the year in which the distribution was taken.

Combined with an HSA-eligible health plan, an HSA can help combat the high cost of health care in two ways—by providing a tax-efficient way to pay for current qualified medical expenses and an opportunity to grow your savings for future qualified medical expenses, even in retirement. Whether you're ready to get started or need more information, take your next step today.

Resources

To open your Fidelity HSA	
Online account opening	Log in to **www.netbenefits.com** and select *Open* next to Health Savings Account.
For answers to questions about HSAs	
IRS website and publications	Visit **www.irs.gov** for Publications 502 and 969.
Fidelity's online information and resources	Log in to Fidelity NetBenefits® at **www.netbenefits.com** using your existing username and password.
Fidelity HSA service specialist	Contact a Fidelity Representative at 800-544-3716 or your plan's toll-free number.
Ongoing management of your Fidelity HSA	
• View your HSA balance alongside retirement accounts, such as your 401(k) or 403(b) • Access tools and resources • Perform ongoing account maintenance and management tasks – Forms and applications – Account statements, confirmations, and tax forms – Beneficiary information – Address changes to your HSA	Log in to Fidelity NetBenefits® at **www.netbenefits.com** using your Fidelity username and password.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

[1] Refers to qualified medical expenses as defined by the IRS.

[2] With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation. See your tax professional for more information on the state tax implications of HSAs.

[3] Estimate based on a hypothetical single person retiring in 2024, 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2020 as of 2024. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Cost Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care.

[4] This is a hypothetical example for illustrative purposes only and does not represent the performance of any security in a Fidelity HSA. The example assumes that an individual contributes $3,000 annually to an HSA with a hypothetical 7% annual return. An account may earn more or less. The final account balance is prior to any distributions. You may be subject to a 20% penalty if your distribution is not for qualified medical expenses. Systematic investing does not ensure a profit and does not protect against loss in a declining market.

[5] Note that the amount transferred counts toward the maximum annual contribution limit. Additionally, an individual must remain an eligible individual for the 12 months following the month the IRA distribution was made; otherwise, the amount must be included in the individual's gross income and will be subject to an additional 10% tax.

[6] The maximum annual contribution limit is based on your age and coverage tier (i.e., individual or family), as well as on when you become enrolled in an HSA-eligible health plan. Normally, for eligible individuals who enroll in the HSA-eligible plan as of the first of the plan year, the HSA contribution is prorated based on the number of months during the year a person is covered by an HSA-eligible plan as of the first day of the month. Individuals enrolled in an HSA-eligible health plan after the beginning of the plan year may contribute up to the statutory maximum annual contribution amount as long as they are eligible individuals in December of that tax year and remain eligible individuals for a full 12-month period following such month. If an individual fails to meet these criteria, the maximum annual contribution amount must be prorated based on the number of months he or she is an eligible individual, and any amount above such prorated amount is includible in the individual's gross income and subject to a 10% tax.

[7] There may be funds that require a minimum amount to invest, but Fidelity does not require a minimum to start investing.

[8] In identifying investment options to include in the Fidelity HSA Funds to Consider, Fidelity only considered Fidelity open-end mutual funds and open-end mutual funds offered by a limited universe of third-party fund companies that participate in an exclusive marketing, engagement, and analytics program with Fidelity for which they pay Fidelity an annual fee. The only third-party fund companies whose funds were eligible for this program were companies that generally have a track record of generating the strongest customer demand for their products from across Fidelity's customer channels and have been paying Fidelity a sufficient level of compensation for the shareholder servicing performed by Fidelity.

[9] This penalty does not apply if you become disabled, once you reach age 65, or after your death.

The information provided in this brochure 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 **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 (including the Health Coverage Tax Credit),* online, or you can call the IRS to request a copy of each at 800.829.3676.

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