Understanding Qualified Medical Expenses for Health Savings Accounts (HSAs)

Take tax-free\(^1\) distributions from your HSA to pay for qualified medical expenses.

When it’s time to use the money in your HSA, it’s important to understand the types of medical expenses that can be paid or reimbursed tax free.\(^1\) Distributions from an HSA are tax free\(^1\) only when used to pay for qualified medical expenses as defined by the Internal Revenue Code (IRC).

The IRS generally defines qualified medical expenses as the medical care\(^2\) expenses you pay for yourself, your spouse, or your qualified dependents,\(^2\) but only to the extent the expenses are not covered by insurance or otherwise. Qualified medical expenses may include:

- Acupuncture
- Ambulance
- Annual physical examination
- Artificial limb
- Artificial teeth
- Birth control pills, prescribed by a doctor
- Breast reconstruction surgery
- Chiropractor
- Contact lenses
- Cosmetic surgery, if deemed medical care
- Crutches
- Dental treatment
- Diagnostic devices
- Drug addiction
- Eligible long-term-care insurance premiums
- Eye exam
- Eyeglasses
- Eye surgery
- Fertility enhancement
- Guide dog
- Health insurance premiums, on a limited basis (see below)
- Hearing aids
- Home care
- Hospital services
- Insulin
- Laboratory fees
- Lactation expenses
- Lead-based paint removal, subject to certain requirements
- Learning disability
- Lifetime care—advance payments, subject to certain requirements
- Medical information plan
- Medicines and drugs, prescribed by a doctor
- Nursing home
- Nursing services
- Optometrist
- Osteopath
- Oxygen
- Psychiatric care
- Psychologist
- Qualified long-term-care services
- Stop-smoking programs
- Surgery
- Therapy
- Transplants
- Vasectomy
- Vision correction surgery
- Weight-loss programs for treatment of a doctor-diagnosed disease
- Wheelchair
- X-rays

It is your responsibility to determine whether a particular expense is a qualified medical expense. Keep in mind that special rules apply for HSA purposes, including that:

**Only certain health insurance premiums are reimbursable by an HSA, including:**

- COBRA coverage
- Coverage while on unemployment insurance
- If age 65 and over, coverage for Medicare Parts A, B, and D, and Medicare Advantage
- If age 65 and over, coverage for employer-sponsored health insurance, including the cost of retiree health insurance

**Only qualified medical expenses incurred after an HSA is established\(^3\) are eligible for payment or reimbursement from an HSA.**
Nonqualified medical expenses

Although many medical expenses are eligible for payment or reimbursement from an HSA, there are some expenses that do not qualify. A sample list of nonqualified expenses is provided below.

- Controlled substances
- Cosmetic surgery, if not deemed medical care
- Dancing lessons
- Diaper service
- Electrolysis or hair removal
- Funeral expenses
- Hair transplant
- Health club dues
- Health insurance premiums, unless otherwise permitted
- Household help
- Maternity clothes
- Medicare Supplemental Premiums (i.e., MediGap coverage)
- Medicines and drugs from other countries
- Nonprescription medicines and drugs (except insulin)
- Nutritional supplements
- Personal use items
- Swimming lessons
- Teeth whitening

If an HSA is used to pay for a nonqualified medical expense, the distribution is considered taxable, must be included in your gross income for tax purposes, and may be subject to a 20% penalty when you file your income taxes.

Helpful tip

Manage your HSA by handling your payments, expenses, claims, and receipts all in one place with HealthExpense, on any device—smartphone, tablet, or computer. In the event of an IRS audit, having all your records together, including receipts and statements from your insurance company, will help to document that you used your HSA exclusively for qualified medical expenses.

To enroll in HealthExpense, click on Health Savings Account from the NetBenefits home page, and then HealthExpense. Follow the online instructions to link your HSA and health plan. Note: You will need your health plan’s website login info to complete enrollment.