

# Let's Talk Finances

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## Health Savings Accounts



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Health Savings Accounts (HSAs) have become a popular option for those who are not insured under a traditional health plan. HSA accounts, when combined with the required high-deductible health insurance plan, allow consumers to save for future medical expenses with tax-free dollars.

### **What is a Health Savings Account (HSA)?**

An HSA is a tax-free savings account that's paired with a high-deductible health insurance plan to pay for routine medical expenses. Think of it as a 401(k) for health care.

### **How does an HSA work?**

Each year, you decide how much to contribute to your HSA. The money in the account can be used to pay medical expenses that are not covered by your high-deductible insurance plan, such as deductibles, copayments, vision and dental care, and other out-of-pocket medical costs.

HSA account holders receive a debit card or checks connected to their HSA account to pay for eligible medical expenses. Funds withdrawn for non-medical expenses before the age of 65 are subject to a penalty.

Any unused funds roll over from year-to-year and earn interest in the process.

With HSAs, the individual owns the account – not the employer, even if they contribute to it. That means you can take your HSA with you should you change jobs.

### **Do I Qualify for an HSA?**

An employer may offer HSA-qualified insurance as an employee benefit. Others may select HSA-qualified plans from their state exchanges via the Affordable Care Act. You can also get an HSA through your financial institution.

You are eligible for an HSA as long as you do not have other disqualifying coverage, like a Flexible Spending Account (FSA), Medicare, Medicaid or Tricare. You also cannot be claimed as a dependent on another person's tax return.

## **HSA Limits**

The IRS sets the minimum deductible, maximum contribution and maximum out-of-pocket cost for HSAs each year. In 2019, those amounts were as follows:

- Minimum deductible: \$1,350 for an individual or \$2,700 for a family
- Maximum contribution: \$3,500 for an individual or \$7,000 for a family
- Maximum out-of-pocket: \$6,750 for an individual or \$13,500 for a family

## **HSA Tax Advantages**

There are four tax advantages unique to HSA accounts:

1. Contributions to HSAs are deductible to you, regardless of the source;
2. Interest or investment gain on the account isn't subject to tax;
3. Funds can be withdrawn to pay for qualified medical expenses without being taxed; and
4. After the age of 65, you can withdraw funds for non-medical expenses without being subject to a penalty (however, they will be subject to income tax).