Use of Health Savings Account

By Jenna Welborn

Health Savings Accounts (HSAs) are tax-deductible savings plans that allow you to save pre-tax dollars for future healthcare expenses. Pre-tax dollars are subtracted off the top of your pay before withholding is calculated.

To qualify for an HSA, you must be enrolled in a high-deductible health insurance plan. You can't be covered by another type of health insurance plan such as an HMO or a PPO-type plan.

The high-deductible plan must meet certain rules. There must be minimum and maximum limits on your annual deductible and how much you must pay out of pocket. For the 2018 tax year, minimum annual deductibles are $1,350 if you're insuring only yourself and $2,700 for family coverage. The combined limits for out of pocket payments are $6,650 for self-only coverage and $13,300 for a family plan.

There are no income limitations to qualify for a health savings account.

Earnings, such as interest and dividends from the money contributed to an HSA, are tax-exempt at the federal level. Interest or other investment income earned on the contributions are not included on your tax return.

Withdrawals from a health savings account are tax-free as long you use the money to pay for qualified medical expenses.

For 2018 the HSA Contribution Limits depend on what type of policy coverage you have. If you're younger than age 55 and have an individual policy, the limit for 2018 is $3,450. Family policies offer a maximum deduction of double that amount, or $6,900. Those who are 55 or older can add $1,000 more to the corresponding number that applies to their situation.

For a contribution to apply to a certain tax year, you have to make it before the tax filing deadline for that year. That means you have until April 15, 2019 to make a 2018 HSA contribution, while still being eligible to add further savings for 2019 at the same time.

Health savings accounts achieve tax savings in two ways. First, HSAs accumulate earnings and income without being subject to forfeiture the way flexible spending accounts are. Money held inside an HSA can be withdrawn at any time for medical expenses, so an HSA can be used to accumulate tax-free income for use later in life. You can build up tax-free savings for future medical expenses as you age. Secondly, HSAs can be used to pay for current medical expenses. HSAs offer people with few medical expenses a tax deduction upfront in the year that contributions are made.

Not everyone will be able to use them effectively, but based on your situation, there could be potential for tax savings. Check with your tax and financial professional to see what benefit an HSA could have for you.

Thanks,

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