

Health Savings Account

HSA Guidelines

A health savings account (HSA) is a bank account where tax-free or tax-deductible deposits are made to pay for qualified medical expenses. The maximum amount that can be deposited each year is defined by the IRS. In addition to the favorable tax treatment, there are many advantages to opening and funding an HSA.

To be eligible to open an HSA, you must be:

- Enrolled in a qualified high-deductible health plan (HDHP)
- Not covered by any other non-HDHP plan including Medicaid, Tricare, HRA, or FSA; including spouse's FSA (enrollment in a "limited FSA" is permitted)
- Not enrolled in Medicare Part A or B
- Not claimed as a dependent on another person's tax return
- Agents may elect to open their own personal health savings account at an institution of their choice

Establishment of an HSA

- The account is not considered established until funded
- Distributions from the account may not be taken for any services provided prior to the establishment of the account

HSA Contributions

- Anyone may contribute to the HSA of an eligible person
- The IRS sets the maximum contributions which are indexed every year; the maximum contributions for 2025 are:
 - \$4,300 for individuals
 - \$8,550 for families
- Individuals who are 55 or older may contribute an additional "catch-up" amount of \$1,000
- Contributions into health savings accounts by Agents are typically deducted from taxable income at the time of tax preparation and filing as they are deposited as post-tax dollars

HSA Distributions

- Only funds already in the account are available for distributions
- Eligible expenses for distribution include:
 - Health plan deductibles and out-of-pocket expenses
 - Dental plan deductibles and out-of-pocket expenses or dental expenses if not covered by a dental plan
 - Vision plan deductibles and out-of-pocket expenses or vision expenses if not covered by a vision plan
 - Eligible expenses for immediate family members even if they are not covered on your health plan, as long as they are federally recognized dependents
 - Eligible expenses are defined in IRS Section 213(d) and outlined in detail in IRS Publication 502
- Distributions used for ineligible expenses are subject to an IRS penalty of 20% and income taxes at your normal tax rate

Advantages of HSAs

Security

High deductible insurance and the HSA account provide protection against high or unexpected medical bills. Preventive services are covered at 100% to help you maintain your health and avoid illness and disease.

Affordability

HSAs make health insurance more affordable by lowering your health insurance premiums. The savings can be substantial which can help you fund your HSA account.

Flexibility

HSA funds can pay for current medical expenses, including expenses that insurance may not cover. Funds can also be saved for future needs, such as health insurance or medical expenses if no longer working, out-of-pocket expenses, and premiums when covered by Medicare or long term care expenses and insurance.

Control

You make all of the decisions about your HSA account. You can make choices that are best for you and physicians can be more effective patient advocates, with less intrusion from insurance companies.

Portability

HSA accounts are completely portable. You maintain your account even if you change jobs.

Ownership

You own the funds in your account. The funds in the account remain permanently and roll over from year to year. There are no “use it or lose it” rules for HSAs.

Tax Savings

HSAs provide triple tax savings:

1. Tax savings/deductions when you contribute
2. Tax-free earnings through investment
3. Tax-free withdrawals for qualified medical expenses



Disadvantages of HSAs

Change

You must switch to a high deductible insurance plan from traditional insurance.

Insecurity

Switching from traditional first-dollar coverage makes some people uncomfortable. High deductible plans may be unfamiliar.

Other Coverage

If you or a family member has other insurance coverage that is not HSA-qualified; or has an FSA or HRA through their employment or spouse's employment, this may make you ineligible to contribute to an HSA until you are no longer enrolled in that plan.

Control

Some people prefer to have a third party (e.g., insurance company) manage their health coverage for them.

Emergencies

When you have an urgent situation or emergency, it is inconvenient and sometimes impractical to consider "comparison shopping." Thankfully, most healthcare is provided in non-emergency situations. You can do some pre-planning for emergencies by locating urgent care and emergency facilities in your area.

Information

Sometimes it is difficult to get good information on healthcare prices and quality of services so you can comparison shop for good value in healthcare.

How Does Having an HSA Account Benefit You Financially?

If you are in the 25% tax bracket, for every \$100 you contribute into your HSA account, you will save \$35.

	No HSA	HSA
Salary Earned	\$100	\$100
Deposit to HSA	\$0	\$100
Federal Tax	\$25	\$0
State Tax	\$3.75	\$0
SS Tax	\$6.20	\$0
Net funds available	\$65	\$100

To pay for a \$100 prescription drug without the HSA, you must earn \$153.75 to have \$100 left after taxes.

To pay for a \$100 prescription drug with the HSA, you need only earn \$100 to pay for the medical expenses.