

The Underutilized Benefits of a Health Savings Account

Tax benefits and new contribution limits.

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Healthcare can be one of the priciest yet essential parts of life's journey. And yet, many struggle to utilize the financial tools that may help. Take Health Saving Accounts (HSAs), for example.

In 2019, 55% of those with HSAs that did not record a distribution also did not receive either employee or employer contributions. This suggests that the lack of distributions are due to account holders becoming disengaged from their accounts, rather than not having access to this cost-saving financial tool.¹

And yet, for those looking to help manage the financial impact of healthcare, a Health Savings Account (HSA) may be just the ticket.

HSA Tax Benefits. A large draw for many are the tax benefits inherent to HSAs:

- Contributions through an employer are always pretax
- You can invest the funds after your account balance reaches a certain level
- Distributions for qualified health expenses aren't taxable

Additionally, unlike a Flexible Spending Account (FSA), which is funded with pretax dollars but must be used by a specific deadline, HSA contributions can remain in your account to be used for future medical bills at any time. In short, this means there is no "use it or lose it" penalty.²

Keep in mind that if you spend your HSA funds for non-qualified expenses before age 65, you may be required to pay ordinary income tax as well as a 20% penalty. After age 65, you may be required to pay ordinary income taxes on HSA funds used for non-qualified expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

HSA Contribution Limits for 2022. HSA contribution limits are adjusted annually for inflation. For 2022, the self-only contribution limit is \$3,650 or \$7,300 for families. This is a \$50 increase for individuals and a \$100 increase for families from 2021. The contribution limit refers to contributions from both employers and employees (or family members).

These adjustments are rounded to the nearest \$50 to account for inflation rates, which are determined using the Consumer Price Index for All Urban Consumers.³

How to use your HSA. The IRS or your HSA provider are great sources when getting started. For example, the IRS recently issued a reminder that at-home covid tests, face masks, and sanitizing wipes can all be purchased, or qualify for reimbursement, through an HSA. In addition, the IRS offers an interactive assessment tool that can take the guesswork out of what qualifies as an

HSA-friendly expense.⁴

Raymond Dahlman may be reached at 281-724-8181, 8310 South Valley Hwy, Suite 300, Englewood, CO 80112 or r.dahlman@dsafinancialgroup.com.

www.dsafinancialgroup.com

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Citations

1. EBRI.org, January 21, 2021
2. Marketwatch.com, March 17, 2021
3. IRS.gov, May 2021
4. IRS.gov, September 10, 2021.