

Utilizing a Health Savings Account

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Healthcare costs in America have continued to increase steadily. The Bureau of Labor Statistics estimates that 8.1% of personal expenditures are spent on healthcare, up from 5.9% in 2004.^[1] These average out to roughly \$13,000 per person annually^[2]. Health Savings Accounts (HSAs) were created to help address our country's mounting healthcare expenses by offering unique tax advantages for monies that are earmarked for medical costs. These accounts can help you pay for uncovered medical expenses today, but the real benefit is unlocked when you invest these funds and take advantage of the long-term growth potential

HSA Basics

An HSA is unique in that it offers triple-tax savings in that contributions are tax-deferred, funds invested grow tax-deferred, and qualified withdrawals are tax-free. To qualify to contribute, a participant must be enrolled in a high-deductible health plan (HDHP). For 2023, an HDHP is defined as a minimum deductible of \$1,500 for an individual and \$3,000 for a family. The maximum out-of-pocket maximum is \$7,500 per person or \$15,000 for a family.^[3] You may not be enrolled in Medicare or be claimed as a dependent on someone else's tax return. If you are eligible, the maximum you can contribute is \$3,850 per year for an individual or \$7,750 for a family. These accounts are portable, meaning that the account stays with you even if you change jobs or health insurance plans. You can keep the account and withdraw even if you are no longer eligible to contribute.

HSA funds can be used to pay for a wide range of qualified medical expenses, which the IRS defines as expenses that would generally qualify for the medical, dental deduction. This includes co-pays, dental treatments, medications, and even many over-the-counter products. You can find a more exhaustive list of what is covered as a qualified medical expense in IRS Publication 502^[4].

- **Overlooking Investment Opportunities:** Many view HSAs as cash accounts and don't take advantage of tax-free growth opportunities. It is estimated that less than 15% of HSAs are currently invested. ^[1] When determining how to invest in the account, determine your time horizon and risk tolerance, and vet your custodian's investment options. Certain custodians allow you to invest in various ETFs, mutual funds, stocks, and bonds, while some have a limited menu of options.
- **Withdrawals for Non-Qualified Expenses:** While these funds can be used for many types of expenses, there are limits. Non-qualified expenses include cosmetic services, gym memberships, and supplements. Using the account to pay for these types of expenses can result in a 20% penalty if you are under the age of 65, as well as income taxes at any age. Refer to IRS guidelines or consult a tax professional to determine what are qualified expenses.
- **Not Keeping Documentation:** Keep accurate records and receipts for all HSA transactions. This documentation is essential for tax reporting and substantiating the use of HSA funds for qualified expenses.
- **Not Naming a Beneficiary:** You can designate a named person to inherit your HSA, like an IRA or life insurance policy. Naming a spouse as beneficiary allows them to enjoy tax-free withdrawals from the account. They can also combine with their own HSA if they have one. Non-spousal beneficiaries do not inherit the preferential tax treatment; at the death of

the original owner, the balance is distributed to the beneficiary and becomes taxable in that year. If you name your estate as beneficiary, the amount may be treated as taxable income on your final return.

Ensure you cover your bases when opening and investing in an HSA account. If managed appropriately, these accounts offer clear benefits to saving for medical expenses. If you have questions about how these accounts fit into your financial plan, contact reach out to our team to learn more.

[Explore Our Private Wealth Page](#)

[1] <https://www.healthinsurance.org/glossary/high-deductible-health-plan/>

[2] <https://www.bls.gov/opub/btn/volume-9/how-have-healthcare-expenditures-changed-evidence-from-the-consumer-expenditure-surveys.htm>

[3] <https://www.cms.gov/files/document/highlights.pdf>

[5] <https://www.ebri.org/content/trends-in-health-savings-account-balances-contributions-distributions-and-investments-2011-2021>



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