

# HSAs: 1 Account, 3 Tax Benefits

Are you missing out on the significant benefits of a health savings account?

Fighting the good fight against rising healthcare costs continues. With out-of-pocket medical expenses shooting sky high, increased responsibility now falls directly on our shoulders.

Thankfully, there’s a special tool—an often overlooked one—right in the back pockets of those with high-deductible health plans. They’re called health savings accounts (HSAs).

## A New Kind of Plan

High-deductible health plans (HDHPs) gained popularity as employers opted for consumer-directed plans in an effort to rein in their healthcare expenses. Enrollment in HDHPs reached 47% in 2018.<sup>1</sup> These plans are typically used in lieu of PPOs (preferred provider organizations) and HMOs (health maintenance organizations).

Employees may pay lower monthly premiums with HDHPs, but are responsible for everything before a minimum deductible is reached (\$1,400 for an individual and \$2,800 for a family).<sup>2</sup> The idea is you become a more careful shopper of health services with added skin in the game.

Some oppose these plans because they may make people more reluctant to seek treatment due to additional up-front costs. Those who are older or less healthy face more out-of-pocket expenses than the younger and healthier. However, one thing everyone can readily agree on is the tax advantages found in HSAs.

## Getting an HSA

You’re eligible for an HSA if you’re:

- a) enrolled in a high-deductible health plan
- b) not eligible for Medicare, and
- c) not eligible to be claimed as a dependent.

You and/or your employer can put money for health expenses into an HSA through payroll deduction. If your employer doesn’t offer an HSA, you can open one yourself. Either way, you’ll get a debit card that you can use for copays and prescriptions. Just be aware, you’ll pay a 20% penalty if the money is spent on anything other than a qualified medical expense (see list on page 3), according to the IRS.<sup>3</sup>



## Key Points

- Health savings accounts (HSAs) are available for anyone enrolled in a high-deductible health plan.
- HSAs have become a popular way for Americans to save for out-of-pocket medical expenses.
- One of the biggest advantages of HSAs is the tax benefits for account holders.

<sup>1</sup> Source: Based on the commercially insured, pre-Medicare population.

<sup>2</sup> Source: HealthCare.gov, 2020

<sup>3</sup> Source: IRS Publication 969: “Health Savings Accounts and Other Tax-Favored Plans”

**NOT FDIC INSURED • MAY LOSE VALUE  
• NO BANK GUARANTEE**

# Client Conversations

## How Do You Contribute?

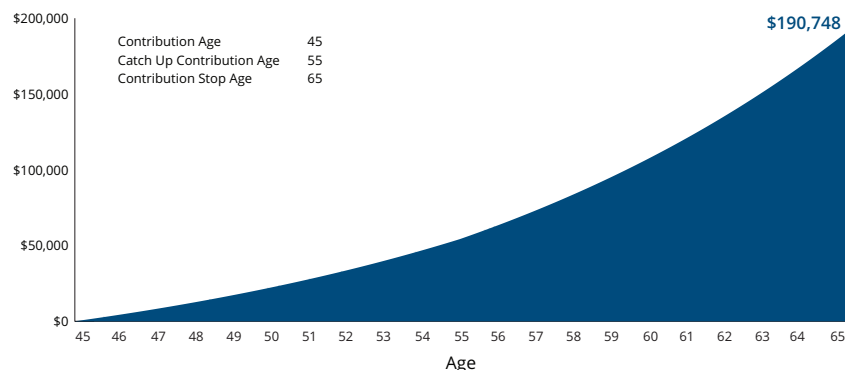
An HSA functions in two ways:

- As an FDIC-insured personal savings account
- As an investment account for HSA assets

The IRS sets limits on the amount of pre-tax dollars that can be put into an HSA for medical expenses. In 2020 the maximum limits are \$3,550 for an individual and \$7,100 for a family.<sup>2</sup>

In addition, anyone 55 or older can contribute an additional \$1,000 catch-up amount. Those approaching retirement can max out their contributions and then invest to build a health-expense nest egg (FIGURE 1).

**FIGURE 1**  
**Max Out Your HSA Contributions Before Retirement**



Source: Hartford Funds. Hypothetical of a 45-year old single person with maximum contributions (\$3,550 for 10 years and \$4,550 for 10 years) who uses an investment account for growth potential instead of an FDIC-insured savings account. Assumes an 8% investment return and no withdrawals. This hypothetical illustration does not represent the return on any particular investment, and the return rate is not guaranteed.

## What Are the Tax Benefits?

One of the biggest advantages of HSAs are the tax benefits:

- Salary deferrals and employer contributions to HSAs are pre-tax
- The investment earnings on HSAs accumulate tax-free
- Assets can be withdrawn tax-free for qualified medical expenses
- After-tax contributions (not made via salary deferral) are tax deductible

If you know you have a big out of pocket medical expense on the horizon, you can add funds (up to your limit) into your HSA.

## Potentially Free Money

Some employers make contributions to HSAs on behalf of their employees. That amount varies from company to company. Other factors, including whether it's just an employee or an employee and other family members on the plan, can play a part, too.

# Client Conversations

## It's Not a FSA

An HSA is different than a flexible spending account (FSA). Both allow you to put aside money for healthcare costs, but there are no eligibility requirements for FSAs. The biggest difference is FSAs are "use it or lose it." Contributions to a FSA must be spent by the end of the calendar year or they're forfeited. HSAs, however, carry over year after year. If you have an HSA, you're not permitted to have a FSA, in most instances.

## You Own Your HSA Forever

If you leave your current job, you can take your HSA along with you. It's your money, which is part of what makes HSAs an attractive way to save for healthcare expenses in retirement. Your HSA will always be there for you.

## More to Learn

Understanding the ins and outs of this additional healthcare tool might help you more easily tackle your out-of-pocket spending. Visit [HealthCare.gov](http://HealthCare.gov) and [IRS.gov](http://IRS.gov) for more details on eligibility and limits today.

**Talk to your financial professional to learn more about how to make the most of an HSA.**

### Qualified Medical Expenses

Acupuncture	Guide Dog or Other Service Animal	Pregnancy Test Kit
Alcoholism	Health Institute	Prosthesis
Ambulance	Health Maintenance Organization (HMO)	Psychiatric Care
Annual Physical Examination	Hearing Aids	Psychoanalysis
Artificial Limb	Home Care	Psychologist
Artificial Teeth	Home Improvements	Special Education
Bandages	Hospital Services	Special Home for Intellectually and Developmentally Disabled
Birth Control Pills	Insurance Premiums	Sterilization
Body Scan	Laboratory Fees	Stop-Smoking Programs
Braille Books and Magazines	Lactation Expenses	Surgery
Breast Pumps and Supplies	Lead-Based Paint Removal	Telephone
Breast Reconstruction Surgery	Learning Disability	Television
Capital Expenses	Legal Fees	Therapy
Car	Lifetime Care—Advance Payments	Transplants
Chiropractor	Lodging	Transportation
Christian Science Practitioner	Long-Term Care	Trips
Contact Lenses	Meals	Tuition
Crutches	Medical Conferences	Vasectomy
Dental Treatment	Medical Information Plan	Vision Correction Surgery
Diagnostic Devices	Medicines	Weight-Loss Program
Disabled Dependent Care Expenses	Nursing Home	Wheelchair
Drug Addiction	Nursing Services	Wig
Drugs	Operations	X-ray
Eye Exam	Optometrist	
Eyeglasses	Organ Donors	
Eye Surgery	Osteopath	
Fertility Enhancement	Oxygen	
Founder's Fee	Physical Examination	

Source: IRS Publication 502 Section 213(d) (<http://www.irs.gov/publications/p502/>).

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