LYTLE ASSOCIATES

2021 HDHP & HSA Overview

What is a High Deductible Health Plan (HDHP)?

Just like the name suggests, an HDHP has a high deductible which you must satisfy before any benefits are paid by the insurance company. Participation in an HDHP, that meets minimum IRS requirements, will allow you to establish a Health Savings Account (HSA) where you can put away funds on a pre-tax basis to pay your portion of eligible medical expenses. A qualified HDHP must have all covered expenses, including prescription drugs (other than some preventative services), subject to the deductible that is not less than $1,400 Single and $2,800 Family in 2022. The 2022 limit on out-of-pocket expenses (including items such as deductibles, copayments, and coinsurance, but not premiums) is $7,050 for self-only HDHP coverage and $14,100 for family HDHP coverage.

What is a Health Savings Account (HSA) and how does it work with an HDHP?

A Health Savings Account (HSA) is a special account owned by an individual that is used to pay medical expenses. The account holder controls whether to contribute, how much, whether to pay expenses from the account or save for the future. In order to contribute to an HSA an individual must be covered by a qualified High Deductible Health Plan (HDHP) and they **can't be**:

- Covered by other health insurance
- Enrolled in Medicare Part A or Parts A & B
- Claimed as a dependent on someone else's tax return

What is the maximum that can be contributed to an HSA in 2022?

- Single Coverage: **$3,650**
- Family Coverage: **$7,300**
- Extra Catch-up (age **55+**): **$1,000**

What qualified expenses can be paid using HSA funds?

HSA distributions can be used to pay:

- Most medical expenses
- Prescription drugs
- Over the counter drugs *(only with prescription)*
- Dental treatments + orthodonture
- Vision exams and eyewear

All expenses must be documented with receipts. If HSA funds are used for anything other than qualified medical expenses they are subject to income tax and a 20% excise tax (prior to age 65).

Current and Long Term HSA Advantages

- Contributions can be made pre tax either directly by the account holder or through a salary reduction arrangement.
- Alternatively, contributions may be made by an individual on an after-tax basis, with a corresponding deduction available to the individual at year-end on the individual's tax return.
- If contributions are made by salary reduction through a Section 125 Cafeteria plan they are not subject to payroll taxes (ie. social security and Medicare).
- Earnings accumulate tax free.
- Distributions are tax free as long as they are used to pay for qualified medical expenses for the account holder, his spouse and qualifying children, even if no longer in an HDHP.
- HSA account balances can be carried forward for life.
- HSA account balances can be transferred tax free to a spouse.
- HSA funds can pay for Cobra continuation premiums, Medicare insurance premiums and a portion of Long Term Care insurance premiums.
- HSA accounts are portable.