

### 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/RXs), subject to the deductible that is not less than \$1,500 Single or \$3,000 Family in 2023. The 2023 limit on out-of-pocket expenses (including items such as deductibles, copayments, and coinsurance, but not premiums) is \$7,500 for single and \$15,000 for family coverage with HDHPs.

### 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 the 2023 tax year?

- Single Coverage: \$3,850
- Family Coverage: \$7,750
- Extra Catch-up (age 55+): \$1,000

(IMPORTANT: Contribution amounts must be prorated by number of month enrolled in the HDHP for the tax year)

### 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.