HARDING, SHYMANSKI & COMPANY, P.S.C.
Certified Public Accountants and Consultants

Maximize your health savings with an HSA

Health savings accounts, or HSAs, are a great way to manage healthcare costs while benefitting from tax savings. Whether you're considering opening an HSA, managing your existing account, or stepping in to assist with a parent's HSA, it's important to understand how these accounts work to maximize benefits and avoid unnecessary taxes and penalties.

Understanding HSAs

An HSA is a tax-advantaged savings account for individuals with high-deductible health plans.

You make pre-tax contributions to the HSA and then use the funds to pay for qualified medical expenses as they arise. Funds in the HSA may be invested and grow tax-free.

Much like tax-advantaged retirement accounts, HSAs have annual contribution limits. For 2024, an individual can contribute up to $4,150. If the HSA is for a family, $8,300 can be contributed. If you're over 55, you can contribute an additional $1,000 annually.

Eligibility

An HSA can only be used in conjunction with a high-deductible health plan. In 2024, a high-deductible health plan must have a minimum deductible of $1,600 for individuals and $3,200 for families, and a maximum out-of-pocket limit of $8,050 for individuals and $16,100 for families.

To qualify for an HSA, you can't be covered by any other healthcare plan besides the high-deductible health insurance plan you selected. You can't be covered by a spouse's insurance or Medicare.

Also, you won't qualify for an HSA if someone else claims you as a dependent or you have other medical savings accounts like a flexible spending or health reimbursement account.

Benefits

HSAs are a tax "triple threat" for owners because contributions are tax-deductible, growth is tax-free, and withdrawals for qualified expenses are tax-free.

Unlike flexible spending accounts, HSAs aren't "use it or lose it." The funds roll over from year to year, allowing owners to amass considerable savings. They're also portable, so you can keep using your HSA even if you change jobs or insurance carriers.

If you have a change in your health plan and no longer qualify for an HSA, your existing funds will continue to grow and can be used for eligible expenses in the future. You just won't be able to make new contributions.

HSAs are also widely accessible. Even if you're self-employed or your workplace doesn't offer an HSA, they are available at most major financial institutions.

Qualified medical expenses

You can only spend the funds on qualified medical expenses. Otherwise, you might incur unnecessary taxes or penalties. Fortunately, qualified medical expenses include a wide range of items like:

- Prescription medications
- Certain over-the-counter items
- Co-pays
- Medical equipment like wheelchairs or hearing aids
- Long-term care services
- Dental and vision care

Essentially, any expenses that would qualify for the medical expense deduction are considered qualified medical expenses for an HSA. The IRS provides a list of qualified expenses in Publication 502 on their website.

If you withdraw funds from an HSA for non-qualified expenses and are under age 65, the withdrawn amount will be subject to income taxes and a 20% penalty. If you're over the age of 65, the withdrawn amount will be subject to income taxes but not penalties.

Keep records and receipts

Organized recordkeeping is always essential for tax purposes. Be sure to save medical records and receipts in an accessible location for quick retrieval if needed.

Many HSAs offer a debit card for direct payments. This can be the quickest way to pay for medical expenses and may help streamline your recordkeeping.

If you pay out-of-pocket for a qualified medical expense, you can get reimbursed from the HSA if the expense happened after the HSA was established and was not previously claimed as a tax deduction.

Maximizing the benefit of an HSA

An HSA account owner should maximize usage of the HSA for all qualified medical expenses during their lifetime.

HSA funds can be passed down through an inheritance. However, unless the beneficiary is the account owner's spouse, those funds will be treated as taxable income to the beneficiary. For many adult children, the tax burden of an inherited HSA can be considerable.

It's common for adult children to help manage their parents' affairs later in life. In this scenario, it's important for adult children to be aware of the existence of the HSA, especially if the parent suffers a serious health decline.

If you're unsure whether your parent has an HSA and your parent is not in a position to assist, it can help to check their financial statements or contact their employer or insurance carrier. Look at financial statements for evidence of any HSA accounts, balances, or contributions. This is where you may find HSA information if your parent was self-employed or enrolled in an HSA not offered by their employer. Look for health insurance documents or statements from their insurance carrier. Their insurance carrier could likely tell you if they had a high deductible health plan or an HSA. If you do not have legal authorization to access this information, you may need to seek guidance or assistance from an attorney experienced in elder law.

If the HSA is sizeable and there aren't enough qualifying medical expenses to deplete the account, it's worth speaking with a financial advisor. For account owners over 65 with minimal tax obligations, withdrawing HSA funds during their lifetime could be a strategic move. The tax liability on a non-qualified withdrawal by the parent may be less than the tax liability on an inherited HSA.

Finally, remember that an ounce of prevention is worth a pound of cure. If these conversations haven't happened yet with your loved ones, it's never too early to start. Having a plan can reduce stress during challenging times and help avoid unnecessary taxes.

Final Thoughts

HSAs are a valuable tool for managing healthcare costs and offer significant tax advantages - but you need to understand how to use them effectively.

If you want to gain more insights into an HSA for yourself or a family member, please contact our office to speak with one of our expert advisors.

About Harding, Shymanski & Co.

Harding, Shymanski & Company, P.S.C. is a public accounting firm with offices in Evansville, Indiana, and Louisville, Kentucky. We are one of the largest accounting firms in Southern Indiana and Kentucky, providing experienced professionals who look beyond the numbers to the heart of complex issues.

Our clients range in size from small proprietorships to billion-dollar corporations, from closely-held and family-owned businesses to publicly traded firms. They span nearly every industry: finance, communications, construction, mining, manufacturing, non-profit, wholesale, retail, transportation, government, healthcare, and service. They all have one thing in common: they count on our expertise to capitalize on their opportunities and make the best of their challenges.

1-800-880-7800

info@hsccpa.com

www.hsccpa.com

Contact:

Kyle Wininger
p - 812-491-1412
kwininger@hsccpa.com

Kathy Ettensohn
p - 812-491-1384
kettensohn@hsccpa.com