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**RETIREMENT PLAN ADVISORS**

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# The Underutilized Benefits of a Health Savings Account

## Consider an HSA's tax benefits and new contribution limits

**HEALTH CARE CAN BE ONE OF THE PRICIEST YET ESSENTIAL PARTS OF LIFE'S JOURNEY.** And yet, many struggle to utilize the financial tools that may help. Take Health Saving Accounts (HSAs), for example.

In 2019, 55% of those with HSAs who did not record a distribution also did not receive either employee or employer contributions. This suggests that the lack of distributions is due to account holders becoming disengaged from their accounts, rather than not having access to this cost-saving financial tool.<sup>1</sup>

And yet, for those looking to help manage the financial impact of health care, an HSA may be just the ticket.

### HSA TAX BENEFITS

The tax benefits inherent to HSAs are a large draw for many.

- Contributions through an employer are always pre-tax.
- You can invest the funds after your account balance reaches a certain level.
- Distributions for qualified health expenses are not taxable.

Additionally, unlike a Flexible Spending Account (FSA), which is funded with pre-tax dollars but must be used by a specific deadline, HSA contributions can remain in your account to be used for future medical bills at any time. In short, this means there is no “use-it-or-lose it” penalty.<sup>2</sup>

Keep in mind that if you spend your HSA funds for non-qualified expenses before age 65, you may be required to pay ordinary income tax as well as a 20% penalty. After age 65, you may be required to pay ordinary income taxes on HSA funds used for non-qualified expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

### HSA CONTRIBUTION LIMITS FOR 2022

HSA contribution limits are adjusted annually for inflation. For 2022, the self-only contribution limit is \$3,650 for an individual or \$7,300 for families. This is a \$50 increase for individuals and a \$100 increase for families from 2021. The contribution limit refers to contributions from both employers and employees (or family members).

These adjustments are rounded to the nearest \$50 to account for inflation rates, which are determined using the Consumer Price Index for All Urban Consumers.<sup>3</sup>



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## HOW TO USE YOUR HSA

The IRS or your HSA provider are great sources when getting started. For example, the IRS recently issued a reminder that at-home COVID tests, face masks, and sanitizing wipes can all be purchased, or qualify for reimbursement, through an HSA. In addition, the IRS offers an interactive assessment tool that can take the guesswork out of what qualifies as an HSA-friendly expense.<sup>4</sup>

## CITATIONS

1. EBRI.org, January 21, 2021
2. Marketwatch.com, March 17, 2021
3. IRS.gov, May 2021
4. IRS.gov, September 10, 2021

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