

Health Savings Accounts

What Is a Health Savings Account?

A Health Savings Account (HSA) is a tax-advantaged personal savings account designed to provide funds to pay qualified medical expenses, including health insurance deductibles and co-payments.

An HSA is available to eligible individuals only in conjunction with a high-deductible health plan provided by an employer or purchased by an individual.

The tax benefits of an HSA are significant. **Your contributions to a Health Savings Account are tax deductible on an "above the line" basis**, resulting in a dollar-for-dollar reduction in adjusted gross income. What might this mean to you? For example:

Annual HSA Contribution	\$3,000
Marginal Federal Income Tax Rate	25%
Tax Savings per Year	\$750
Net Cost to You	\$2,250

Contributions by your employer to your HSA are not taxable income to you and are not subject to withholding.

Funds in an HSA can be invested, with earnings not subject to income tax so long as they remain in the HSA.

Distributions from an HSA may be made at any time. If used to pay for qualified medical expenses, the distributions are not subject to federal income tax. If used for non-medical expenses, HSA distributions are considered taxable income to you and are subject to a 20% penalty tax (10% prior to 2011) if you are under age 65 when the distribution is taken.