5 HSA BENEFITS THAT MAY SURPRISE YOU

Wednesday, July 28, 2021

By Sarah Brenner, JD
Director of Retirement Educations
Follow Us on Twitter: @theslottreport

You may be familiar with Health Savings Accounts (HSAs). These accounts have been around now for a while. They work with high deductible health insurance and are known for their triple tax benefits. Contributions can be deducted. Earnings are tax deferred while in the HSA account and, if HSA funds are used for qualified medical expenses, both contributions and earnings are tax-free when distributed. While you may know the basics, here are 5 HSA benefits that may surprise you:

1. There are currently no income limits for HSA contributions, and you do not need to have earned income to contribute. As long as you have HSA compatible high deductible heath insurance you can make an HSA contribution for the year. No one makes too much to contribute and, unlike an IRA, there is no requirement that you have earned income to be eligible.

2. If you make an HSA contribution, currently you may deduct that contribution regardless of how high your income is. Everyone who is eligible to make an HSA contribution can deduct it. No one makes too much money to take the deduction. It never phases out or goes away, even for the highest earners.

3. You can take tax-free distributions from your HSA for qualified medical expenses, including those of a spouse or dependent. This is true even if your spouse or child is not covered under the HSA-compatible high deductible health insurance. Your HSA can benefit your family members. This is true even if they do not have high deductible coverage themselves.

4. You can take a tax-free distribution from an HSA to reimburse yourself for qualified medical expenses in prior years as long as the expenses were incurred after you established your HSA and you have proof of those expenses. There is no requirement that the expense and the HSA distribution take place in the same year. In fact, the distribution could happen years later and still be a qualified tax-free distribution from the HSA.

5. You cannot contribute to an HSA once you are enrolled in Medicare. However, you can keep your existing HSA and you can still take tax-free distributions for qualified medical expenses. Many people are unaware of these rules and mistakenly believe HSAs cannot be kept past Medicare enrollment. That is not the case. You can keep your HSA and you can continue to tap it to pay your medical bills.