

Health Savings Accounts (HSA) and High Deductible Health Plans (HDHP)



Health Savings Accounts and HSA compatible insurance have been available since January 1, 2004 and have since grown in popularity in both the group and individual insurance markets. In summary, a HSA is a tax advantaged savings account that allows customers to contribute pre-tax earnings and from which they can withdraw funds at any time tax-free to pay for IRS qualified medical expenses. Often confused with FSA's or Flex Spending Accounts, HSA's are unique in that unused funds roll over from year to year, accruing interest tax-free and is why they are referred to as a "medical IRA".

In order to establish an HSA, one must obtain HSA-compatible health insurance called a High Deductible Health Plan (HDHP). The primary purpose of which is to protect against higher claims. An HDHP cannot provide "first dollar" benefits (like copays for office visits and prescriptions) prior to the deductible being met, with the exception of preventive care (preventive care is covered 100% by law on all ACA-complaint plans). A requirement of an HDHP is that the deductible must be at least \$1,400 for an individual policy with an out-of-pocket maximum no greater than \$7,050. For family coverage the minimum deductible is \$2800 with an out-of-pocket maximum cap of \$14,100. The most one can contribute a year to the account is \$3,650 for individual policyholders and \$7,300 for those with family policies. There is also a "catch up" contribution limit of \$1,000 for those who are age 55 or older. (The above figures reflect adjustments made for 2022).

In the new California health insurance marketplace, HDHP plans can be found primarily in the Bronze and Silver levels of insurance, which have higher deductibles and the lowest premiums. In contrast to more traditional and more expensive insurance plans, the

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combination of higher deductible insurance and the HSA account provides consumers coverage for catastrophic protection and the ability to self-insure for minor expenses using tax-free dollars. By self-insuring it is assumed that individuals will be more cost-conscious in their use of health care services, thus providing the incentive to balance the cost of procedures, choice of hospitals and doctors, and use of prescription medication against the potential favorable impact on health.

For further advice on HSA's, please consult your financial advisor or tax consultant. To learn more about HSA-compatible health plans (HDHP's) contact OnlyHealthInsurance, a leader in the individual health insurance market. Our health insurance experts can be reached at: 415-898-0212 or 800-924-1411, or info@onlyhealthinsurance.com; or visit us at www.OnlyHealthInsurance.com.