Health Savings Account (HSA)

bankcda offers a Health Savings Account in the form of an interest-bearing checking account. HSAs are associated with specific types of health insurance policies. To participate in an HSA, an individual must be enrolled in a high-deductible health plan (HDHP) . This can either be through an employer-offered plan or by purchasing an individual policy.

The IRS determines the policy deductibles that qualify as a HDHP. In 2023, the policy must have a deductible of at least $1.500 for individuals and $3,000 for families to qualify. The maximum annual contribution in 2023 is $3,850 for individuals and $7,750 for families. If the individual is 55 and over, they can contribute an extra $1,000 per year (this is called catch-up).

Like an IRA, HSA owners have until April 15 of every year to make a prior year contribution. These must be identified upon acceptance of the contribution as they are coded differently than same year contributions.

Once an individual enrolls in Medicare, they are no longer able to make contributions to an HSA; however, they can still withdraw HSA funds tax-free. Funds can be used for a variety of medical expenses, including payment of Medicare premiums.

HSA accounts are triple tax advantaged:

- Contributions are either pre-tax or tax-deductible funds.
- Earnings grow tax-free if they remain in the account.
- Withdrawals are not taxed if they are used to pay for qualified medical expenses.

HSAs also offer significant flexibility in how the money is used and when. This can become particularly valuable in retirement:

- Funds in an HSA can continue to be held indefinitely, as unspent dollars carry over from year-to-year, even into retirement.
- Your HSA stays with you if you change jobs, retire, or are no longer covered by a high-deductible health plan.
- After age 65, funds in an HSA can be used for non-medical reasons without incurring a penalty. However, you'll be taxed on any distributions not used to cover the costs of qualified medical expenses.

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Prior to reaching age 65 or becoming disabled, if any distributions are taken for anything other than qualified medical expenses, the distribution is taxed as ordinary income and there is an additional 20% penalty tax.