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Greetings!

Our newsletter this month is titled "Understanding Health Savings Accounts (HSAs)."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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Flynn Zito Capital Management, LLC

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## Understanding Health Savings Accounts (HSAs)

Health savings accounts (HSAs) are tax-preferred savings accounts set up in conjunction with high-deductible health insurance policies that are used to fund qualified medical expenses. Enrollees or their employers make tax-free contributions to an HSA, then use the funds typically to purchase medical care until they reach their deductibles. But HSAs are not for everyone and it helps to fully understand how they work before considering them as a viable option to help fund your health care costs.

## HSA Specifics

You are eligible for an HSA if you meet these four qualifying criteria:

- You are enrolled in a qualified high-deductible health plan (HDHP).
- You are not covered by another disqualifying health plan (whether insurance or an uninsured health plan).
- You are not enrolled in Medicare.
- You are not a dependent of another person for tax purposes.

HSAs are generally available through insurance companies that offer HDHPs. Many employer-sponsored health plans also offer HSA options. Although most major insurance companies and large employers now offer an HSA option under their health plan, it's important to remember that most health insurance policies are not considered HSA-qualified HDHPs. In fact, the IRS has set limits as to what qualifies as an HDHP. For 2016, a plan can only be considered an HDHP if its deductible is at least \$1,300 (\$2,600 family). So make sure to check with your insurance company or employer to see if an HSA plan option might apply.

The maximum contribution to an HSA for 2016 is \$3,350 if you have single coverage, or \$6,750 if you have family coverage. If you are over age 55, then you

can contribute an additional \$1,000 in 2016 regardless of whether you have single or family coverage. Such contributions are made on a before-tax basis, meaning they reduce your taxable income. Note that unlike IRAs and certain other tax-deferred investment vehicles, no income limits apply to HSAs.

HSAs offer investment options that differ from plan to plan, depending upon the provider. What's more, HSA account balances carry over from year to year, unlike their predecessors, medical savings accounts (MSAs), which contained a "use it or lose it" feature that severely limited their usefulness for most people. Earnings on HSAs are not subject to income taxes.

Any ordinary medical, dental or health care expense that would qualify as a tax-deductible item under IRS rules can be covered by a HSA. A doctor's bill, dental procedures and most prescriptions are examples of covered items. See [IRS Publication 502](https://www.irs.gov/publications/p502/) (<https://www.irs.gov/publications/p502/>) for a definitive guide of what costs are covered. If funds are withdrawn for any other purpose than qualifying health care expenses before age 65, you will be required to pay taxes on amounts withdrawn plus a 20% additional federal tax. Once you reach age 65, you can use HSA money to pay for non-medical expenses, but you will still owe taxes on the withdrawal.

In summary, HSAs can offer significant benefits for some situations, but may not fit your specific needs.

### Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans<sup>1</sup>

	For 2016	For 2015	Change
HSA contribution limit (employer + employee)	Individual: \$3,350 Family: \$6,750	Individual: \$3,350 Family: \$6,650	Individual: no change Family: +\$100
HSA catch-up contributions (age 55 or older)*	\$1,000	\$1,000	No change**
HDHP minimum deductibles	Individual: \$1,300 Family: \$2,600	Individual: \$1,300 Family: \$2,600	Individual: no change Family: no change
	Individual: \$6,550	Individual: \$6,450	Individual: +\$100

HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts, but not premiums)	Family: \$13,100	Family: \$12,900	Family: +\$200
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\* Catch-up contributions can be made any time during the year in which the HSA participant turns 55.

\*\* Unlike other limits, the HSA catch-up contribution amount is not indexed; any increase would require statutory change.

<sup>1</sup> Source: Obamacarefacts.com, "Health Savings Account (HSA)."

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