

How Health Savings Accounts Work

Health Savings Accounts (HSAs) are simple and easy to understand.

A **Health Savings Account** is a tax-favored savings account combined with a qualifying high-deductible health insurance plan. By allowing you to deposit tax-deductible funds into an account that you can use to cover medical costs, HSAs enable you to take control of your own health care decisions.

First you must have a high-deductible health insurance plan that qualifies to be partnered with an HSA. These plans are available through various insurance companies, depending in what part of the country you live. The plans are all similar in the fact that they have deductibles between **\$1,200** and **\$5,950** for singles, and between **\$2,400** and **\$11,900** for families.

Once your insurance policy has become effective, you may fund your HSA account.

Tax Deductible Contributions

HSAs allow you to legally avoid federal income tax by saving up to **\$3,050** for singles or **\$6,150** for families, into your HSA account*. There is no minimum deposit (it can be \$0 if you want), but whatever you deposit into your account by April 15 is an "above the line" tax deduction for the previous year's income taxes. This means that you get a federal income tax deduction for money you put in even if you take the standard deduction and don't itemize deductions. This tax deduction is available to everyone, with no limitations on the amount or source of income.

If you cancel your HSA-qualified health insurance before you've had the coverage for a full 12 months, your maximum contribution amount is pro-rated based on the number of months you had your coverage in force.

A one-time roll-over from your IRA (Individual Retirement Account), HRA (Health Reimbursement Arrangement) or FSA (Flexible Spending Account) is allowed.

If your employer makes an HSA contribution for you, it is "excluded" from income, and not subject to any income tax or FICA. Either way, this will immediately reduce your federal income tax due for the year. Most states also allow you to take a state income tax deduction for HSA contributions. To see if your state offers tax deductions, please see our [HSA State Income Tax](#) page.