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To My Clients and Friends:

HEALTH SAVINGS ACCOUNTS (HSAs)

With increasing medical insurance costs as well as out-of-pocket medical expenses you should give serious consideration to Health Savings Accounts (HSAs). Traditional medical insurance usually has a low deductible whereas HSAs are defined as high-deductible health insurance plans. Many employers pay insurance premiums for employees so that the true cost of medical insurance is not directly felt by the employee participants. Most employers are starting to either reduce medical insurance benefits or require employees to pay a portion of their increasing premium costs. In addition, most traditional medical insurance plans have been increasing co-pays as well as per person and family annual deductibles to the effect that the plans are requiring high annual out-of-pocket amounts.

HSAs allow participants to be more aware of the true cost of medical expenses with a view to being more in control of their medical costs. HSA participants have an advantage in that the tax laws allow a “tax deductible” (above-the-line) contribution into an IRA type account.

An HSA plan allows participants to open an account at a financial institution where tax deductible deposits/contributions can be made up to $8,550 for family coverage or $4,300 for single individuals (2025 limits). The limits for 2026 are $8,750 for family coverage and $4,400 for single individuals. If you are 55 or over, you can contribute an additional $1,000 for 2025 and 2026. Contributions to an HSA are discretionary but you should always contribute the maximum amount allowable. ***Contributions to an HSA are not allowed after the participant reaches age 65 and enrolled in Medicare***.

The Tax Relief and Health Care Act of 2006 expanded the benefits for HSAs by providing full year contributions for participants even though they are only enrolled for part of the year and allowing rollovers from FSAs and HRAs and a one-time rollover from IRAs to an HSA account.

Medical expenses can be paid from the HSA account. The HSA then pays benefits after the (high) deductibles are reached. Most HSA plans provide a threshold (deductible) where the insurance starts paying 70% of the expense, and then after another threshold is achieved the insurance pays 100% of the expense.

If you have a year when medical costs are low, the amounts contributed into the HSA remain and are available to pay future medical expenses. Income tax rules provide that any earnings on the HSA are tax free if disbursements are made for qualifying medical expenses that are broadly interpreted to include the same medical expenses that qualify for the medical deduction.

Most employer benefit plans now provide an option for HSAs. HSAs are better than cafeteria plans where the use-it or lose-it for employee (participant) is applicable. However, an HSA plan can become part of an employer cafeteria plan.

I have prepared and attached a schedule comparison of the annual cost for an HSA and the Traditional Co-Pay Plans that could be used for your cost analysis. The amounts used are for illustration only but do demonstrate that the HSA plan could result in an overall savings of medical expenses.

Most employer health insurance plans provide open enrollment in the month of December each year for automatic changes. You should consult with your HR Department or insurance agent to determine if your plan provides HSAs and if a change to an HSA would be of benefit to you.

I trust that this letter and schedule comparison will be useful to you in your tax and financial planning.

If you have any questions or you would like my assistance in evaluating your specific medical plan options, please contact me. This letter as well as my other information letters can be located at my Web Site www.solakco.com under the tab “Resources.”

Very truly yours,

Charles E. Solak

Enclosure, as above

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HSA AND TRADITIONAL CO-PAY MEDICAL INSURANCE PLANS
COST COMPARISON (**2025 LIMITS**)

The following chart shows how the HSA may compare traditional medical insurance plans for family coverage with the participant between the ages of 55 to 60:

	HSA	TRADITIONAL CO-PAY PLANS
Monthly Premiums	$750	$1,200
Annual Premiums	$9,000	$14,400
Co-Pay except prescriptions	N/A	$35 per visit
Co-Pay prescriptions	N/A	$25
Annual Deductible per Family	$3,300	$500
Then % to Annual Maximum	70%	60%
Annual Deductible for Prescriptions	N/A	$150
Maximum Family out-of-pocket	$16,600	$4,000
Tax Deductible HSA Contributions	$8,550	N/A
Additional over 55 Contribution	$1,000	N/A

Assume that you are self-employed over age 55, and your typical medical expenses include three regular visits to your family Doctor and three visits to a specialist for one family member per year all within the medical network and your family annual prescription costs $1,800 per year (18 re-fills). Further, assume that each year you have an additional medical expense for medical lab and other tests of $1,000 per year.

	HSA	Traditional
Your annual medical expenses would be:		
Medical Insurance Premiums	$9,000	$14,400
HSA Contributions	9,550	N/A
Medical Visits @$100 per visit	1,200	1,200
Traditional Deductible Benefit		- 130
Prescriptions	1,800	1,800
Traditional Deductible Benefit		-1,170
Additional Medical Expense	1,000	1,000
Traditional Deductible Benefit		- 600
HSA Reimbursements	-4,000	N/A
Net Costs	$18,550	$16,500
Federal Tax Effect of Deductions:		
Medical insurance premiums	2,160	3,456
HSA Contributions	2,292	0
Net After Tax Cost	$14,098	$13,044
Plus, Additional Amount Still in HSA	$5,550	