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A Tax Break for Health Coverage? Yes

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As you're sitting down to do your taxes this year, focus for a moment on line 25 of your 1040 form. It just might mean more affordable health care for your family with tax advantages to boot.

At a time when family dinner table discussions often center on rising costs for gasoline, food and just about everything else, an opportunity to actually save money on health coverage with a tax break begs some attention. So what do those words ("Health savings account deduction") on line 25 of your 1040 form actually mean?

"Health savings accounts are an excellent vehicle for taxpayers to use. Unfortunately, most people don't have a clue how these work or why they are beneficial," writes Eric Tyson, a national bestselling author of – among other books – Investing for Dummies and Personal Finance for Dummies.

With April 15th right around the corner, it's time for a quick primer how HSAs can help family budgets in two major areas: health care and taxes.

First, HSA plans have two components: a tax-advantaged savings account coupled with a lower-cost, high deductible health plan. In fact, HSA health plans can actually cost 50% less than more traditional health insurance plans while providing quality coverage.

The money you save on your health insurance premiums can be placed into a health savings account and qualifies as a tax deduction on line 25. Your HSA dollars grow tax deferred and can be withdrawn tax free as long as you use them for qualified medical expenses – including your health plan deductible as well as vision and dental care.

Moreover, your savings earn interest and any money left in the account at the end of the year rolls over to the next year. You won't lose what you don't spend.

Every year cash contributions to an HSA are 100 percent deductible from your federal gross income tax, up to the maximum contribution limits set by the IRS.

As the money in your HSA grows, it builds up resources to be used for current and future medical care. And since the money in the HSA belongs to you, not the insurance company or the bank, you decide when to spend and when to save.

Many HSA providers offer investment options including mutual funds, stocks or bonds. This can help consumers build up a "medical nest egg," which will come in handy later in life when medical needs – and costs – increase significantly.

Last year, Congress made it even easier for consumers to save by expanding the maximum amount that can be saved annually in an HSA to $2,850 for an individual and $5,650 for a family. If you are 55 or older, you are allowed to contribute an extra $900 in “catch-up” funds.

In addition, consumers can make a one-time transfer from an IRA to their HSA as long as it does not exceed the annual contribution limit.

Remember, dollars in an HSA are never taxable as long as they are used for qualified medical expenses. Visit www.HSACenter.com or www.ustreas.gov *to learn more.*

HSAs create opportunities for consumers to save both on their health care and their taxes. As Karen Kerrigan, president of the Small Business and Entrepreneurship Council says, “the growing popularity of HSAs is rooted in the product’s middle name: savings.”

Mr. Collins is CEO of Golden Rule Insurance Company and president of UnitedHealthcare’s individual line of business which offers health plans in 40 states and the District of Columbia.