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Take Another Look at Health Savings Accounts

Year after year, health care and medical insurance costs outpace inflation. One survey, for example, found that health insurance premium costs are growing at five times the rate of wages. It is little wonder that business owners and employees are scrambling for ways to curtail health care expenses. In an effort to address this dilemma, Congress passed the Medicare Prescription Drug and Modernization Act of 2003, which allowed employers to offer health savings accounts or HSAs.

How HSAs work. An HSA works in tandem with a high-deductible plan (HDHP), the policy's deductible (for the 2026 tax year) must be at least $1,700 for an individual or $3,400 for a family. You sign up for an HDHP policy with an insurance company and an HSA with your employer. Throughout the year, you deposit money in your HSA using pre-tax dollars, subject to certain limits on annual contributions. (For 2026, HSA contribution limits are $4,400 for individuals and $8,750 for families.)

When medical bills come due, you are allowed to withdraw money from this account, tax-free, to cover out-of-pocket costs, including your deductible, payments for prescription drugs, and medical bills not covered by your insurance policy.

HSAs compared to FSAs. How does an HSA differ from a flexible savings account (FSA)? For one thing, there is no requirement that you "use or lose" HSA contributions by the end of the year. You can leave the money in an HSA and allow it to grow tax-free until needed. In addition and HSA is portable. You can take it with you if your change employers (no so with and FSA). Moreover, if you don't need the money for current medical bills, you are allowed to invest HSA contributions and earnings in a variety of mutual funds and other investments.

The business side. Businesses, too, might want to consider HSAs. The employer's portion of insurance expense may be reduced because insurance premiums tend to be lower with high-deductible health plans. By contributing to HSAs, workers also may be encouraged to become more prudent consumes of health care services and better stewards of their own health. This, in turn, may reduce business costs related to employee sickness.

Consider all angles. For some people, however, an HSA may not be the best option. Changing insurance policies may be fraught with risk if you or a family member suffer from a chronic health problems such as diabetes or cancer and if you are under age 65 and want to withdraw money from an HSA to cover non-medical expenses, the withdrawals will be subject to income tax and a hefty 20% penalty.

It is important to consider this option from every angle. If you'd like more information about HSAs, please give us a call.

7077 Koll Center Parkway, Suite 183 ● Pleasanton, CA 94566 ● (925) 426-7744 ● FAX (925) 426-7772 ● www.syacpa.com