



## The 1-2-3 Tax Punch of the Health Savings Account



### FEHB & Health Savings Accounts

#### Welcome

- » Our audience today
- » Q&A – the ProFeds Support Team standing by
- » Handouts – available for download
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### FEHB & Health Savings Accounts

#### Your ProFeds Presenter



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- » Host of the FedImpact Podcast

#### Support Team

- » Standing by for your questions



### FEHB & Health Savings Accounts

## The 1-2-3 Tax Punch of the Health Savings Account

**What you must know about HSAs before the next FEHB Open Season**

## Agenda

- » **CONCEPT:** How tax laws make HSAs possible (and lucrative) to consider
- » **FUNDING:** How contributions are made and managed
- » **USE:** How money can be used from this account later
- » **CONTROL:** How HSAs work if you retire or leave the government



## High Level Overview

## Overview

- » An HSA is a tax-advantaged savings account designed to help you pay for healthcare expenses now or later
- » Different from a Flexible Spending Account (FSA)
- » Unlike many other tax-advantaged accounts, your income level does not have any effect on your eligibility to have an HSA
- » HSAs are available to employees and retirees
- » The money you accumulate in this account can be used to pay for “qualified medical expenses”

## Account Ownership

- » The money in your HSA belongs to YOU
  - The balance carries over every year (no “use it or lose it”)
  - It is not tied to your job/employer so you can take it with you even when you leave your government job
- » You get to decide to:
  - Save the money
  - Invest the money
  - Use it now or later



*Keep those receipts! The IRS has no time limit for deducting qualified medical expenses. You can reimburse yourself at any time for past expenses.*

### Qualified Medical Expenses

- » HSA funds can be used for many healthcare costs like:
  - Doctor visits
  - Prescription drugs
  - Dental care
  - Vision care
  - Medical equipment
  - Medicare premiums

  
*The IRS defines these qualified medical expenses here:*  
[IRS.gov/publications/p502](https://www.irs.gov/publications/p502)

### Qualified Medical Expenses

- » Important notes about using HSA funds:
  - You can't use the HSA to pay your FEHB premiums
  - You can use the HSA to pay for qualified medical expenses for your tax dependents even if they are not covered under your FEHB (such as a spouse or children who are under their own plan)
  - Keep all of your receipts in case you are audited (even if you don't claim them in that year for HSA purposes)



**HSAs  
vs.  
FSAs**

#### Comparing Health Savings Accounts & Flexible Spending Accounts

	HSA	FSA
Ownership	Employee (You)	Employer
Requires HDHP	Yes	No
Money rolls over each year	Yes	Limited
Portable if you leave job	Yes	No
Contributions allowed	Yes	Yes
Can be invested	Yes	No
Tax advantages	Tax-free contributions, growth and withdrawals	Tax-free contributions



## Funding the HSA

### Funding the HSA

- » Part of your FEHB premium automatically gets deposited into your HSA account each pay period (called “premium pass through”)
- » You can also contribute additional money to your HSA:
  - Direct from your paycheck: The amount you contribute is not reported as income to you (BONUS: you avoid 7.65% in FICA taxes)
  - Paid from personal funds: The amount you contribute is tax deductible (but you do not avoid the 7.65% FICA tax)

### Contribution Limits

- » Each year, the IRS sets maximum HSA contribution limits which includes your plan’s “premium pass through” and your own personal contributions

#### HSA Contribution Limits for 2026

Self-Only coverage	\$4,400/yr
Self Plus One coverage	\$8,750/yr
Family coverage	\$8,750/yr
If you are 55+ (by 12/31/26)	\$1,000/yr (extra)

### Federal Tax Advantages\*

- » Money goes in TAX-FREE
  - You don’t pay tax on the contributions
- » Money grows TAX-FREE
  - Interest and investment gains are not taxed along the way
- » Money comes out TAX-FREE
  - You don’t pay tax when the money comes out as long as you use it for qualified medical expenses

\* Most states follow federal rules, but some treat HSA contributions/income differently.



## High Deductible Health Plans (HDHP)

### High Deductible Health Plans (HDHP)

- » To qualify to contribute to an HSA, you must have an HSA-compatible High Deductible Health Plan (HDHP), AND
- » You CANNOT be:
  - enrolled in another health plan that is not HSA-eligible
  - enrolled in a general-purpose healthcare flexible spending account (HCFSAs)
  - enrolled in Medicare
  - in receipt of VA or Indian Health Services medical benefits
  - claimed as a dependent on someone else's tax return

### High Deductible Health Plans (HDHP)

- » With an HDHP, there are typically:
  - Lower monthly premiums, but
  - Higher deductibles before insurance starts paying
- » To be "HSA-compatible," and HDHP must meet:
  - Minimum deductibles (Self: \$1,700; Self+1/Family: \$3,400)
  - Maximum out-of-pocket (Self: \$8,500; Self+1/Family: \$17,000)

### The HDHP/HSA Options in FEHB

- » There are 13 HDHPs that meet the HSA criteria:
  - 10 are state/regional plans
  - 3 are nationwide plans
    - GEHA
    - Mail Handlers
    - Aetna



To compare FEHB funds, use the OPM Fund Comparison Tool at: [FedImpact.com/fehb-compare](https://www.fedimpact.com/fehb-compare)

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**GEHA HDHP/HSA Plans in FEHB (2026)**  
(all figures ANNUAL)

(#) Coverage	Your Cost	Pass Through	You Can Add	Your Deductible	Out-of-Pocket Max
(341) Self-Only	\$2,122	\$1,000	\$3,400	\$1,800	\$6,000
(343) Self + One	\$4,562	\$2,000	\$6,750	\$3,600	\$12,000
(342) Family	\$5,606	\$2,000	\$6,750	\$3,600	\$12,000

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**MAIL HANDLERS HDHP/HSA Plans in FEHB (2026)**  
(all figures ANNUAL)

(#) Coverage	Your Cost	Pass Through	You Can Add	Your Deductible	Out-of-Pocket Max
(481) Self-Only	\$2,496	\$1,200	\$3,200	\$2,000	\$6,500
(483) Self + One	\$5,523	\$2,400	\$6,350	\$4,000	\$13,000
(482) Family	\$5,799	\$2,400	\$6,350	\$4,000	\$13,000

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**AETNA HDHP/HSA Plans in FEHB (2026)**  
(all figures ANNUAL)

(#) Coverage	Your Cost	Pass Through	You Can Add	Your Deductible	Out-of-Pocket Max
(224) Self-Only	\$4,024	\$800	\$3,600	\$1,800	\$6,900
(226) Self + One	\$8,472	\$1,600	\$7,150	\$3,600	\$13,800
(225) Family	\$7,272	\$1,600	\$7,150	\$3,600	\$13,800

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**How HSA Money Grows**

**How HSA Funds Grow**

- » Spend it
  - Use it along the way
- » Save it
  - This is the automatic option
  - Earns very little (behind inflation)
- » Invest it
  - You have a choice to do this (inside/outside the HSA)
  - Can make (and lose) money in investment accounts

*Regardless if you spend, save, or invest this money, you still benefited from an immediate tax advantage because you did not pay tax on the money that went into your HSA account.*



**Case Study**

**Case Study**

- » Hannah is 45
- » Her and her husband are relatively healthy and are both covered under her FEHB plan
  - They've been on BCBS Standard since she was hired
  - They're considering switching to the HDHP with GEHA
- » She wants to examine the various costs (and benefits) to determine if making a change in the upcoming Open Season makes sense for her and her husband

**A High Level Comparison Between Two "Self + One" Plans  
(all figures ANNUAL)**

	(106) BCBS Standard	(343) GEHA HDHP/HSA
<b>Premium</b>	\$10,683	\$4,562
<b>Deductible</b>	\$700	\$3,600
<b>Max Out-of-Pocket</b>	\$12,000	\$12,000
<b>HSA Fund</b>	none	\$2,000
<b>HSA Contribution</b>	none	Up to \$6,750

### How Does Hannah Decide?

- » Looks at current health situation (# of doctor visits, Rx, provider networks, etc.)
- » Availability of cash to pay larger out-of-pocket maximum if needed in a given year
- » Does “predictability” or “opportunity” feel better?
- » Is the tax incentive great enough to allow her to bear some more risk today?

### What Does Hannah Have at Age 65?

**The Three Routes Hannah Can Take**  
(In all 3, she contributed \$8,750/yr into her HSA for 20 years)

	<b>SPEND</b>	<b>SAVE</b>	<b>INVEST</b>
Contributions	\$175,200	\$175,200	\$175,200
Qualified Medical Expenses	Used HSA money to pay along the way	Paid out of pocket along the way	Paid out of pocket along the way
Interest Rate	n/a	0.05% - 0.50%	5.00% - 8.00%
Balance at 65	\$0	<b>\$176,083 - \$184,295</b>	<b>\$301,305 - \$432,851</b>



## Using HSA Funds

### Using Funds for Non-Qualified Medical Expenses

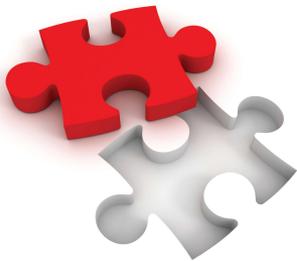
- » If you use HSA funds for non-qualified medical expenses, the IRS takes away some of the tax advantage on that amount:
  - Before age 65:
    - You pay income tax
    - Plus, a 20% penalty
  - After age 65:
    - You pay income tax
    - No penalty

## What Happens When You Die

- » If a spouse is the named beneficiary:
  - They become the new owner of the HSA
  - They maintain the tax-advantaged status for qualified medical expenses for their lifetime (just like you had)
  - Once the spouse dies, whomever they named as the next beneficiary will receive the money (see next slide)

## What Happens When You Die

- » If a non-spouse is the named beneficiary:
  - The account is no longer classified as an HSA when you die
  - The fair market value of the account becomes taxable to the beneficiary in the year in which you die (which could create a tax issue for non-spouse beneficiaries)
  - A non-spouse beneficiary can still use the HSA dollars to pay for your qualified medical expenses that were incurred, but not paid, prior to your death—these expenses can be paid up to one year after your death (keep receipts!)



## Right Fit Analysis

## Assessing the “Right Fit” for an HSA

- » More ideal:
  - Willing to pay medical expenses out-of-pocket
  - Willing to let HSA grow over a long period of time
- » Less ideal:
  - Plan to spend HSA immediately every year
  - Not focused on long-term growth
- » The biggest value comes from time + compounding

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### Wrap-Up

- » There is no other account in the tax code that works exactly like this when used for medical expenses
- » If used correctly, the HSA is the only account where you may never pay taxes at all
- » Careful consideration needs to be given to your health situation before choosing any FEHB plan
- » An HSA is not automatically better—it's just a different tradeoff

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U.S., Office of Personnel Management

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- » Replay
  - Link will be emailed to all registered participants

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