The Benefits of Qualified High Deductible Health Insurance Plans and Health Savings Accounts

Choosing the right health insurance plan for yourself can be a daunting experience, but this can get increasingly complicated when you own a dental practice and also have your staff's needs to consider. With a tight labor market, rising premiums, and health concerns related to the COVID-19 pandemic, offering health insurance benefits to your staff can be critical to attracting and retaining the right employees, which is why many dental practices provide these benefits.

Participating in a qualified high deductible health plan (HDHP) that allows you to set up a health savings account (HSA) is one of our tax-smart health insurance strategies.

HDHPs have lower monthly premiums but higher deductibles (for 2021 HDHP deductibles are at least $1,400 for self-only plans and $2,800 for family plans). However, most HDHPs are NOT considered HSA-eligible. If a plan with a high deductible offers any benefits beyond preventative care before you reach your deductible, it does not meet the standards to be HSA-qualified.

To receive the tax benefits of using a health savings account, you will need to look specifically for a high deductible health plan that is designated as HSA-eligible. Only qualified high deductible health insurance plans will allow you to be eligible to contribute to an HSA.

If your staff is eligible and chooses to open a health savings account through their HDHP, both your practice and your staff can reap the benefits of this tax-smart strategy. In order to accomplish this, you will need to establish a cafeteria plan for your practice, also known as a section 125 plan, through your payroll service provider. A section 125 plan is a written plan that offers employees a choice between receiving part of their compensation as cash or as part of an employee pre-tax benefit. The following are the key tax benefits of a health savings account.

1. Instead of giving salary increases or bonuses that will be subject to payroll tax to you and your staff, you can instead choose to make tax-deductible practice contributions on behalf of your staff to their HSA ***(only available through a section 125 plan).***
2. Your staff will be able to fund up to a combined annual tax-deductible contribution limit of $3,600 for self-only plans and $7,200 for family plans in 2021. In addition, for staff members who are 55 or older, they can make an additional $1,000 tax-deductible contribution.
3. Any income earned from health savings accounts is tax-free, and your staff's withdrawals are also tax-free, as long as they use these funds to pay for qualified medical expenses. Any unused funds each year can continue to accumulate in their health savings account and can be used to pay any qualified out-of-pocket healthcare costs they incur throughout their lifetime.

Unfortunately, even if you establish a section 125 plan for your staff, you as the dental practice owner will not be able to participate through the cafeteria plan if you are a 2% or more owner. Your spouse, children, parents, or grandparents who are employees of your practice would also be ineligible in this case. For this reason, you would only want to establish a cafeteria plan if you believe your employees would participate in this program. ***Otherwise, it may be best to establish the health savings account personally and independently from your dental practice.***

You would then be eligible for a tax deduction on your personal federal income tax return for this contribution. For example, if you contribute $7,300 to a health savings account, and you are in a 50% tax bracket, you would save $3,650 in taxes. ***You have until April 15, 2022 to make this personal health savings account contribution and can still receive this tax benefit on your 2021 tax return. You of course can only do this if you had a qualified high deductible plan in place.***

If you have any questions on this topic, please don't hesitate to reach out to me.