Out-of-Pocket Health Care Costs and Tax Deductions
Everything you need to know about deducting health care expenses
Introduction

The GoHealthInsurance.com survey data presented below reveals that consumers are not aware of rules allowing the deduction of out-of-pocket health care costs from annual tax returns. The results of the survey highlight the importance of being a proactive health care consumer by reviewing medical care costs for the previous year in order to deduct those expenses from taxable income.

Health care costs are tax deductible when consumers use out-of-pocket funds to pay for eligible services. A list of the eligible health care expenses is on available on Page 8. A Health Savings Account (HSA) is not required to have out-of-pocket expenses but HSA contributions are tax deductible.

GoHealthInsurance.com is an online platform to help individuals and families find the right health insurance coverage. Today, GoHealth has helped more than two million consumers shop for health insurance through online technology and trusted agents.

Methodology

This report uses data from a brief consumer survey conducted by GoHealthInsurance.com in January 2012 for people who shopped for health insurance in 2011 and 2012. The surveys were sent via email to consumers who shopped for health insurance at the end of 2011 and 2012, and were completely voluntary for participants to fill out. The data in this report includes answers from 208 voluntary participants. Contact information was not collected for survey responses. Participants in the survey may have purchased health insurance coverage through services or agents other than GoHealth.

Disclaimer: The report is not intended to convey tax advice or legal advice.
GoHealth Survey Highlights

A majority of consumers surveyed had out-of-pocket health care costs in 2011
- 81 percent spent out-of-pocket health care dollars.
- Only 13 percent spent nothing out-of-pocket for care.

Did you have any out-of-pocket health care expenses in 2011?

- Yes: 13.5%
- No: 3.9%
- Not sure: 1.4%
- No answer: 81.3%

Consumers are unclear if out-of-pocket health care expenses are tax deductible.
- Only 34 percent said they knew out-of-pocket expenses were deductible.
- 27.9 percent “not sure” if health care costs are tax deductible.
- 22 percent believed out-of-pocket costs were not tax deductible.

Do you know if those out-of-pocket health care expenses are tax deductible?

- Yes, they are tax deductible: 34.6%
- No answer: 5.3%
- No, they are not tax deductible: 9.6%
- Did not have any out-of-pocket health expenses: 22.6%
- Not sure: 27.9%
When it comes to filing 2011 tax deductions, a majority of health care consumers aren’t planning on deducting costs.

- Even though 81 percent of respondents paid out-of-pocket costs, only 34 percent are planning on deducting those expenses.
- Over 40 percent of respondents will not deduct expenses, 18 percent were “not sure.”

22.6 percent of respondents said they were self-employed. Of those, only 18 percent knew that monthly health insurance premiums were completely tax deductible for the self-employed.

One-third (33.65%) of respondents had a high deductible health insurance plan at the time of the study. But only 11 percent of total respondents had a Health Savings Account (HSA) and 10 percent of respondents plan on deducting HSA contributions from their taxable income.
Health Savings Accounts

What is an HSA?
A Health Savings Account (HSA) is a bank account paired with a high-deductible health plan which allows consumers to deposit money tax-free to pay for medical expenses. HSAs allow consumers to save money and collect interest on funds that are used for qualified health care costs.

Qualifying for a HSA?
To open an HSA you must be under the age of 65, not eligible for Medicare and are not claimed as a dependent on someone else's tax return.

There are requirements on the type of high deductible health plan that can be used with an HSA. In 2011, the annual deductible for an individual must be equal or greater to $1,200 and $2,400 for a family.

Contribution Levels
Every year, there are limits as to how much can be set in an HSA. In 2011, the contribution limit was set to $3,050 for an individual and $6,150 for a family.

Individuals who are between the ages of 55 and 65 are given a “catch up” period and can contribute an extra $1,000 per year.

The funds placed into an HSA are tax deductible, never expire, roll over every year and collect interest.

Medications
Medicines and drugs are considered qualified medical expenses if the drug requires a prescription, is over-the-counter and you get a prescription for it, or if the medicine is insulin.
Health Savings Account Q&A

Question:
What happens if I use my HSA funds for a non-eligible expense?

Answer:
You will be taxed 20 percent for the item if you use HSA or MSA funds on a non-eligible expense.

Question:
What health care expenses are eligible?

Answer:
View the list on Page 8 to see eligible health care expenses.

Question:
How can I open a HSA?

Answer:
You can open an HSA with an insurance company, credit union, bank, or other federally approved institution.

Question:
How much can I contribute to my HSA in 2011?

Answer:
In 2012, the contribution limits are set to $3,100 for an individual and $6,250 for a family. The contribution amount for the catch up period will remain $1,000 for individuals between the ages of 55 and 65.
Health Care Expenses That Are Tax Deductible

Artificial Limb
Artificial Teeth

Some Alternative Therapy
   Acupuncture
   Chiropractor
   Osteopath
   Teeth
   Dental Treatment

Body Scan

Capital Expenses such as fixing up the home

Certain Medical Devices and Goods
   Bandages
   Crutches
   Wheelchair
   Diagnostic Devices
   Oxygen
   Braille Books and Magazines

Cost of Special Home for Intellectually and Developmentally Disabled

Christian Science Practitioner

Dental Services

Disabled Dependent Care Expenses

Eye Health
   Contact Lenses
   Eye Exam
   Eyeglasses
   Eye Surgery (Vision Correction Surgery)

Fertility and Women Services
   Breast Pumps and Supplies
   Fertility Enhancement
Lactation Expenses
Pregnancy Test Kit
Sterilization
Vasectomy
Abortion
Breast reconstruction following cancer
Birth Control Pills

Guide Dog or Service Animal

Hearing Impaired
Hearing Aids
Telephone for hearing-impaired
Television for hearing-impaired

Hospital Services
Insurance Premiums
Laboratory Fees
Lead-Based Paint Removal
Legal Frees
Long Term Care
Medicines
Nursing Home
Nursing Services
Physical Examination

Mental Health
Psychiatric Care
Psychoanalysis
Alcoholism
Stop-Smoking Programs
Therapy
Wig

Special Education
Transplants

- Ambulance Service
- Gas and oil expenses (up to certain amount)
- Trips primarily for medical services

**Weight-loss program when diagnosed by a physician to treat a specific disease**

X-Ray
Health Care Expenses That Are Not Tax Deductible

Controlled Substances
   Medical marijuana

Cosmetic Surgery for unnecessary cosmetic surgery to improve a patient's appearance unless it will improve a deformity from a congenital abnormality, disease, personal injury from an accident or trauma
   Hair Removal
   Hair Transplant
   Teeth Whitening
   Weight-Loss Program
   Health Club Fees

Dancing Lessons
Diaper Service
Funeral expenses
Future Medical Care
Household Help
   Baby Sitting and Childcare for a Healthy Child

Illegal Operations and Treatments
Maternity Clothes
Medication from other countries
Nonprescription drugs and medicines
Nutritional Supplements (unless they are recommended as treatment by a medical practitioner)

Savings Accounts
   Medical Savings Account
   Health Savings Account (see page 6)
   Flexible Spending Account

Swimming Lessons
Veterinary Fees
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Appendix

Health Insurance Glossary

**Deductible:** The amount you’ll be required to pay for health care expenses before your insurance plan will begin to reimburse you.

**Tax Deductible:** Noting the value or cost of an item which is deductible from the amount on which a tax is calculated.

**Premium:** The monthly payment made to a health insurance company to keep a health insurance policy in effect.

**Out-Of Pocket Costs:** The amount of health care costs that an insured must pay out of their own pocket per year.

**Medical Expenses:** Costs of diagnosis, cure, mitigation, treatment or prevention of disease and the costs for treatments affecting any part or function of the body. Medical expenses include payments for medical services from physicians, surgeons, dentists and other medical practitioners, and costs of equipment, supplies, and diagnostic devices.

**Health Savings Account (HSA):** Tax-free bank account to save funds for health care expenses. Only policyholders with a high-deductible health insurance plan are eligible to open an HSA.

Resources


Published by GoHealth Insurance

214 West Huron Street
Chicago, IL 60654

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