

Could a Health Savings Account Work for You?

Do medical expenses cost more than you'd like? Do you wish you had more control over your health care expenses? A Health Savings Account (HSA) might be able to help.

While there are many reasons to open an HSA, it isn't the right choice for everyone. Find out if an HSA might be a good fit for you.

How an HSA Works

Contributing to an HSA allows you to defray medical expenses while putting money aside in a tax-advantaged account. Think of it as a personal savings account that can only be used for qualified health expenses.

You can use HSA funds to pay for qualified health care costs. Costs covered include a wide range of medical, dental, and mental health expenses, including co-payments, prescription drugs, and insurance deductibles (but not premiums). These funds can be used into retirement, serving as a nice cushion for unexpected medical expenses. Any money that you withdraw from the account for these purposes is tax- and penalty-free.

HSAs are often compared to Flexible Spending Accounts (FSA), but there are a few key differences:

- HSA funds aren't "use it or lose it," meaning that if you don't use all of the funds in a given year, the money remains in your account.
- The account is owned by you instead of your employer, meaning that you'll have access to the account even if you switch jobs.
- HSAs can be grown over time because you can invest the funds in securities, interest-earning savings accounts, and money market accounts of your choosing.
- You can change your contributions at any time.

The Internal Revenue Service limits your annual HSA contributions, but you can deduct them from your federal income tax. Contribution limits vary depending on your age, marital status, and any employer's contributions to the account. Reference the latest IRS guidelines or talk to your advisor to learn more about HSA contribution limits.

You can use the HSA funds over the course of your life for qualified medical expenses and the IRS won't tax any account contributions, withdrawals, or interest accrued from investments. However, if you're under age 65, you will pay income tax plus a 20 percent penalty if you withdraw the funds for something other than qualified medical expenses. If you are over age 65 and use your HSA for non-qualified expenses, you won't be subject to the 20 percent penalty—just regular income tax.

HSA funds can even be used after you pass away if you designate a beneficiary. If the beneficiary is your spouse, they can use the account as though it were their own and enjoy all of the tax benefits. If the beneficiary isn't your spouse, the account's funds can still be used, but become taxable.



Are You Eligible for an HSA?

Anyone can open an HSA, provided they:

- Are currently covered by a high-deductible health plan (HDHP)
- Aren't 65 or older and covered by Medicare
- Can't be claimed as a dependent on someone else's tax return

If you choose to leave your HDHP plan, you'll no longer qualify to contribute to your HSA. However, you can withdraw from the account and let the remaining funds grow tax-free.

Who Benefits the Most From an HSA

HSAs are a great fit for people who are young and healthy. When you're on an HDHP plan, you're responsible for covering a high deductible out of pocket. This means that the premiums are probably lower than what you'd pay for a traditional healthcare plan. This helps you to contribute to the HSA and, depending on your contribution amount and total medical expenses, possibly pay less for your health care.

Additionally, the account's rollover feature allows you to accumulate money when you don't have many health expenses. This gives you the opportunity to build (and possibly grow) funds to cover future emergencies or health complications.

Who Shouldn't Open an HSA

While HSAs have many benefits, they're not for everyone.

If you open an HSA and have relatively high health care expenses, you could risk losing the account's ability to save and grow—and in coming years, if the HSA is depleted, you may wind up paying all of your deductible out of pocket.

If you have a large family, an HSA may not be the best choice. The more people you need to cover, the more medical expenses you have, and the higher the risk that someone will incur expensive health care costs that could drain the account.



Is an HSA the Right Choice for Me?

Choosing a healthcare plan is a difficult decision and depends on your unique situation. Speak with your financial professional for more information on the advantages of an HSA and if it makes sense for you.

