JUST THE FACTS ... ABOUT HSAs

By Jacob Ansel

A HEALTH SAVINGS ACCOUNT, HSA, is like a personal savings accounts, but the money is used to pay for health care expenses. HSAs were conceived to control health care costs. The idea is that people will spend health care dollars more wisely if they're using their own money. You, not your employer or insurance company, own and control the money in the HSA. You can start an HSA through your own bank or any other financial institution.

HSAs are an extremely flexible way to save and manage money. The high-deductible policies required for HSAs have lower premiums compared to those of other insurance plans. Any withdrawals for medical bills are completely tax-free. Further, all unused money at the end of the year rolls over without being taxed. If it's not put to other use, this money can become a useful safety net in the event you suddenly need to fund a large medical expense.

To be eligible to open an HSA, you must have a high-deductible health plan (HDHP). This plan has a lower premium and a higher deductible than more traditional plans. HSA plans have minimum deductibles – $1,300 for individual coverage or $2,600 for family; annual contribution limits $3,350, individual, and $6,750 family; and maximum out-of-pocket amounts (deductibles and copays, not premiums) $6,550, individuals, $13,100, families. Those under age 65 who use HSA funds for nonqualified medical expenses face a penalty of 20%. Funds spent for nonqualified purposes are also subject to income tax.

HSAs were established as part of the Medicare Prescription Drug, Improvement, and Modernization Act, signed into law by President Bush in 2003. They were developed to replace the medical savings account system and encourage savings for future health care expenses.

HSAs are tax-deductible. Contributions to an HSA may be made by an individual, an individual's employer, or both. If contributions are made by a taxpayer, they're deductible from income. If contributions are made by an employer, they're excluded from employee income. Once you enroll in Medicare, you can no longer contribute to an HSA account. However, you can use the money accumulated to pay for medical expenses, which includes Medicare premiums, deductibles, co-insurance, and co-pays, all tax-free. Aside from being tax-deductible, these accounts allow you pay medical bills with pretax dollars.

HSAs can help save for retirement. Rules allow an HSA to double as a retirement account. Unused monies can be used to pay off mortgages or fund college. Individuals 65 and older can make withdrawals from health savings without penalty. In fact, the individual also has control with respect to deciding how certain amounts may be invested. And there's always the option of keeping enough in cash to cover short-term health care needs like co-pays and deductibles, while investing the rest.

Many folks can take advantage of HSA plans. They're encouraged as an ideal option for young, healthy individuals. Because they don't require a great deal of care, this group pays lower premiums. On the other hand, if you require more than normal care, this may still be a helpful option. To know whether it's smart to have such an account, it's advisable to add the out of pocket maximum to your yearly premium and do some comparisons of worst-case scenarios. According to Eric Remjeske, an HSA consultant with Devenir: "High-deductible employer plans generally cost individuals $1,000 to $2,000 less in annual premiums than traditional insurance."

An HSA is comparable to a flex savings account. You can have your employer put part of your pretax paycheck automatically into an HSA. Jackie Perlman of H&R Block says, "You can contribute money to the account after taxes, in addition to designating a certain amount be taken from your paycheck at the outset. You'll still get the tax savings by being able to take a deduction on your tax return." You can tap into this tax-free account to cover expenses.

You have until April 15 to make contributions to your HSA and claim it on your 2016 tax return. It's important to become familiar with the rules associated with maintaining an HSA. As long as the payer is well informed about how health savings accounts work and how not to use them, short-term savings will add up and the monies will be put to good long-term use. ❑

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