



# Why Opening an HSA Is a Must for Your High-Deductible Health Plan

If you've recently switched to a high-deductible health plan (HDHP), more than likely, the financial advantages HDHPs were a driving factor in your decision. While lower monthly premiums will put more cash in your pocket, here's the reality...

**If you want to capitalize on the benefits of your new plan and further improve your financial wellness, you'll want to open a healthcare savings account (HSA).**

## WHAT IS AN HSA?

Maybe you've heard about HSAs in the past, but you aren't sure what they are, what they provide, and why you need one. If you're wondering what an HSA is, you're not alone. In this white paper, we're explaining some of the most important HSA topics our Decision Assist Coaches have covered on the advantages of using an HSA.

Let's kick off what HSAs are with a quick definition from HealthCare.gov—a service of the U.S. Centers for Medicare & Medicaid Services.



**An HSA is a type of savings account that lets you set aside money on a pre-tax basis to pay for qualified medical expenses.**

In other words, an HSA lets you squirrel away a portion of your paycheck for healthcare costs...before you pay taxes on it.

Now that we've done a quick introduction into the benefits of HSAs, we'll dive deeper into why opening an HSA is a must.

## FIND SAVINGS, SAVINGS...AND MORE SAVINGS

An HSA gives you what's known as triple tax savings. Triple tax savings can have a big impact on your financial wellness, and here's why:

- 1 You'll deposit into your account tax-free.** In other words, when you set aside a portion of your paycheck for your HSA, you won't pay any taxes on that amount. Basically, you'll pay for your medical expenses with non-taxed income. In addition, your taxable income is reduced by the amount you contribute to an HSA.
- 2 You'll grow your savings tax-free.** Like a normal savings account, you can earn interest on your HSA funds, and any interest you make will also be tax-free. (There are other ways of growing your HSA, but more on that in a bit.)
- 3 You'll use your HSA to cover your medical costs tax-free.** When you withdraw from your HSA, there's no need to worry about paying a cut to Uncle Sam. Any money you use for qualified medical expenses is tax-free.

### Here's a quick example of the savings you can experience.

Let's say you make \$60,000 a year, and your income tax bracket is at 25%. After receiving a \$800 HSA contribution from your employer, you put \$2,200 into your HSA. During the year, your medical expenses are \$3,000 and you withdraw from your HSA to cover these costs.

**YOU'VE AUTOMATICALLY SAVED \$1,350.**

\$800	}	HSA contribution from employer
+		
\$550	}	tax savings from HSA contribution (\$2200 x 25% = \$550)
<b>\$1,350</b>		



## DON'T LOSE YOUR FREE MONEY

As the above example shows, if your employer is willing to contribute to your HSA, not opening an account is leaving extra funds on the table.

### > **It's your chance to receive free money.**

Think of your HSA as something similar to your 401k. With your 401k, employer contributions mean your company is helping pay for your retirement. And your HSA is no different.

Don't miss out on the opportunity to let your company pay for your medical expenses in addition to health plan benefits. Instead of throwing away free money—open an HSA, and take advantage of your employer's generosity.

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## REST ASSURED YOUR FUNDS WON'T DISAPPEAR

You may be familiar with a Flexible Spending Account (FSA). Like an HSA, an FSA is an account you can use to pay your medical bills. Maybe you even opened one...but didn't like it for one big reason: **you had to use it...or lose it.**

When you open an FSA, you face a tricky problem. Because there's a time limit on your contributions, you might find yourself spending money on medical expenses that aren't a necessity. In an effort to use your funds before they disappear, you might find yourself going for an extra check-up or scheduling an early dentist appointment.

### > **The good news is, your HSA is different.**

The funds in your HSA account stay there...**forever.** And once you place funds into your HSA, you'll never have to worry about forfeiting them because your medical expenses were lower than expected. That means contributing to an HSA is truly another way to boost your financial wellness. There's simply no pressure to spend until you're ready.

With an HSA, your funds will remain intact, even if...

- You switch employers or change jobs.
- You are no longer able to contribute to your account.
- You no longer have a high-deductible health plan.



## USE YOUR HSA FOR A VARIETY OF MEDICAL EXPENSES

If you think your HSA will only pay for wellness check-ups or that annual trip to your eye doctor, think again.

➤ **The reality is, your HSA can cover a variety of medical costs.**

Be sure to check out the [IRS Publication 502](#) to see a full list of the expenses covered, but here are a few that may surprise you:

- Removing lead paint from your home
- Joining a weight loss program to treat hypertension or heart disease
- Hiring a tutor for a special needs child
- Going to the chiropractor for treatment

And even if you can't find an expense on the IRS publication, you still have options. Ask your doctor to vouch for the medical necessity of the expense. If he or she agrees and writes a letter of medical necessity (LMN), your HSA can cover it.

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## ENJOY FLEXIBLE PAYMENTS

Whether you need to order a prescription or pay your insurance deductible, you can use your HSA directly to make a payment. But that's not the only way to leverage your HSA. When you open an HSA, you'll find payments are flexible. While you can cover medical expenses with your account, you can also pay bills out of pocket and use your HSA to reimburse yourself later.

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## REIMBURSE YOURSELF AT ANY TIME

Another benefit of opening an HSA account is there's no time limit for reimbursing yourself.

Let's say you contributed \$2,000 in a year to your HSA. At the end of the year, you need a surgery, and your deductible totals \$2,800. Even though your current HSA funds will only cover part of your deductible, there's no reason to worry.

Once you—or your employer—have the opportunity to place new funds in your HSA, you can reimburse yourself for the remaining **\$800 at any time**...even if it's three years later.

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## WITHDRAW FUNDS PENALTY-FREE AFTER 65

If you're under 65, you won't be able to use HSA funds for non-medical expenses without incurring a 20% penalty.

➤ **But once you hit 65, you'll be able to use your HSA for *anything*, penalty-free.**

While you'll need to pay taxes if those funds go toward non-medical expenses, the good news is, you'll probably still enjoy tax savings. More than likely, your tax bracket will probably be lower during your retirement years.

## USE HSA FUNDS FOR YOUR DEPENDENTS

Your HSA funds aren't limited to your medical expenses. You can also use your HSA for any dependents you claim on your taxes. It doesn't matter if your 9-year-old is on your spouse's health insurance plan...or if your elderly mother has Medicare support. An HSA will cover the healthcare expenses of anyone you list as a dependent on your tax return.

## GROW YOUR HSA

Another benefit of an HSA is your funds can significantly grow...and we're not talking about the interest you earn on your account. Unlike your FSA, you can place your HSA funds in investments. From stocks to mutual funds, when you open an HSA, you'll have the opportunity to increase your original contributions... and earn more free money.

➤ **And remember, gains in your account will be tax-free.**

## PREPARE FOR THE UNKNOWN

Even when you have a good baseline of your medical expenditures, there's always the chance that an unplanned expense will occur. After all, your baseline is simply a general idea of your healthcare costs. With an HSA, you'll prepare for the unknown.

Simply place some extra money in your HSA for unexpected medical bills. You can enjoy peace of mind—knowing the cash is there if you need it. And, if you upgrade to an interest-bearing account, you'll earn interest in the meantime.

## PLAN FOR RETIREMENT

It's a fact—medical expenses can take a big chunk of your budget. And the likelihood of doctor visits, prescriptions, and other healthcare costs only grows as you get older. Think of your HSA as a type of retirement plan. In addition to your IRA and 401k, your HSA is another wonderful place to “safely” sock away money you'll need during retirement for medical bills.

## ▶ START SAVING—OPEN UP YOUR HSA NOW

If you haven't opened your HSA now is the time! And if you have opened it, make sure you are contributing and getting the most benefit from it.

**Important:** As with any financial decision, it's important to understand the financial and legal requirements of HSAs. Be sure to consult your financial advisor about your eligibility, taxes, deductions, investments, and other related details before opening an HSA.