smart
health savings account (HSA)

1. Contributions are tax free

Contributions to your account may be made with pre-tax dollars. An HSA can fund medical expenses tax free at any age, unlike a 401(k) or IRA which could incur income taxes and a penalty. Paying your medical expenses and deductibles from your HSA with pre-tax dollars which acts as a 10-40% discount depending upon your tax bracket.

2. Withdrawals for health expenses are tax free

Medical expenses may be paid for with tax-free distributions from your HSA. Remember to keep your receipts for medical expenses if paid out of pocket, and use these receipts to reimburse yourself from your HSA without tax penalties.

3. Earnings are tax free

Any earnings on the funds within your HSA is tax free, compared to other savings accounts that result in taxes on earnings.

4. YOU own the account

Your HSA account belongs to you, rather than to your employer or your insurance company. The funds do not "vest" in the way other retirement accounts do – the HSA immediately belongs to you and remains with you even if you lose your health insurance or change employers.

5. Benefits cannot be lost

There is no "use it or lose it" clause associated with your HSA account. Unlike a Flexible Spending Account, the funds within your HSA account do not have to be spent within the same year they are contributed. Dollars remain in the HSA until you are ready to withdraw them.

6. Your HSA can be a tool for retirement planning

The funds within an HSA accumulate over time and can even be factored into your retirement planning. After the age of 65, you can withdraw funds from your HSA account penalty-free for any purpose. You will owe income taxes on these withdrawals if you use the dollars for non-medical expenses. Funds within an HSA used for medical expenses (such as long-term care costs) will continue to be distributed tax free.

7. Higher contribution limits

An HSA has a higher contribution limit than a traditional IRA. The maximum contribution for an HSA is $7,000 for a family **($3,500 for an individual)**, compared to an IRA which is capped at $6,000 per individual. HSA owners age 55 and older are entitled to contribute an extra $1,000 per year. Note if each spouse is eligible to contribute to an HSA and is age 55 or older, then both spouses are eligible to contribute an additional $1,000. However, the second spouse will need to open a second HSA to make the catch-up contribution.

8. HSAs may help save on health insurance premiums

HSA plans typically have a higher deductible than other health insurance plans and charge lower premiums, which can be significant to individuals with low medical costs. Based on premium savings alone, HSA owners can save up to 40% on the cost of maintaining health insurance coverage each year.

9. Broad range of medical expenses covered

Certain "medical expenses" are not covered by health insurance carriers, but can be paid for from an HSA, such as dental, vision, and prescription drugs. Better yet, your HSA uses pre-tax dollars to pay for these expenses!

Note: As of January 1, 2011, over-the-counter drugs are no longer considered eligible medical expenses for an HSA. However, a prescription from your doctor for these over-the-counter drugs will allow you to fund these expenses from your HSA without taxes or penalties.

10. Use as an emergency fund or for future expenses – plan accordingly!

The funds within your HSA account do not have to be used for medical expenses after retirement. If you choose to pay your medical expenses out of pocket and allow your HSA account to grow tax-deferred until retirement, this account could potentially grow to $360,000 over 40 years (assuming a 2.5% rate of return) or to a whopping $1.1 million (assuming a 7.5% rate of return) according to a study by the Employee Benefit Research Institute (EBRI.)

An HSA can be designated as an emergency fund, or to supply future expenses such as an extravagant vacation. The benefits of an HSA can be both immediate and long term. Like a traditional IRA, your HSA account can be distributed to your beneficiaries if not used during your lifetime.