Should You Consider a Health Savings Account? – Video Transcript

If you have a high-deductible health plan or are considering enrolling in one, you might also consider a health savings account, or HSA. The two can work hand-in-hand to help you save money on health care.

An HSA is a tax-advantaged savings account that is used to pay for qualified medical expenses. It must be paired with a high-deductible health plan.

A high-deductible health plan is an insurance plan that requires you to pay a high annual deductible in exchange for premiums that are typically much lower than traditional insurance plans.

Once you've met the deductible, the insurance coverage kicks in; however, you may still have to pay copayments or coinsurance until you've met an out-of-pocket maximum for the year.

You can use the funds from the HSA to pay for some or all of the qualified medical costs not covered by the high deductible health plan, including the deductible expenses.

Here is a quick look at the current minimum required deductibles and out-of-pocket maximums for high-deductible health plans.

You can contribute to your HSA, up to certain annual limits. Your employer may also contribute to your HSA.

Total employer and employee contributions cannot exceed these limits.

HSAs offer several benefits:

First, unlike other, similar savings plans, there's no use-it-or-lose-it requirement. So if your health expenses are relatively low, you could potentially accumulate a sizable sum over time.

Second, HSAs are portable, so if you leave your employer for any reason, your HSA dollars remain yours to use.

Third, HSAs offer tax advantages. You may have the option to save in an HSA on a pre-tax basis through payroll deductions. Or, if you open an HSA on your own, your contributions will be tax deductible.

In addition, contributions and earnings grow tax deferred. And withdrawals will be tax free provided they are used to pay for qualified medical expenses. IRS Publication 502 lists these expenses.

So should you consider an HSA?

An HSA can be a smart decision if you are generally in good health, or if you want to save extra money on a tax-advantaged basis for health-care costs in retirement.

On the other hand, an HSA may not be right for you if you or your family tend to seek medical care often.

Note that you cannot contribute to an HSA if you're covered under another health plan (such as your spouse's plan) or if you've reached age 65 and enrolled in Medicare. Other restrictions may apply.

This is just a brief overview of HSAs and is not meant to be a comprehensive guide. For more information, consult IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.

You cannot establish or contribute to an HAS unless you are enrolled in a high-deductible health plan. Depending upon the state, HAS contributions and earnings may or may not be subject to state taxes. Withdrawals not used for qualified medical expenses are subject to income taxes and a 20% penalty tax. After age 65, funds can be withdrawn penalty-free for any reason.