THE ADVANTAGES OF HSAs

Health Savings Accounts offer you tax breaks and more.

Provided by *Benedict A. Mitchell Jr.*

Why do people open up Health Savings Accounts in tandem with high-deductible insurance plans? Well, here are some of the compelling reasons why younger, healthier employees decide to have HSAs.

#1: Tax-deductible contributions. These accounts are funded with pre-tax income. Your annual contribution limit to an HSA depends on your age and the type of insurance plan you have in conjunction with the account. For 2010, the limit is set at $3,050 (individual plan) and $6,150 (family plan). If you are older than 55, those limits are nudged $1,000 higher.[1]

#2: Tax-free growth. The money in an HSA grows untaxed – and some HSAs even have investment options, including mutual funds. Some HSA owners choose to invest the assets in money market funds, but they are commonly held as cash.[2]

#3: Tax-free withdrawals (as long as withdrawals pay for heath care costs). To make withdrawals even easier, many HSAs offer you checkbooks and debit cards to make it easier to pay healthcare expenses and reimburse yourself. There is no need to provide reimbursement claims to the IRS; all you need to do is keep your receipts in case of an audit.[1]

Add it up: an HSA lets you avoid taxes as you pay for health care. Additionally, these accounts have other merits.

You own your HSA. If you leave the company you work for, your HSA goes with you – your dollars aren't lost.

No use-it-or-lose-it rule. This is an improvement from a Flexible Spending Account (FSA). If you don't use the money in an FSA at the end of a year, you lose it. With an HSA, there is no such penalty. For the record, you can't have both an HSA and an FSA.[1]

Hidden social advantages? Since HSAs impel people to spend their own dollars on health care, the theory goes that they spur their owners toward staying healthy and getting the best medical care for their money.

How about the downside? Well, HSA funds don't pay for all forms of health care. For example, you can't pay for over-the-counter drugs with HSA assets.[3] In the worst-case scenario, you get sick while you're enrolled in a high-deductible health plan and lack enough money to pay medical expenses.

If you use funds from your HSA for non-medical expenses, the federal government will hit you with a withdrawal penalty – 10% in 2010, going north to 20% in 2011. And in case you might be wondering, some HSAs do assess monthly fees and transactional charges to account owners.[2,3]

Even with those caveats, younger and healthier workers see many tax perks and pluses in the HSA.

Who is eligible to open up an HSA? You are eligible if you enroll in a health plan with a sufficiently high deductible. For 2010, the eligibility limits are a $1,200 annual deductible for an individual or a $2,400 annual deductible for a family. You aren't eligible if you are enrolled in Medicare or if someone else claims you as a dependent on their federal return.[1]

You don't need an employer-sponsored health plan to have an HSA. You can open one with a personal health plan, too. In June 2010, the American Medical Association's *American Medical News* reported that HSA enrollment had reached the 10 million mark, growing by 2 million alone during 2009.[1,3]

As health insurance costs are repeatedly increasing for businesses, and as health plans with higher deductibles generally cost less for a company compared to traditional coverage, you will likely see the population of HSA owners growing in the 2010s.

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