DETERMINING IF AN HSA PLAN IS RIGHT FOR YOU

WHAT ARE HSAs?

Health savings accounts (HSAs) are a great way to save money and efficiently pay for medical expenses. HSAs are tax-advantaged savings accounts that accompany high deductible health plans (HDHPs). A qualified HDHP is different from the more traditional PPO plans in several ways. Most importantly, there is no coverage for any non-preventative services, prescriptions, or procedures until you meet your deductible. That means that if you take a prescription that is not considered preventative under the ACA, you will be responsible for paying the full cost of that drug until the deductible is met. This differs from a traditional PPO plan where you may have only had to pay a copay. The rationale behind the HSA/HDHP combination is that people will have a clearer idea of their medical costs and more control over their spending, enabling them to reduce their medical costs.

HSA money can be used tax-free when paying for qualified medical expenses, helping you pay your HDHP's larger deductible. At the end of the year, you keep any unspent money in your HSA. The money rolled over grows with tax-deferred investment dollars and will continue to be tax-free, so long as it is used to pay for qualified medical expenses. Your HSA and the money in it belongs to you — not your employer or insurance company.

An HSA can be a tremendous asset as you save for and pay medical bills because it gives you tax advantages, more control over your own spending, and the ability to save for future expenses.

HSA ADVANTAGES

Here are some of the advantages an HSA provides:

Security – Your HSA can provide a savings buffer for unexpected or high medical bills.

Affordability – In most cases, you can lower your monthly health insurance premiums when you switch to health insurance coverage with a higher deductible, and these HDHPs can be paired with an HSA.

Flexibility – You can use your HSA to pay for current medical expenses, including your deductible and expenses that your insurance may not cover, or you can save your funds for future medical expenses, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Also, you do not have to use your HSA to pay for medical expenses. You can withdraw money from your HSA at any time and for any reason. However, if your HSA money is not used for medical expenses, you will have to pay income tax on your withdrawal. You will also have to pay a 20 percent additional tax, unless the withdrawal is made after you attain age 65, become disabled, or after your death.

THINGS TO CONSIDER:

Deciding whether or not an HSA plan is the right choice for you depends on several factors. One of the greatest factors is your individual financial philosophy and comfort with managing expenses.

Comparing HSA/HDHPs to traditional health plans can be difficult, as each has pros and cons. For example, traditional health plans typically have higher monthly premiums, a smaller deductible, and fixed copays. You pay less out-of-pocket costs due to the lower deductible, but you will pay more each month in premiums.

HDHPs with HSAs generally have lower monthly premiums and a higher deductible. You may pay more out-of-pocket medical expenses, but you can use your HSA to cover those costs, and you pay less each month for your premium. Furthermore, your employer may contribute to your HSA account, providing further incentive and security against the increased deductible and out-of-pocket costs.

If you are presented with an option between a traditional PPO plan and an HSA/HDHP you will want to look at the difference in premium that it will cost you as well as how much your employer may be contributing to your HSA account should you elect to participate in the HSA/HDHP. In many cases, the premium savings plus the employer contribution towards the HSA will make the HSA/HDHP's larger deductible far more manageable and, in some cases, it may prove that you will spend less money on your overall healthcare expenses on a HSA/HDHP versus the traditional PPO plan.

The decision is different for each individual. If you are generally healthy and/or have a reasonable idea of your annual healthcare expenses, then you could save money from the lower premiums and valuable tax-advantaged account with an HSA/HDHP plan. For example, even someone with a chronic condition could take advantage of an HSA/HDHP plan if he or she has a good idea of his or her annual expenses and then budgets enough money to cover cost of care. If you are older, more prone to illness or unexpected medical conditions, or prefer certainty in medical costs, you may want to stick with a traditional plan. You'll pay more in monthly premiums, but you will have a lower deductible and fixed copays. The main question becomes, do you want to pay more for more predictability, more level costs, and certainty offered with a traditional PPO plan or do you want to pay less knowing that your medical costs are less predictable and may differ significantly from month to month?

To help determine if an HSA/HDHP is the right choice for you, be sure that you have given consideration to the following.

1. When you enroll in a qualified High Deductible Health Plan with an HSA, that means that you will be paying the full cost of all treatments, medication, and services until the deductible is met. The only exception to this is preventative care, which is still paid at 100% by the insurer.
2. Neither you or your spouse can simultaneously have an FSA and an HSA. If you currently have an FSA, you will need to spend, forfeit, or convert the remaining funds to a limited purpose FAS before enrolling in the HSA.
3. Is there a savings presented by going with the HSA/HDHP over the traditional PPO plan? If so, you may want to consider putting that savings into your HSA account as a pre-tax contribution.
4. If you take monthly medications, do you know if they are considered preventative? If they are not, do you know how much the prescription would cost on a HSA/HDHP before meeting the deductible?
5. Do you have any planned major medical procedures in the coming year?
6. Are you or your dependents prone to accidents and emergency room visits?

USING YOUR HSA

An HSA is managed by the account holder, giving you the choice of when to use your HSA dollars. You can begin using your HSA money as soon as your account is activated and contributions have been made. You can use your HSA account for any purpose, including paying expenses that are not qualified medical expenses. You will only receive the tax benefits of an HSA, however, when you use the account for qualified medical expenses. If you use it for another purpose, you will be required to pay income tax on the withdrawal, and you may also be required to pay another 20 percent tax, unless you make the withdrawal after you reach age 65, become disabled, or after your death.