Benefits

Is it time for you to give Health Savings Accounts (HSAs) a closer look?

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Every year during benefits open enrollment it seems to be the same thing: you end up paying more for a health plan that covers less. Your employer offers a lower cost Health Savings Account (HSA) compatible plan, but you've been reluctant – it seems intimidating. So, you stick with the high cost plan. Maybe this is the year you break that cycle.

Choosing an HSA-Compatible Health Plan along with saving money into a tax-advantaged Health Savings Account (HSA) could cost you a lot less in health insurance premiums and reduce your Federal Income Taxes. Here's how it works.

First, to be eligible to open an HSA you must be insured under a Qualified High Deductible Health Plan (HDHP). The term "High Deductible Health Plan" refers to the fact that IRS Regulations say that an HDHP health plan cannot pay any benefits until you have reached your deductible. This allows the insurance company to charge you a lot less in premiums.

Then the idea is that you take the cost savings and contribute them into a Health Savings Account – which is money that you get to keep until you need it rather than paying premiums to an insurance company that they get to keep.

If your employer offers to take your HSA contributions out of each paycheck, and then deposit the money into your HSA account for you, they generally do so before taxes are calculated. This reduces what you would otherwise owe in both Federal Income Taxes and your share of payroll taxes. It is important also to know that you can keep your HSA even if you leave your employer.

So, the way things work with an HDHP is rather than paying a predetermined copayment for things like Physician Office Visits and Prescription Drugs, you pay the network-discounted cost of the Physician Office Visit, Prescription Drug or other covered health services. You pay these expenses out of your HSA and the amount you pay is then credited towards your deductible.

Of course, the network-discounted cost of the Physician Office Visit or Prescription Drug will be more than the pre-determined copayment, but remember, since you saved money on premium costs you put money into your HSA and you will have that money available to pay for those services when you need them. The great thing is that if you don't need any covered healthcare services, your money stays in your HSA and rolls over year to year – there is no "use it or lose it" rule.

The money that comes out of your HSA comes out tax free as long as you are using it to pay for IRSapproved Health Expenses. Most HSAs come with a convenient debit card that allows you to pay medical expenses directly out of your HSA.

So, during Open Enrollment this year, why not take a closer look at the Health Savings Account option that your employer offers, it could save you thousands of dollars a year in health insurance premium cost and in taxes while allowing you to build up tax-advantaged health savings that can add up to a lot over time.

Here is an example illustrating the **potential cost difference** between a Copay Health Plan and HDHP:

Health Plan Option	Level of Coverage	Monthly Cost	Annual Cost	Annual Savings
Copay Plan	Employee + Children	$600	$7,200	
HDHP	Employee + Children	$800	$4,800	$2,400

Health Savings Account

Based on 2022 IRS Limits, here is the **maximum amount** you can save into an HSA for tax year 2022:

Type of HDHP Coverage You Have	Annual Limit
Self Only	$3,650
Family	$7,300
Catch-Up Contribution for those 55 or older	$1,000

Key Points to consider about Health Savings Accounts:

· The money you put into an HSA rolls over year to year – there is no “use it or lose it” rule.

· HSAs are “Triple Tax Advantaged” – this means your money goes into an HSA pre-tax, any interest or growth on the money in the HSA grows tax free and the money comes out of the HSA tax-free as long as you use it to pay for IRS approved medical expenses.

· Once your HSA account has reached a certain minimum balance, some Health Savings Account options may allow you to invest your HSA funds.

· When you reach age 65, HSA funds can be used to pay Medicare expenses.

· HSAs can be used to reimburse the premiums of Qualified Long Term Care Insurance policies up to specified IRS limits based on age.

· If at some point you are no longer insured under an HDHP, you will still be able to keep your HSA and you will still be able to pay IRS approved medical expenses out of the HSA, however, you will not be allowed to contribute additional money into the HSA as of the date you are no longer covered under an HDHP.

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