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What's the Big Deal About Health Savings Accounts?

Most people know HSAs offer a sweet tax deal, but they also offer a couple other important benefits you might not have considered.

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If you've been wondering why there's so much fuss lately about health savings accounts, you're not alone.

After all, they're not exactly new. Health savings accounts (or HSAs) were created in 2003 so individuals covered by high-deductible health plans could receive tax-preferred treatment on money saved for medical expenses.

But with constant changes to health care coverage, including an increase in the number of high-deductible policies available, HSAs are growing in popularity. More companies are offering access as part of their employee health coverage. And the Republican-led Congress wants to give HSAs an even bigger role in health care reform; this year, it proposed contribution limits that are nearly double what they are now. (The 2017 contribution cap is $3,400 for individuals and $6,750 for family coverage, with a $1,000 per year catch-up contribution for those over age 55.)

The triple tax advantages to an HSA:

The money you or your employer deposit in the account is deductible on your tax return (or entirely pre-tax if you contribute to your HSA via payroll deduction).
The money in your account grows tax-free.
You aren't taxed on the money when you withdraw it, as long as you use it to pay for qualified medical expenses, including dental, vision and even over-the-counter medications, if your doctor writes you a prescription.
So you can see the appeal.

There are several ways to access your HSA funds. Many plans use a debit card, some offer a checkbook and some allow for reimbursement. Withdrawals can be made for any reason, but if the money isn't used for approved medical costs, there is a 20%

penalty and those withdrawals are taxed as income. (The penalty is waived for those 65 and older, or who have become disabled.) All HSA participants are required to retain documentation of their qualified medical expenses.

After setting up your HSA plan, adding money is pretty straightforward. You can send checks directly, you can do a payroll deduction, or you may have an employer-funded HSA. You can even do a 100% tax-free one-time "rollover" of an IRA into your HSA, as long as the size of the rollover does not exceed your annual allowable contributions.

Another advantage of an HSA is that earned income is not a requirement. To qualify, you must have an eligible health insurance policy with a high deductible, meaning $1,300 for individuals or $2,600 for family coverage.

After you sign up for Medicare, you can no longer make contributions to your HSA, but you can continue to use the money that's already in the account tax-free for uninsured medical expenses and for some Medicare premiums.

If you've passed on opening a health savings account in the past because it just seemed too complicated or you were confused about the benefits, take another look. The trifecta of tax advantages, ease of use and continued access into your retirement years makes it worth considering an HSA as part of your overall retirement plan.

Kim Franke-Folstad contributed to this article.

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