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Healthy Lifestyle

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## Health savings accounts: Is an HSA right for you?

**Health savings accounts are used to save money for future medical expenses. Discover how these plans work.**

By Mayo Clinic Staff

Health savings accounts (HSAs) are like personal savings accounts, but the money in them is used to pay for health care expenses. You — not your employer or insurance company — own and control the money in your HSA.

The money you deposit into the account is not taxed. To be eligible to open an HSA, you must have a special type of health insurance called a high-deductible plan.

### Why were health savings accounts created?

HSAs and high-deductible health plans were created as a way to help control health care costs.

The idea is that people will spend their health care dollars more wisely if they're using their own money.

### Is a health savings account right for me?

Like any health care option, HSAs have advantages and disadvantages. As you weigh your options, think about your budget and what health care you're likely to need in the next year.

If you're generally healthy and want to save for future health care expenses, an HSA may be an attractive choice. Or if you're near retirement, an HSA may make sense because the money can be used to offset the costs of medical care after retirement.

On the other hand, if you think you might need expensive medical care in the next year and would find it hard to meet a high deductible, an HSA might not be your best option.

### What are some potential advantages of health savings accounts?

- You decide how much money to set aside for health care costs.
- You control how your HSA money is spent. You can shop around for care based on quality and cost.
- Your employer may contribute to your HSA, but you own the account and the money is yours even if you change jobs.
- Any unused money at the end of the year rolls over (stays in your account) to the next year and is yours indefinitely.
- You don't pay taxes on money going into your HSA.
- Some HSAs pay interest on the unused money in your account or invest the money in mutual funds or other financial products. The earnings from an HSA are also tax-free.

## **What are some potential disadvantages to health savings accounts?**

- Illness can be unpredictable, making it hard to accurately budget for health care expenses.
- Information about the cost and quality of medical care can be difficult to find.
- Some people find it challenging to set aside money to put into their HSAs. People who are older and sicker may not be able to save as much as younger, healthier people.
- Pressure to save the money in your HSA might lead you to not seek medical care when you need it.
- If you take money out of your HSA for nonmedical expenses, you'll have to pay taxes on it.

## **Who can set up a health savings account?**

Your employer may offer an HSA option, or you can start an account on your own through a bank or other financial institution. To qualify, you must be under age 65 and carry a high-deductible health insurance plan.

If you have a spouse who uses your insurance as secondary coverage, he or she also must be enrolled in a high-deductible plan.

This high-deductible health plan must be your only health insurance — you can't be covered by any other health insurance.

However, having dental, vision, disability and long-term care insurance doesn't disqualify you from having an HSA.

## **What is a high-deductible health plan and how does it work?**

As its name implies, it's a health insurance plan that has a high deductible — the amount of medical expenses you must pay each year before coverage kicks in. These types of plans are becoming increasingly common. Businesses are more likely to offer them as their only plans or as one of the limited options they provide.

While the deductible is high with this type of plan, the premium (the regular fee you pay to obtain coverage) is typically lower than it is for traditional plans.

High-deductible plans don't start paying until after you've spent at least \$1,350 (for an individual) or \$2,700 (for a family) of your own money on health care expenses, although deductibles vary by plan. The maximum deductible is \$6,750 (for an individual) or \$13,500 (for a family).

You can use your HSA to pay deductible expenses, as well as copays and some other health care expenses that are determined by the individual HSA.

Not all high-deductible plans work the same. For instance, plans may pay for preventive services, such as mammograms, before the deductible is met.

It's critical to carefully review the plan's coverage details, including the out-of-pocket maximum — the limit on how much you would have to pay out of pocket for medical expenses in a year.

## **How much money can I deposit annually into a health savings account?**

The Internal Revenue Service sets the contribution limits for HSAs. In recent years, the limits have been about \$3,500 for individuals and about \$7,000 for family coverage.

Although you can't continue making contributions to your HSA once you're enrolled in Medicare, you can make "catch-up" contributions of up to \$1,000 over the limits between ages 55 and 65 to help pay medical costs in retirement.

## **Can my employer contribute to my health savings account, too?**

Yes, your employer can contribute to your HSA. But the total of your employer's contribution plus your contribution still must be within the contribution limits.

## **Are health savings accounts similar to flexible spending accounts?**

Yes, but there are a couple of key differences. One difference is the amount of unspent money you're allowed to roll over each year.

An HSA allows you to roll over the entire unspent amount, whereas a flexible spending account (FSA) allows you to roll over a maximum of \$500 per year.

Another difference is that the money you put into an HSA is yours and you can take it with you if you switch jobs or retire. You can't take money from an employer-sponsored FSA with you if you change jobs or retire.

Finally, it's important to know that in most cases you can't have both an HSA and an FSA.

## **How do I find information about medical costs and quality so that I can make informed choices?**

It can be challenging. Right now it's difficult to get reliable information regarding the cost and quality of treatment options, doctors and hospitals.

Your employer or health plan may offer some web-based tools or a phone number to call for some basic information.

The hope is that as health savings accounts and other consumer-directed health care options become more widespread, access to information about cost and quality will expand.

## Can I withdraw money from a health savings account for nonmedical expenses?

Yes, but if you withdraw funds for nonmedical expenses before you turn 65, you have to pay income taxes on the money and an additional 20 percent penalty. If you take money out for nonmedical expenses after you turn 65, you don't have a penalty, but you must still pay taxes on the money.