

Harnessing the Power of Health Savings Accounts

The Underrated Value of HSAs

With the annual benefits enrollment season in full swing, there's one tool that might not be getting the attention it deserves—the Health Savings Account (HSA). Despite its impressive potential as a savings and investment instrument, the HSA often flies under the radar, with many people either unaware of its benefits or not fully utilizing its potential. In this article, we will explore the mechanics and advantages of HSAs, demonstrating why they deserve a prominent place in your financial planning toolkit.

HSA Basics: Understanding the Mechanism

An HSA is an account designed to help you save for qualified health expenses. Simply put, it covers the costs associated with medical care, such as doctor visits, tests and treatments. However, except under certain circumstances, health insurance premiums do not fall under the umbrella of HSA-eligible expenses.

Typically, HSAs are available to those enrolled in high-deductible health insurance plans—plans characterized by higher out-of-pocket costs compared to other types of health insurance.

Once you're enrolled in a high-deductible health insurance plan and have opened an HSA, there are several ways to contribute to an HSA. The most common is an automatic deduction from your paycheck, which can be set at enrollment and requires little active management. Self-employed individuals such as independent contractors and business owners can open an HSA as long as they have a qualified high-deductible health plan.

The HSA Advantage: A Real-Life Scenario

To illustrate the benefits of an HSA, consider the following scenario: You're enrolled in a high-deductible plan with a \$2,500 limit for the year. You don't visit doctors frequently, making it unlikely you'll hit that target. But what if an unexpected medical emergency arises?

For instance, imagine suffering a severe injury during a vacation, resulting in hefty hospital bills. This is where an HSA can be a game-changer. If you have been actively contributing, you can tap into your HSA to cover these unexpected costs without draining your cash reserves.

Building Wealth With an HSA: Investment and Savings

While an HSA's primary purpose is to cover health care expenses, it's more than just a fund for medical emergencies. If you're a healthy individual, you might wonder why you would need an HSA. However, consider this: even if you contribute to an HSA, you're not obligated to use the funds immediately or even within a certain period of time.

Think of your HSA as an additional investment account that can build and grow wealth over time. Unlike a flexible spending account, which requires you to use the funds within the year or lose them, an HSA doesn't impose this use-it-or-lose-it rule.

Imagine this scenario: You've accumulated medical expenses over a couple of years but chose not to use your HSA funds because you had enough cash to cover the bills. Then, during a financially tough period, you need extra money. If you've kept all the receipts for your past out-of-pocket medical expenses, you can withdraw from your HSA tax-free to cover these costs, effectively reimbursing yourself.

We recommend maintaining a cash balance in the account to cover your routine health care costs and investing the remainder of the contributions in investment vehicles offered by your HSA administrator. Of course, it's important to consider your potential future medical needs and risk tolerance when choosing how to invest your HSA savings.

Key Perks: Tax Benefits and Investment Growth

HSAs offer a compelling triple-tax advantage, augmenting their appeal as a strategic investment vehicle. Contributions are made pre-tax and pre-FICA, allowing your payroll contributions to bypass Social Security and Medicare taxes. These contributions then grow tax-free within the account. Additionally, withdrawals for qualified medical expenses are also tax-exempt, maximizing your spending power.

Essential Rules and Considerations

While HSAs offer a plethora of advantages, they come with certain rules. For instance, you need to be aware of the annual maximum contribution limits. For 2024, you can contribute up to \$4,150 for self-coverage or \$8,300 if you're providing coverage for your family. Individuals aged 55 and older can contribute an additional \$1,000. Also, once you qualify for Medicare, you're no longer eligible to contribute to an HSA, though you can still use the funds in your account to reimburse health care expenses.

The HSA as a Powerful Savings Tool

An HSA is more than just a health care expense account—it's a powerful financial tool that can play a significant role in building wealth. By leveraging its tax benefits and investment potential, HSAs can provide a buffer for unexpected health costs and contribute to long-term wealth accumulation.

If you wish to explore HSAs further, we at Cerity Partners are here to help. Visit our website at ceritypartners.com or reach out to one of our advisors. We're dedicated to helping you navigate your unique financial landscape and answering any questions you may have.

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