ConnectPay® PAYROLL SERVICES

2015 Payroll Fact Sheet

7 benefits of HSAs

Health savings accounts can do more than help with health care costs

Health savings accounts haven't gotten anywhere near the amount of press—nor the attention from workers—that their advocates believe they deserve. That could be because workers really don't understand **HSAs**. Nor are they aware of the multiple tax benefits that such accounts can provide—and that's on top of their primary purpose: offering a means of saving to cope with steadily increasing health care costs.

Coupled with high-deductible health plans, HSAs offer employees the opportunity to set money aside to pay those high deductibles, as well as to save even more to pay other out-of-pocket medical expenses not covered by the health plan.

But workers often don't save much more than the minimum; in fact, **a recent study** found that not even one percent of respondents maxed out allowable HSA contributions. That means they failed to capitalize on the many other advantages that HSAs offer. That could be because they confuse the rules governing HSAs with those governing flexible spending accounts—which have use-it-or-lose-it rules that don't apply to HSAs—and are afraid of losing any additional funds they might save over the minimum. But there's plenty more benefit to be had from an HSA, over and above its help with health care expenses.

Here's a look at seven benefits to be had from using HSAs to the max. Workers, listen up.

1. Contributions to HSAs are deductible from gross income.

In fact, if they're made via payroll deduction, they're pretax—which means you don't have to sit around and wait for a refund. And considering that the 2015 maximum allowable contribution is $3,350 for individuals or $6,650 for families (those over 55 can add an additional $1,000 to those amounts), that can mean your tax bill could take a substantial hit.

2. HSA money rolls over from year to year.

Unlike an FSA, an HSA is not subject to use-it-or-lose-it rules—which means that the money you save inside an HSA can grow, literally, for years if you save more than you need for qualified health care expenses within a given year. This is a great thing for multiple reasons; keep reading to see what they are.

3. Interest on HSA money is tax free.

That's right—the money you save inside an HSA isn't subject to taxes as long as it's in there. While many people just put the money away and don't think about it till they need to take it out to pay some qualified health care expense, it's just sitting there earning interest—on which the accountholder does not need to pay taxes.

4. Money *invested* inside an HSA also grows tax free.

This can be a really big one. Lots of people aren't even aware that if their balance is large enough, they can invest the money inside an HSA, rather than just save it. And since investment returns grow just as tax-free within an HSA as interest does, that means you could have a sizeable balance accumulating against possible future needs.

5. At age 65, withdrawal penalties go away even if you take the money out for a nonqualified medical expense.

Say you've always wanted to get hair transplants or even join a health club, but somehow never got around to it because, hey, let's face it—those expenses aren't exactly qualified medical expenses, and if you spend the money on them, you'll be hit with a 20 percent penalty—plus have to pay taxes on the withdrawal. But once you turn 65, you can throw caution to the winds and go for it. You'll still have to pay taxes, unless what you're spending the money on is a bona fide qualified medical expense, but voilà! No more penalty.

6. You can use the money in an HSA to pay for long-term care.

While many seniors are trying to figure out how they might be able to cover the costs of long-term care, few have thought of using the money in an HSA to do it. But that's an option, particularly if you have a family history that implies a future need for such care.

7. You can use the money in an HSA to supplement a 401(k).

So maybe your 401(k) took a hit (or two) during some market turbulence, and you don't have as much set aside for retirement as you'd like. If you have a good balance in your HSA, that could be your key to a more comfortable retirement.

If the money isn't needed for qualified medical expenses, and you're past the age of 65, remember that you can take it out, *sans* penalty, and just pay the income tax. It ends up working in much the same way as a tax-deferred situation from a regular retirement account.

14950 East Jefferson, Suite 100 Grosse Pointe, Michigan 48230 Office 313-331-4595 Fax 313-331-0874
2352 Main Street, Suite 303, Concord, Massachusetts 01742 Office 978-450-2900 Fax 978-319-4104