Please note: This is a transcription so there may be slight grammatical errors.

Jennifer Doss:

HSA. It's an acronym worth learning more about if you're in a high deductible health plan. HSA stands for health savings account. As the name implies, it's a savings account for healthcare expenses, but this is not an ordinary savings account like you'd have at your local bank or credit union. The HSA is a tax advantage savings account, where the money you contribute as well as any money your employer contributes can accumulate and be spent tax-free to pay for eligible medical expenses. Covered expenses include medical deductibles, copays, prescription drugs, prescription eyewear, even Medicare premiums. The only catch is that in order to remain tax-free, the money in your HSA can only be spent on eligible medical expenses, nothing else. So why do HSAs exist in the first place? High deductible health plans, which continue to grow as a health insurance option, typically have lower premiums taken from your paycheck each period, but higher annual deductibles for medical services.

HSAs offer a way to accumulate funds tax-free to pay these high deductibles and other medical costs. Most employers contribute to health savings accounts, but employees also want to make contributions to ensure they have enough tax-free money in their HSA account to meet their annual deductible and to cover unexpected medical expenses. HSAs are portable. They belong to you, which means that you keep your HSA account when you switch employers, even if your new employer doesn't offer this type of plan. Similarly, HSA accounts are not use it or lose it, unlike flexible spending accounts. If you don't spend all of your HSA savings on health care needs during a given year, that money stays in your account to be used later.

You can continue to contribute and accumulate money in your HSA account throughout your lifetime when you are enrolled in an employer sponsored HSA plan. If something happens to you, any balance in your HSA account will transfer to your beneficiary. If you are healthy, have few recurring prescription drug costs, and typically use your health insurance primarily to cover annual preventative events, such as physicals or other screenings, a high deductible health plan paired with a health savings account might work well for you. The first step comes during your open enrollment period when you'll decide how much you want to contribute. It will be deducted right out of your pay. Try to save at least enough to cover your annual deductible. But remember, you can accumulate more than that. The IRS sets a limit each year.

Next, ask your HR contact if your HSA account can be invested. The ability to invest these accounts is a big plus. Typically, when you are starting with an HSA, it will be invested in a money market account, but as your cash value grows over time, you may have the opportunity to invest it in a diversified portfolio that includes funds comprised of stocks and bonds. These types of portfolios have a longer time horizon and are best suited to save for retirement, but may also offer a higher return. Again, your contributions and earnings when used to pay medical expenses will be tax-free. Any invested portion of your account should be designated for long-term investment, not short-term health expenses. There are no income limits to using a health savings account, so anyone can accumulate tax-free savings in these accounts. Remember, you are only eligible for an HSA when you're enrolled in a high deductible health plan. So take some time to understand this benefit. Your employer can answer more questions about your specific plan. Triple tax-free savings is a trifecta anyone can win.