

MAKING MORE OF A HEALTH SAVINGS ACCOUNT

Why not stockpile pre-tax dollars to pay for future medical costs?

Presented by Glazer Financial Network

Too often, employees think of Health Savings Accounts (HSAs) as if they were simply deposit accounts. In reality, HSAs have much greater financial potential - and it shouldn't be ignored.

With an HSA, you don't have to "use it or lose it". An HSA lets you set aside money each year for qualified medical expenses. Any money you don't withdraw from your HSA annually is allowed to accumulate.¹

HSA funds can also be invested. So given investment gains, ongoing contributions to your account and tax-advantaged compounding, your savings for future health care expenses have the potential to grow impressively.²

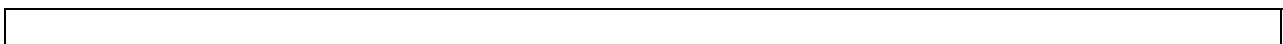
An HSA gives you a versatile automatic savings plan with striking tax breaks. The contributions to an HSA aren't taxed by the IRS, since they are made with pre-tax dollars (as with a Roth IRA). Distributions usually aren't taxed either, as long as they are used to pay for deductibles, co-payments and other qualified medical expenses. The IRS also refrains from taxing HSA earnings. This makes the HSA unique among retirement savings accounts.^{1,2,3}

If you withdraw money from an HSA in retirement and don't use it to pay for medical costs, the withdrawal is considered taxable income. Even so, your HSA potentially gives you another retirement income source. (If you make such a withdrawal before retirement, you will pay the resulting income tax plus a 20% penalty.)²

Are HSAs available to you? More and more employers are offering HSAs in tandem with high-deductible health insurance plans, which may reduce premiums for businesses and employees. As CBS MoneyWatch columnist Ray Martin recently wrote, firms and their workers may see premiums fall as much as 40% with a high-deductible, HSA-qualified plan versus the typical co-pay plan.¹

The IRS capped yearly HSA contributions at \$3,100 for individuals in 2012, with an additional catch-up contribution of up to \$1,000 permitted for people 55 and older. The annual contribution limit for a family was set at \$6,250. Since these contribution limits roughly approximate those for IRAs and since HSA contributions are made with pre-tax dollars, the HSA may prove a useful retirement savings tool.⁴

Both JPMorgan Chase and Bank of America have found that more employers are offering HSAs. BofA saw its HSA business grow by 50,000 plans in 2011 (a record 34% annual jump), while JP Morgan added 200,000+ HSAs in a ten-month window (April 2011-February 2012).⁵



Dollar cost averaging & an HSA. One convenient way to capitalize on the potential of your HSA account is through dollar cost averaging, a contribution method that has less chance of impacting your household budget than the commitment of a lump sum.

You probably already practice dollar cost averaging when it comes to your IRA or 401(k) contributions. By contributing a fixed amount per pay period (an amount that your budget can handle), you have a steady and consistent flow of new money into the account that can be used to buy shares of whatever fund(s) you prefer. In a down market, you pick up more shares for your money as shares are worth a little less - the advantage being that when the market recovers, you will own more shares that will have increased in value.

In other words, it can be wise to treat your health savings account like an IRA or 401(k) and practice dollar cost averaging. Doing so today may allow you to accumulate quite a bit of money you can put toward medical costs tomorrow.

Why not get started on making the most of your HSA? Contact the representative of your employer's plan today for more details on ways to contribute and invest HSA assets. When it comes to retirement and health care, it is always time to think ahead.

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Citations.

- 1 - www.cbsnews.com/8301-505146_162-57498924/is-a-health-savings-account-right-for-you/ [8/23/12]
- 2 - blogs.smartmoney.com/encore/2011/07/26/the-ins-and-outs-of-health-savings-accounts/ [7/26/12]
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