HSA GUIDE

When you're choosing a health plan, there are many factors that affect your decision. If you want an option with flexibility, a high level c choice and tax-advantaged savings, a high deductible health plan with a health savings account (HSA) might be the right choice for yo

What Are HSAs?

Health savings accounts (HSAs) are a great way to save money and efficiently pay for medical expenses. HSAs are tax-advantaged savings accounts that accompany high deductible health plans (HDHPs).

HSAs were created in 2003 to provide individuals who have HDHPs with a tax-preferred method of saving money for medical expense There are certain advantages to putting money into these accounts, including investment earnings and favorable tax treatment. The rationale behind the HSA/HDHP combination is that people will have a clearer idea of their medical costs and more control over their spending, enabling them to reduce their medical costs.

HSA money can be used tax-free when paying for qualified medical expenses, helping you pay your HDHP's larger deductible. At the end of the year, you keep any unspent money in your HSA. This rolled over money can grow with tax-deferred investment earnings, and, if it is used to pay for qualified medical expenses, then the money will continue to be tax-free. Your HSA and the money in it belongs to you—not your employer or insurance company.

An HSA can be a tremendous asset as you save for and pay medical bills because it gives you tax advantages, more control over your own spending and the ability to save for future expenses.

Why Have an HSA?

HSA/HDHPs take a different approach to health coverage than other plans with lower deductibles. Having an HSA provides you with many benefits, including flexibility and easy saving, helping you plan and pay for medical expenses.

HSA Advantages

Here are some of the advantages an HSA provides you with:

Security – Your HSA can provide a savings buffer for unexpected or high medical bills.

Affordability – In most cases, you can lower your monthly health insurance premiums when you switch to health insurance coverage with a higher deductible, and these HDHPs can be paired with an HSA.

Flexibility – You can use your HSA to pay for current medical expenses, including your deductible and expenses that your insurance may not cover, or you can save your funds for future medical expenses, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Also, you do not have to use your HSA to pay for medical expenses. You can withdraw money from your HSA at any time and for any reason. However, if your HSA money is not used for medical expenses, you will have to pay income tax on your withdrawal. You will also have to pay a 20 percent additional tax, unless the withdrawal is made after you attain age 65, become disabled or after your death.

Savings – You can save the money in your HSA for future medical expenses, all while your account grows through tax-deferred investment earnings.

Tax Savings – An HSA provides you with triple tax savings:

1. Tax deductions when you contribute to your account
2. Tax-free earnings through investment
3. Tax-free withdrawals for qualified medical expenses

Control – You make the decisions regarding:

- How much money you will put in the account
- When to make contributions to the account
- Whether to save the account for future expenses or pay current medical expenses
- Which expenses to pay for from the account
- How to invest the money in the account

Portability – Accounts are completely portable, meaning you can keep your HSA even if you:

- Change jobs
- Change your medical coverage
- Become unemployed
- Move to another state

Ownership – Funds remain in the account from year to year, just like an IRA. There are no "use it or lose it" rules for HSAs, making it a great way to save money for future medical expenses.

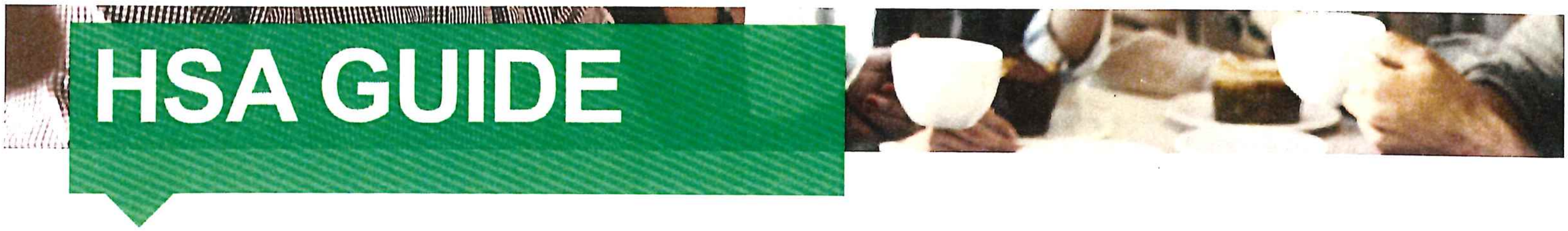
Is an HSA Right for You?

HSAs are a growing trend in health care and offer many advantages, but whether it's the right choice for you depends on several factors.

Comparing HSA/HDHPs to traditional health plans can be difficult, as each has pros and cons. For example, traditional health plans typically have higher monthly premiums, a smaller deductible and fixed copays. You pay less out-of-pocket costs due to the lower deductible, but you will pay more each month in premiums.

HDHPs with HSAs generally have lower monthly premiums and a higher deductible. You may pay more out-of-pocket medical expenses, but you can use your HSA to cover those costs, and you pay less each month for your premium.

The decision is different for each individual. If you are generally healthy and/or have a reasonable idea of your annual health care expenses, then you could save a lot of money from the lower premiums and valuable tax-advantaged account with an HSA/HDHP plan For example, even someone with a chronic condition could take advantage of an HSA/HDHP plan if he or she has a good idea of his o her annual expenses and then budgets enough money to cover cost of care.



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However, if you are older, more prone to illness or unexpected medical conditions, or prefer certainty in medical costs over the possible risk of unexpected out-of-pocket expenses, you may want to stick with a traditional plan. You'll pay more in monthly premiums, but you will have a lower deductible and fixed copays.

To help determine if an HSA is right for you and how much you might save in taxes, contact Brown & Brown of CT, Inc..

How Do HSAs Work?

To have an HSA and make contributions to the account, you must meet several basic qualifications. Here's what you need to know to start saving with an HSA.

HSA Eligibility – In order to qualify for an HSA, you must be an adult who meets the following qualifications:

- Have coverage under an HSA-qualified, high deductible health plan (HDHP)
- Have no other health insurance plan (this exclusion does not apply to certain other types of insurance, such as dental, vision, disability or long-term care coverage)
- Are not enrolled in Medicare
- Cannot be claimed as a dependent on someone else's tax return