

**YOUR MONEY**

# The Benefits (and the Catch) of Health Savings Accounts

Your Money Adviser

By ANN CARRNS    OCT. 13, 2017

It's benefits open enrollment season at many employers, and workers are increasingly likely to hear about an option, known as an H.S.A., that can help them pay for medical expenses and save money on their taxes.

H.S.A.s, or health savings accounts, are not yet as familiar as their better-known cousin, the F.S.A., flexible spending account. But H.S.A.s are becoming more common, according to the latest data.

Devenir, an H.S.A. services firm, reports that the number of H.S.A. accounts increased by 16 percent year over year as of June 30, to more than 21 million. Assets held in the accounts grew 23 percent, to just under \$43 billion. (Devenir's data comes from a survey of 100 H.S.A. providers.)

H.S.A.s offer a triple tax benefit. Contributions can be deducted pretax from your paycheck, lowering your taxable income; any interest or investment gains on the money is tax free; and withdrawals from the account are tax free, as long you spend the money on eligible items.

And if you change jobs, the H.S.A. moves with you.

But there's a catch: The savings accounts are available only with certain health insurance plans meeting specific criteria, like high deductibles — at least \$1,300 for an individual and \$2,600 for a family. (A deductible is the amount you pay for care before your health plan pays.)

The Employee Benefit Research Institute, which tracks a database of 5.5 million health savings accounts totaling \$11.3 billion as of the end of 2016, found that H.S.A.-eligible health insurance plans covered nearly three in 10 employees last year.

High-deductible health plans typically have cheaper monthly premiums — but you'll pay more out of pocket for care. The H.S.A. is meant to help cover those costs.

You can set aside as much as \$3,400 for an individual, or \$6,750 for a family, in an H.S.A. You can leave the money in a basic, interest-bearing savings account or, in some cases, invest the money — just as you would with a 401(k) retirement account — for the long term.

Ryan McCostlin, an expert in individual and family health care at the advisory firm Bernard Health, said the tax-free growth available with H.S.A.s made them powerful savings tools. “Consumers should put that money in the market and let it grow slowly over time,” Mr. McCostlin said in an email.

Fidelity, which offers H.S.A.s, said money invested in a health savings account could help provide cash to cover needed health and medical costs in retirement. It estimates that a 65-year-old couple retiring this year will need \$275,000 to cover health and medical costs throughout retirement. (The cost estimate assumes enrollment in Medicare coverage but does not include extra costs like a nursing home or long-term care.)

Many H.S.A.s, however, require that you have a minimum amount saved — say, \$1,000 — before you can invest. The idea is that you should have some money set aside before you take investment risks.

“If you will need the funds in the near future to pay medical bills, it may not make sense to invest,” said Roy Ramthun, an H.S.A. consultant.

But some account providers let you invest at any time. The health finance start-up Lively, for instance, allows H.S.A. participants to invest with no minimum balance. Lively offers a basic H.S.A. free, or charges users a flat \$2.50 a month to invest in low-cost mutual funds and exchange-traded funds through the online brokerage firm TD Ameritrade.

(Basketball fans may be interested to know that one of Lively's financial backers is the N.B.A. star Kevin Durant, who said in a prepared statement that he was "drawn to tech that helps people in real ways.")

Here are some questions and answers about health savings accounts:

### **Do I have to spend the money in my H.S.A. by a certain date?**

No. There's no deadline for spending the money in an H.S.A.; the balance simply rolls over year to year. (The Employee Benefit Research Institute said more than 90 percent of H.S.A.s ended 2016 with funds to roll over for future expenses).

### **What can I buy using my H.S.A.?**

H.S.A. funds can be used for a variety of health care and expenses, including co-payments, prescriptions, dental work and braces. HSA Bank, an account provider, offers a list of expenses that qualify under Internal Revenue Service guidelines. HSASore, an online store, stocks eligible products.

### **Can I have an H.S.A. if I'm self-employed?**

Yes. If you have an H.S.A.-compatible health insurance plan, you can set up a health savings account on your own. (Most H.S.A.-eligible plans are clearly labeled as such. If you're not sure, ask your insurer.) The money you contribute is tax-deductible, even if you do not itemize deductions on your tax return. You can open an account through a bank or through a company that specializes in them. Devenir offers a search tool. Morningstar recently ranked accounts based on their fees and other criteria.

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