benefitsPRO

Emergence of HSAs enables employees to self-fund health care

By Steve Rosenthal | May 12, 2020 at 07:25 AM

Health saving accounts (HSAs) are tax-advantaged, interest-bearing savings accounts that give employees the ability to fund their own account and offer the flexibility to set aside dollars for their own health care.

An HSA can serve as a savings buffer for medical bills that are unexpected or higher than anticipated. The HSA balance remains in the account year to year, similar to an individual retirement account (IRA), giving employees the flexibility and control to manage their own health care dollars as they see fit.

HSAs can be paired with high deductible health plans (HDHPs) and can be used tax-free to pay for larger deductible or expenses that an employee's insurance company doesn't cover. Not all HDHPs are HSA compatible. HSAs can be used for current medical expenses or funds can be saved to pay off future medical expenses.

Older employees who are thinking about retirement can use HSA dollars as a way to plan long-term and ensure they have enough money saved for medical expenses long after their retirement. The HSA fund is tax-deductible, compounds tax-free interest and earnings and is also tax-free to withdraw from for medical bills. People who are 55 and older can make additional contributions, called "catch-up payments," to their accounts to increase the rate of savings.

HSAs are also employee owned. If an employee ends up quitting, changing jobs, or getting fired, the HSA is theirs, along with all the funds in it. If an employer ends up offering an HSA that is more optimal than the one you currently have, you can transfer the money from the old account to the new one within 60 days.

Contributing to an HSA

An individual's eligibility to contribute to an HSA is determined monthly. An employee must have HDHP coverage on the first day of the month in which they want to make an HSA contribution. There is an exception that allows individuals who become HSA-eligible during a calendar year to make the full contribution amount for that year. With this exception, individuals who are eligible to contribute to an HSA on December 1st can contribute the amount equivalent to the annual HSA contribution amount, provided they remained covered by the HSA for at least a 12-month period following that year. Contributions to your HSA can be made as late as April 15th of the following year.

Contributions can be made each month that you remain eligible. Each month that you are eligible, one-twelfth of the annual maximum for HSA contributions can be made. You can contribute no more than the designated annual maximum. In 2019, the maximum amount is $3,500 for single coverage and $7,000 for family coverage. For 2020, these limits have increased to $3,550 and $7,100, respectively. Individuals who are 55 years and older can make additional “catch-up” contributions of up to $1,000 annually.

Owners of individual retirement accounts (IRAs) or Roth IRAs who are deemed HSA-eligible can transfer IRA funds to an HSA without having to worry about a tax penalty. The IRS grants a one-time transfer that does not exceed your maximum annual HSA contribution limit. Contributions can also be made post-tax similar to a Roth IRA. Funds are not taxable upon withdraw after age 65.

Setting up an HSA is one of the best financial decisions an employee can make to prepare for the uncertainty that the future holds.

Steve Rosenthal is one of the most widely recognized leaders in the employee benefits and human resource industry. Before becoming CEO of ***Triton Benefits and HR Solutions****, Rosenthal was the CEO and pioneer of CheckPoint HR. Rosenthal previously served as Chairman of EPIX of what became under his leadership, one of the largest human resources outsourcing companies in the country.*

This article was originally published here: *https://www.benefitspro.com/2020/05/12/emergence-of-hsas-enables-employees-to-self-fund-health-care/*