

Save money on health care with an HSA

By Sylvia Bittner

Health insurance can be expensive and rather complicated. But a simple Health Savings Account (also known as an HSA) can reduce your health care expenses and help you save money tax-free for future medical expenses.

So what exactly is an HSA? An HSA is made up of two parts. The first part is a special tax-advantaged savings account you set up – similar to a 401(k) – that you can withdraw money from at any time to pay for qualified medical expenses now and in the future. The second part is health insurance policy with certain benefit characteristics, including a high annual deductible. In order to open an HSA account, you must be enrolled in an HSA-compatible high deductible health insurance plan. The idea is you'll use the tax-free money you've set aside in your HSA account to help pay for your medical expenses until your health insurance deductible has been met.

Unlike other financial savings vehicles like IRAs and 401(k)s, an HSA has the unique potential to offer triple tax savings through:

- **Tax-deductible contributions to the HSA** – The money you deposit into your HSA account goes in tax free. You just take it as an above-the-line deduction on your income taxes. And you don't have to itemize your deductions to get this tax credit.
- **Tax-free interest or investment earnings** – The interest and investment earnings generated by the account are also not taxable while in the account.
- **Tax-free distributions** – Any amounts you withdraw from the account are not taxable as long as they are used to pay for qualified medical expenses such as prescription drugs, physician services, long term care services and much more.

And your HSA account goes with you when you move or change jobs. There is no "use-it-or-lose-it" provision with HSAs. Instead, unused contributions roll over each year with interest and/or investment earnings compounding on a tax-free basis. Just like a 401(k), earnings that compound tax-free for several years have the potential to grow exponentially into a supplemental retirement nest egg. And after age 65, you can withdraw funds for non-health expenses if you desire (subject to ordinary income taxes) or continue to use the fund only for medical expenses and never pay taxes on the money in the account.

In addition to saving money on your income taxes and saving money toward future medical expenses, you'll also save money on your health insurance premiums by switching to an HSA-compatible high deductible health insurance plan from a traditional low-deductible health insurance plan.

Want to know more about Health Savings Accounts? Talk to your local Farm Bureau Insurance agent. If you don't have a Farm Bureau Insurance agent, call 1-888-294-4335 for a referral.

Sylvia Bittner is the Health Services Coordinator for Michigan Farm Bureau. Michigan Farm Bureau is a membership based association and the largest general farming organization in Michigan. For over 70 years, Michigan Farm Bureau has partnered with Blue Cross® Blue Shield® of Michigan to offer unique health insurance plans specifically for our members. For more information about Farm Bureau's health insurance plans and other member benefits, contact your local Farm Bureau Insurance agent or call 1-888-294-4335.