10 Myths About Health Savings Accounts

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When you're choosing a health plan for the year -- whether you get coverage through your employer or on your own -- one option may be a high-deductible plan that makes you eligible to contribute to a health savings account. Weigh this option carefully. There are a lot of misconceptions about how HSAs work. Health savings accounts offer a triple tax break -- contributions aren't taxed, the money grows tax-deferred, and it can be used tax-free for eligible medical expenses at any time.

Here, we take a look at several of the most common HSA myths -- and the reality.

Myth: You Must Use HSA Money by Year-End

This is the biggest misconception about HSAs. Unlike flexible spending accounts, HSAs have no use-it-or-lose-it rule. You can use the money tax-free to pay eligible medical expenses at any time. The money can pay current medical expenses -- such as your insurance deductible, co-payments for health care and prescription drugs, and out-of-pocket costs for vision or dental care -- but you'll get the biggest tax benefit if you keep the money growing in the account and withdraw it for medical expenses much later, such as in retirement.

You can withdraw HSA money tax-free, for instance, to pay Medicare Part B, Part D and Medicare Advantage premiums after you turn age 65. Most HSAs let you invest the money in mutual funds for the long term.

Myth: You Can Only Get an HSA Through Your Employer

Although many employers pair an HSA with a high-deductible health insurance plan, anyone with an HSA-eligible health insurance policy can **contribute to an HSA**. (HSA-eligible policies must have a deductible of at least $1,350 for single coverage or $2,700 for family coverage in 2019.) Many banks and other financial institutions offer health savings accounts. You can find HSA administrators at **www.hsasearch.com**, where you can compare fees and investing options.

If your employer does offer an HSA, however, that's usually your best option because many employers contribute money to employees' HSAs (an average of $500 per year for individuals and $1,000 for families), and employers tend to cover most of the fees for employees' HSAs. Also, contributions made through payroll deduction are pre-tax, avoiding federal and Social Security taxes. If you contribute to an HSA on your own, your contributions are tax-deductible.

Myth: You Can't Use Money in the HSA After You Sign Up for Medicare

You can't make new contributions to an HSA after you enroll in **Medicare**, but you can continue to use the money that's already in the account tax-free for out-of-pocket medical expenses and other eligible costs that aren't covered by insurance, such as vision, hearing and dental care and co-pays for prescription drugs.

You can also take tax-free withdrawals to pay a portion of long-term-care insurance premiums based on your age, ranging in 2018 from $410 if you're 40 or younger to $5,110 if you're 70 or older. And after you turn 65, you can use HSA money to pay premiums for Medicare Part B, Part D or Medicare Advantage. You can even withdraw money from your HSA to reimburse yourself if your Medicare premiums are paid directly out of your Social Security benefits. "You just need to keep your payment notification from Social Security in your tax records, and you can reimburse yourself dollar for dollar," says Steven Christenson, executive vice president at **Ascensus**, a benefits consultant.

Myth: You Can't Contribute to an HSA After You Turn 65

Eligibility to make HSA contributions stops when you enroll in Medicare. That's not necessarily when you turn 65. Some people who keep working for a large employer at age 65 choose to delay signing up for Medicare Part A and Part B so they can continue to contribute to an HSA (especially if their employer contributes money to the account, too).

However, you can only delay signing up for Medicare at 65 if you have health insurance from a current employer (or if you have coverage through your spouse's employer); the employer generally must have 20 or morIf you are eligible to delay signing up for Medicare, be sure to enroll within eight months of losing your employer coverage so you won't have a late-enrollment penalty. You can make pro-rated HSA contributions for the number of months before your Medicare coverage takes effect. If you sign up for Medicare Part A after age 65, your coverage takes effect retroactively six months before you enrolled.employees. Otherwise, you generally have to sign up for Medicare at 65.

Myth: You Must Get Permission From HSA Administrators to Withdraw Money

Unlike with an FSA, which usually requires you to gather receipts and get permission from the administrator to make withdrawals, you can withdraw money from your HSA whenever you want.

Many HSAs have debit cards that make it easy to use the account for eligible expenses, but you can also withdraw money on your own and keep the records in your tax files to prove that the withdrawals should be tax-free. "FSAs require the administrator to substantiate the claim, but with HSAs, there is no substantiation requirement -- you just have to keep the receipts," says Steve Auerbach, CEO of **Alegeus**, which provides technology for HSAs.

Myth: You Must Use HSA Funds Within a Certain Time Period After You Incur Medical Bills

One quirk of the HSA rules is that there's no time limit for using the money after you incur an expense. Say you have knee surgery and pay a $1,000 deductible in cash. As long as you had the knee surgery after you opened an HSA, you can withdraw that $1,000 tax-free from the account anytime -- even years later. You just need to keep track of your receipts for the HSA-eligible expenses.

Many HSA administrators make it easy to import medical claims-payment records from your health insurance to your HSA and keep track of whether you paid the bill with your HSA or with cash. "We store all of those claims and receipts for you. If, say, in two years you want to take the money out, it can come out tax-free because you've already incurred those expenses," says Auerbach, of Alegeus.

Myth: You Can Only Invest the HSA Money in a Savings Account

HSAs have savings accounts, so you know the money will be there if you plan to use it for current expenses. But many HSA administrators also let you invest the money in mutual funds for the long term. The fees and investing options vary a lot by company -- some offer low-cost funds from Vanguard, Fidelity and other well-known fund companies. You can compare fees and investing options at **www.hsasearch.com**. Some HSA administrators charge extra fees unless you maintain a minimum balance.

Myth: Your Spouse and Kids Can Only Use HSA Money If Covered by Your Health Plan

The rules for contributing to an HSA are different than they are for using the money. For 2019, you can contribute up to $3,500 to the account if you have health insurance coverage on you only or up to $7,000 if you have family coverage. You can also contribute an extra $1,000 if you're 55 or older. But no matter whether you have individual or family health insurance coverage, you can use the HSA money tax-free for qualified medical expenses for yourself, your spouse and your tax dependents -- even if those family members are covered under a different policy, says Roy Ramthun, CEO of **HSA Consulting Services**.

Myth: You Can't Use the HSA After You Leave Your Job

Here's another way that HSAs differ from FSAs: You can keep the HSA even if you leave your job. You can usually maintain the HSA through the current administrator or roll it over to a different one (similar to an IRA rollover). And if you have an HSA-eligible high-deductible policy -- whether through a new employer or on your own -- you can continue to contribute to the HSA.

Myth: It Doesn't Make Sense to Have an HSA-Eligible Policy If You Have a Lot of Medical Expenses

Some people are reluctant to choose a high-deductible health insurance policy if they have a lot of medical expenses. But you need to do the math and compare the overall costs. In some cases, the premium savings by choosing the high-deductible policy rather than a lower-deductible plan may cover most of the difference in the deductible. And if you have employer coverage, your employer may contribute to your HSA to help close the gap.

The employer contribution is generally seed money rather than a match. Many employers deposit a fixed amount of money into the account at the beginning of the year for anyone who has an HSA-eligible policy, says David Speier, managing director of benefits accounts at **Willis Towers Watson**, a benefits consultant. Add up the difference in premiums, deductibles and other out-of-pocket costs for your regular medical expenses, as

well as any employer contribution, when deciding on a policy. Many employers are introducing decision-making tools to help with the calculations, says Speier.