

What Is A Health Savings Account And How Does It Work?

You may have heard a lot in the past few years about Health Savings Accounts (HSAs) and their benefits. If you aren't sure what an HSA is or whether it is a good choice for you, here are the basics of how an HSA works.

What Is An HSA?

A health savings account allows you to put money aside pre-tax to be used throughout the year on allowable health care needs. HSAs are an option for people who have enrolled in a high deductible health care plan, to allow them to more easily pay for their expenses. Developed to help reduce the cost of health care both for companies and for individuals, HSAs have been in use since 2003.

What Can An HSA Be Used For?

Any allowable medical expense can be paid for using funds from your HSA. This includes doctor visits, tests and treatments, medical equipment, and more. Although over-the-counter drugs have generally been an allowed medical expense under your HSA, reforms to the plan will change this in 2011. Prescription medication will continue to qualify as an HSA allowed medical expense.

Does The Money Roll Over?

If you don't use all the money in your HSA in any given year, it will roll over. This differs from a FSA, or flexible spending account, which has different rules for use and must be spent within the year. You can continue to accumulate funds in your HSA.

Can Anyone Have An HSA?

Health savings accounts were designed to be used by people enrolled in high deductible health plans only. If you have not chosen a high deductible plan, you will not be able to open an HSA. You will, however, be eligible for an FSA if you wish to put money aside pre-tax for some of your expenses. As long as you do enroll in a qualifying high deductible plan, you can start an HSA and put money into it to start paying for your health care needs.

Remember that high deductible plans with HSAs are not the best choice for everyone. If you require a lot of medical care throughout the year, you might be better off with a more traditional health insurance policy that will reduce the amount of money you need to pay out of pocket. Selecting an HSA requires some careful consideration and a having good idea of what your medical expenses will be for the year.