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Maximizing Your HSA
Fidelity Investments

TRANSCRIPT

You've probably already heard about many of the benefits your HSA brings you, but there's more to know that will help you make the most of this account. First, your HSA gives you total control and flexibility. You decide when and how much to contribute, how to invest your money, and when to withdraw it to pay for qualified medical expenses. Whatever suits your needs, wherever life takes you.

These are pre-tax dollars you are setting aside. Your contributions to your HSA, its earnings, and distributions, are free from federal taxes when they're used to pay for qualified medical expenses.

Let's do a little time travel to see how an HSA works throughout the years. Meet Denise. She's single, in her twenties. She has just enrolled in her employer's HSA eligible health plan, and she has opened an HSA. Her goal for her HSA is to contribute enough to cover her annual medical expenses, expected or unexpected. That's her safety net. She isn't sure how much that should be, so she uses the deductible set by her HSA eligible health plan as a guide. These are the years Denise is building up her HAS. She decides to contribute $2,000 a year to her account, and since her medical expenses are relatively low, she chooses to pay for them out of pocket so she doesn't need to withdraw from her HSA. Denise needn't worry about making sure she uses all the money in her HSA by the end of the year. She knows any unused money remains in her account one year to the next. During these years, beyond what Denise saves as her safety net, she invests the rest, giving it potential to grow. That's because she is saving not only for her current qualified medical expenses, but also for future ones. After all, healthcare is likely to be one of the largest expenses in retirement.

Fast forward, Denise is in her mid-thirties now, married with children. She has changed to 'family coverage,' into her employer's HSA eligible health plan. With a higher income, she is able to contribute $5,000 a year to her HSA. And with a growing family, there are more medical and dental expenses. So she uses some of the cash she has set aside in her HSA as a safety net to cover these. That's how she leverages the significant advantage of her HSA, because those are federally tax-free dollars.

By the time Denise is in her forties, she has changed jobs twice, taking her HSA along with her. She still has an HSA eligible health plan. Financially, she is comfortable enough to contribute up to the IRS limit, and she continues to invest those dollars beyond her safety net, in line with her longer-term savings goals. All along, Denise has made her HSA an important part of her plans for retirement, and she has accumulated a nest egg of HSA dollars. In retirement, those can be used to pay for qualified medical expenses, such as prescriptions Medicare prescriptions, and other medical expenses not covered by Medicare. What's more, when Denise reaches age 65, she can use her HSA money for any reason. If she decides to use the money for something other than qualified medical expenses, she simply pays appropriate income taxes on the amount she withdraws. No matter what twists and turns life gives you, your HSA gives you lots of flexibility.

Just remember these two keys: Have a safety net to cover out-of-pocket healthcare costs. And, beyond your safety net, consider saving and investing for future medical expenses. Remember, save as much as you can afford in your HSA so it has potential to grow in the future.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.