

Know Your Benefits



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HSA Pros & Cons

The health savings account (HSA) is a growing trend in health care, but is it right for you? An HSA is a cost-effective option for many individuals and families, but it is not the best choice for everyone.

The Differentiators

Comparing HSAs to traditional health plans can be difficult, as each has pros and cons. For example, traditional health plans typically have higher monthly premiums, a smaller deductible, and fixed copays and/or coinsurance. You pay less out-of-pocket due to the lower deductible and copay, but pay more each month in premium.

HSA plans generally have lower monthly premiums and a higher deductible. You may pay more out-of-pocket for medical expenses, but you can use your HSA to cover those costs, and you pay less each month for your premium.

Benefits

HSAs are designed to offer the user triple tax benefits – you put money in tax-free, it accrues interest tax-free and you can withdraw it tax-free (for qualified medical expenses). You can budget how much to contribute, and unspent dollars are rolled over each year, making it a good retirement savings vehicle as well. In addition, South Central Indiana School Trust may choose to contribute to your HSA.

Drawbacks

It is tough to accurately budget for your yearly medical expenses, as illness is unpredictable. Also, finding accurate information about health care costs is sometimes difficult, reducing your ability to budget for expenses. If you do not budget enough for a given year, you may have significant, unexpected out-of-pocket costs, especially if you face a large medical expense. Also, because the HSA is such a valuable savings opportunity, some people forgo care they need to avoid spending money from the account.

How to Decide

The decision is different for each individual. If you are generally healthy and/or have a reasonable idea of your annual health care expenses, then you could save a lot of money from the lower premiums and valuable tax-advantaged account with the HSA plan. For example, even someone with a chronic condition could take advantage of an HSA if you have an idea of your annual expenses and budget enough money to cover your care.

However, if you are older, more prone to illness or unexpected medical conditions, or prefer certainty in medical costs to the possible risk of unexpected out-of-pocket expenses, you may want to stick with a traditional plan. You'll pay more in monthly premiums, but will have fixed copay and/or coinsurance amounts.

To determine if an HSA is right for you and how much you might save in taxes, check out the following calculators: https://www.aarp.org/health/medicare-insurance/hsa_calculator.html.

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