Blue Cross Blue Shield Blue Care Network of Michigan

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Making Health Savings Accounts work in retirement

Saving in a Health Savings Account now could be part of a smart retirement strategy

An HSA, or Health Savings Account, is a bank account you use to pay for qualified medical, pharmacy, dental and vision expenses. You can save on income taxes with an HSA because the money you put in and use toward qualified medical expenses is tax-free or tax-deductible. In short, it provides a triple tax advantage – contribute tax-free, earn interest and gains tax-free and spend on qualified medical expenses tax-free. You can contribute to your HSA any time of the year, up to the annual limit. Individuals who are 55 and over can also make catch-up contributions (an extra $1,000/year) while enrolled in a high deductible health care plan.

- Unlike an FSA, HSAs aren't "use it or lose it" so any money you haven't spent by the time the year ends or you retire can be used for future medical expenses.
- Like a 401k, you take the money with you wherever you go.

There are two schools of thought for an HSA: using your funds now as you need them or saving them for later. If you use your funds now for out-of-pocket expenses, you'll have less saved for retirement. If you pay for your medical expenses out of pocket now, you'll have more saved in your HSA account to help pay for medical expenses once you retire. If you retire before age 65 and you aren't yet eligible for Medicare, you can use money in your HSA to pay your medical coverage premiums.

HSA Strategies	
Cover out-of-pocket medical expenses: Use like a Health Spending Account	**Save for medical expenses in retirement: Use like a 401k**
Contribute money to your HSA while you are working	Contribute money to your HSA while you are working
Use the money to pay for out-of-pocket medical expenses every year	Do not use any savings to pay for out-of-pocket expenses
Savings goes up and down throughout year as you contribute and use the money in your account for medical expenses	Savings goes up each year as you contribute, until you retire
Once the money in your HSA account has been spent, you will have to pay for any uncovered medical expenses out of pocket	Use savings in your HSA to pay for medical expenses after you retire so you don't have to use your 401k, social security or other savings for medical expenses
BONUS: You don't have to claim expenses in the year they occurred. If you save receipts from medical expenses you've incurred while working, you can "pay yourself back" from your HSA after you retire.	

Once you've enrolled in Medicare, you'll no longer be able to contribute to your HSA. However, you can continue to invest the money already in your HSA and make withdrawals for qualified health care expenses tax-free. If you're 65 or older, you're not limited to using the money in your HSA just for health care expenses. Keep in mind that if you use it for other expenses, you'll need to pay income taxes on those amounts.

If you don't have one already, an HSA is a good tool to have in your tool box as you start to prepare for retirement.

Let's take a look at how an HSA can work for you:

If you are young or just starting out in your career, you may not have extra money for out-of-pocket expenses. Maybe you have young family and see the doctor a lot. In these cases, you may want to use your HSA like a Health Spending Account and use your funds now.

At mid-career, you might start thinking about retirement and saving. At this point, you could pay out of pocket for some or all of your medical expenses, and let the money in your HSA grow.

Near the end of your career, you can treat your HSA like a 401k, contributing the maximum amount until retirement. At 55, you can even start to add catch-up funds.

For more information about HSAs, visit **bcbsm.com**.

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