



FRANKLIN TEMPLETON  
INVESTMENTS

# 10 THINGS YOU SHOULD KNOW ABOUT HEALTH SAVINGS ACCOUNTS

Here are 10 things you should know about Health Savings Accounts (HSAs) that can help you plan for healthcare expenses now and in retirement.

## 1 | TAX EFFICIENCY

HSAs are the first triple tax-free retirement investment vehicle. That means contributions are pre-tax or tax deductible, no tax on earnings or interest, and withdrawals for qualified medical expenses are tax-free.

## 2 | CONTRIBUTIONS BEFORE TAXES

For contributions made from payroll deductions, an HSA contribution goes in before FICA and taxes which is 15.3% lower than a traditional 401(k) contribution.

## 3 | FAMILY COVERAGE

If needed, HSAs can be used to pay for qualified medical expenses of a spouse or child even if they are covered under another medical plan.

## 4 | KEEP IT ROLLING

The money you don't use can roll over year after year. It is a common misconception for HSAs to get lumped in with Flexible Spending Account plans (FSA).

## 5 | NO OBLIGATIONS AT AGE 70½

Unlike with a 401(k) plan, you don't have to start Required Minimum Distributions (RMDs) at age 70½.

## 6 | KEEP A PAPER TRAIL

You can use your HSA to repay yourself for any past qualified medical expenses with after-tax money as long as you keep your receipts.

## 7 | EMPLOYER CONTRIBUTIONS

Employers can offer a match, within the annual contribution limit, to help offset higher deductibles.

## 8 | START SAVING FASTER

Some providers offer immediate investing capabilities on the first dollar to help accumulate health savings faster.

## 9 | PENALTIES

Distributions before age 65 that are used for non-qualified medical expenses are subject to income tax and additional 20% penalty tax. After age 65, you can take distributions for non-qualified medical expenses penalty-free, but they will be taxed as income.<sup>1</sup>

## 10 | NO INCOME LIMITS

There aren't any income limit restrictions, minimums, or phase-outs like the ones associated with a Roth IRA.

## FAQs

### What is an HSA?

A savings account used in conjunction with a high deductible health plan (HDHP) that allows users to save money tax-free to pay for qualified healthcare expenses.

### What is an HDHP?

A health insurance plan with a high minimum deductible that the insurance holder must pay for medical expenses before insurance coverage kicks in. Minimum annual HDHP deductibles for 2018 are \$1,350 for an individual and \$2,700 for a family.

### How much can I contribute to my HSA?

Annual contributions for 2018 top out at a high deductible of \$3,450 for an individual and \$6,850 for a family. Individuals over 55 may contribute an additional \$1,000 each year.

### When can money be taken out of an HSA?

HSA holders can make a withdrawal tax-free any time as long as it is being used to cover qualified medical expenses.

### What is considered a “qualified medical expense”?

Doctor visits, diagnostic tests and lab fees, prescription medication, eye and dental exams, psychiatric care and many others.<sup>2</sup>

### Can I use an HSA for non-qualified medical expenses?

Yes, however non-medical withdrawals from your HSA are subject to income tax and penalized with an additional 20% tax. At 65, withdrawals are taxed as ordinary income but are not penalized.

1. Source: IRS Publication 969. <https://www.irs.gov/pub/irs-pdf/p969.pdf>

2. For information about qualified medical expenses, see IRS Publication 502 (2016), Medical and Dental Expenses. <https://www.irs.gov/publications/p502>

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