

Health savings accounts

How HSAs allow you to take control of health care costs and planning

INTERVIEWED BY JAYNE GEST

Health savings accounts (HSAs) are a savings vehicle increasingly being used to offset health care costs and improve awareness when utilizing health care simply because there is additional skin in the game. Further, HSAs provide potential savings and accumulation of assets that work well with long-term financial planning.

“HSAs encourage us to be better consumers, plan ahead and consider the ramifications of health care, as it applies to your long-term financial plan,” says Michael Bartolini, President and CEO of First Commonwealth Insurance Agency.

“It might be a very good opportunity to save more tax-deferred and tax-free money, depending on your situation,” says Nancy Kunz, Lead Financial Planner at First Commonwealth Financial Advisors.

Smart Business spoke with Bartolini and Kunz about how health savings accounts operate and where they fit in with your financial planning.

How does an HSA work in conjunction with your health insurance?

Many people are going to a high-deductible health care plan that has premium savings as a result of the larger upfront deductible. The idea is to shift those premium savings to an HSA, which can be used to pay for unreimbursed medical expenses on a pre-tax basis. The list of applicable expenses is long and includes dental, vision, long-term care insurance premiums, home improvements for medically necessary conditions, etc.

An HSA does not have to be provided by an employer; it can be set up on an individual basis. You also are able to accumulate funds year after year, with the idea of using those dollars against future medical expenses.

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The current annual contribution limits, which tend to increase, are \$6,450 for a family or \$3,250 for an individual. If you are over the age of 50, you are able to contribute an additional \$1,000.

How does this differ from a flexible spending account?

Typically provided by employers, a flexible spending account (FSA) works on a pre-tax basis for many of the same unreimbursed medical expenses, but the money does not roll over to the following year. If the monies that are in the FSA are not spent by the end of the calendar year, they are lost. Unlike an HSA, all monies you plan to contribute to the FSA throughout the year are available as soon as you sign up, whereas only the actual contributions are available in an HSA.

How does an HSA help you better manage health care expenses?

When something hits your pocket or you have a new cost, it causes you to be more responsible and a better consumer. If you have to pay \$2,000 first with the high-deductible health plan, you're going to be more mindful of where you go for health care expenses, including which hospital or provider you choose for a procedure.

The economics of health care don't follow traditional economics where you choose wisely based on price points and/or quality.

What one provider may charge for an MRI versus what another provider charges could be very different, but you're not likely to care if it's a \$10 or \$15 copay. We don't have the mindset that even if insurance companies are paying, so are we — one way or another.

HSAs and high-deductible health plans with their greater level of upfront deductible pushes consumers to exert more energy to pick up the phone and find out what a procedure costs. In addition, many health insurance carrier websites are starting to populate this kind of transparent data to show provider price points.

How does an HSA fit into your overall financial plan?

An HSA can act as another retirement vehicle, especially if you start young enough to accumulate funds without having to — or choosing not to — use those dollars against medical expenses. Once you've reached age 65, HSA funds can be used without penalty for any purpose. An HSA also will follow you wherever you go; it's not tied to an employer.

Many people have reached their maximum on 401(k) or IRA contributions, so depending on your age and health needs, this may be an option to look at seriously for tax benefits and long-range financial planning. ●