

Financial Insights

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The Benefits of Health Savings Accounts

A relatively new product to the market, health savings accounts (HSAs) are growing in popularity, and it's easy to see why. HSAs offer many benefits, such as the ability to carry the money over year to year; convenient, flexible ways to pay for qualified medical expenses; and tax savings.

How Does It Work?

An HSA is paired with a qualified high-deductible health plan (HDHP), and gives you the option to save the money that you would have spent on a more expensive health plan for medical expenses. You must be enrolled in an HDHP in order to contribute to an HSA, but the HSA is always yours, whether or not you switch employers or health plans.

"An HSA puts people in control of their medical expenses," says Kevin Huss, product developer, Consumer Banking, Thrivent Financial Bank. "It causes them to shop around more and be cautious of their medical costs." The HDHP does not cover as many expenses as a traditional insurance plan, so the goal is to have enough money in your HSA to cover everything from doctors' visits to prescription drugs to over-the-counter medicines. The Internal Revenue Service publication 502 lists

qualified medical expenses and can be found at www.irs.gov.*

HSAs are individually owned, but the money can be used for out-of-pocket qualified medical expenses for spouses and dependents.

Benefits of HSAs

In addition to the flexibility an HSA offers, there are also numerous tax benefits.** "HSAs are one of the best savings accounts out there," says Huss. "They can provide triple tax savings."

Huss explains them as a combination of a regular IRA and a Roth IRA in one. "First, your contributions are federal tax-deductible, like a regular IRA. Second, the money you earn in the interest-bearing account is tax-free. Finally, when you take money out, it acts like a Roth. As long as it's for qualified medical expenses, you can make tax-free withdrawals."*** Contribution limits for 2010 and 2011 are \$3,050 for single coverage and \$6,150 for family coverage.

The accounts can also be a good part of a retirement portfolio. Once you are 65, the 10% IRS penalty for nonmedical withdrawals is waived. There is also a catch-up contribution of \$1,000 for those 55 and older.

"Many people can benefit from an HSA," says Huss. "Someone who is relatively healthy and doesn't use health insurance much can control their medical costs and grow their HSA balance year-over-year," he says. "HSAs may also be valuable for tax planning and retirement planning purposes."

Thrivent Financial Bank has offered HSAs since September 2004 with no annual fee, free debit card, free online banking and a competitive tiered interest rate. For more information, visit Thriventbank.com or call a personal banker at 866-226-5225.

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**** Nonqualified withdrawals (those that are not for qualified medical expenses) are subject to ordinary income taxes and a 10% tax penalty. The 10% penalty does not apply to individuals age 65 and older.*