The first year in an HSA

Thinking about switching to a new health plan with a Health Savings Account? If you know what to expect the first year, the transition may be a lot less daunting.

Meet the Santos family

Andrea and Matt liked their traditional health plan just fine, but a couple of Andrea's friends at work told her how much they loved the Health Savings Account they got when they chose the HSA-eligible health plan.

After giving their options a lot of thought during annual enrollment, several things made them switch to the HSA-eligible health plan:

- The premiums were considerably lower than their traditional health plan, and the $3,000 family deductible wasn't too high.
- They have minimal health care needs in a normal year, and their doctors were still in their network.
- Andrea's employer would make a $1,000 lump-sum contribution to the HSA at the start of the year.
- They liked the tax advantages of the HSA—the money Andrea contributes is tax-free, it can grow tax-free, and withdrawals for qualified medical expenses also are tax-free.[1]

Does their first year in the plan go as planned? Let's follow along and find out.

Andrea

— 42 —

Gets her family's health insurance through the job she loves.

Matt

— 45 —

Has an extremely stressful job and takes medication for high blood pressure and cholesterol.

Sofia

— 10 —

Is a laid-back, bookish kid, prone to the occasional ear infection.

Nicholas

— 8 —

Is a bit of a daredevil, which naturally worries his parents.

The Santos family is a hypothetical example. Please see **"Important information"** on the last page.

January

HSA debit card comes in the mail

HAPPY NEW YEAR! As Andrea and Matt enjoy one last day off for the holidays, Andrea's employer gets her HSA off to a running start with a $1,000 contribution (about average for family coverage[2]). Andrea gets a lump sum deposited in her account, which gives her a certain sense of comfort as the year begins, but some employers make monthly contributions instead.

Andrea starts out contributing $250 a month, knowing she and Matt can decide to increase her contribution during the year if they want to.

The first expense is refilling Matt's prescriptions. In the spirit of being more aware of their health care spending, Matt and Andrea make sure they review all their options for filling the prescriptions and find that switching from a name-brand to a generic option for both medications will save hundreds of dollars.

* A $250 HSA contribution doesn't mean $250 less in take-home pay. The tax savings softens the impact:[3]

Contribution	$250.00	$350.00	$590.00
Taxes saved	$86.63	$121.28	$204.44
Paycheck decrease	**$163.37**	**$228.72**	**$385.56**

Assumes 22% federal tax rate; 5% state tax rate; and 7.65% FICA taxes.

January — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$1,000	$250	$110	$110	$1,140	

February

THE FAMILY TAKES A SKI TRIP and—uh-oh!—their little daredevil Nicholas breaks his arm. Thankfully, it's a simple break. But with an urgent care visit, X-rays and getting the arm set in a cast, the bill still hits $2,600. Since the family's deductible is $3,000, that means they'll have to pay the bill themselves.

But Andrea and Matt are still thankful—if the accident had required an ambulance or surgery, the bill could have been much higher.

At this point, there is only a little over $1,000 in Andrea's HSA—and she doesn't want to put the payment on a credit card. So Andrea and Matt **work out a payment plan**: $435 a month for six months.

At the same time, they decide to increase Andrea's contribution to her HSA by $100 a month starting in March.

*

Payment plans are a great way to handle big expenses you can't immediately cover with your HSA.

February — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$1,140	$250	$435	$545	$955	

March

Most employers now offer a virtual health benefit. Check out your options before you need them.

ANDREA COMES DOWN WITH A SINUS INFECTION—more of an annoyance than anything else. Since this is pretty common for her, she opts for a **telemedicine appointment**, which saves her quite a bit of money and time. Since the total cost is $60 for the telemedicine visit and prescription, she decides to put this one on the credit card and pay it off when the bill comes. It still counts toward her deductible, but she'd rather save the money in her HSA, just in case anything else happens later in the year.

March — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$955	$350	$435	$1,040	$870	

April

Matt's refills arrive

In addition to over-the-counter medications, qualified medical expenses include X-rays, lab tests, hospital services, surgery, physical therapy, and much more.

IT'S SPRING BREAK, and the family is taking a cruise to get away and warm up. Matt needs a break from the stress of work, and everyone else could use a week of R&R too. Andrea pays cash for the "just in case" motion sickness medicine she picks up at the drugstore on the way to the ship, but she could have used her HSA to pay for it. Over-the-counter medications are considered qualified medical expenses, even without a prescription.

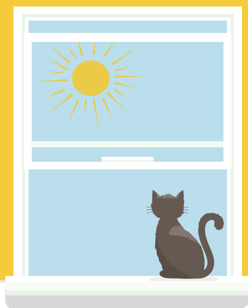
April — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$870	$350	$545	$1,585	$675	

May

THE SCHOOL YEAR IS COMING TO A CLOSE, so Matt and Andrea take some time to plan for the coming summer—what camps the kids want to attend, when they'll take their annual summer staycation, and when **they can all get their physicals**. Summer comes and goes quickly, everyone wants to make sure they take the time to savor it.

May — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$675	$350	$435	$2,020	$590	

June



SCHOOL'S OUT, but Nicholas is getting ready for his first football camp this summer, which requires a doctor's note. They schedule a complete physical so he won't have to go back again before school starts. Luckily, that's considered **preventive care**, so there's no cost for the doctor visit. While they're there, mom makes an appointment for the rest of the family to get physicals later in the summer.

*

Preventive care includes physicals, immunizations, cancer and diabetes screenings, and more.

June — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$590	$350	$435	$2,455	$505	

July

IT'S TIME FOR SUMMER STAYCATION.
Matt and Andrea both like to take a week off in the summer just to spend time with the kids and get away from work stress. They know it's **good for their health**—just like following a healthy diet and getting enough exercise.

They also make their last payment on the broken arm—now healed and paid off, too.

Matt's refills arrive

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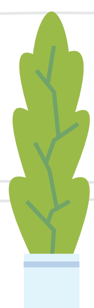
Just because you can use your HSA to pay for prescriptions doesn't mean you have to. You can pay another way and leave the money in your HSA for later.

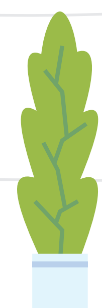
July — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$505	$350	$545	$3,000	$310	

August

IT'S PHYSICAL TIME for Andrea, Matt, and Sofia before the kids head back to school and everyone's lives get crazy again. While they're at it, all four of them get **flu shots**.

Preventive services for children include behavioral assessments, development screenings, and screenings for vision and hearing.





August — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$310	$350	$0	$3,000	$660	

September

POOR SOFIA. No sooner is she back in school than she comes down with an ear infection. This one is bad enough to skip the telemedicine visit and head for the primary care doctor, who is familiar with Sofia's history of ear infections. It also means a prescription. But because they **hit their deductible** this month, they will only pay coinsurance—20% of the cost for the office visit and prescription.

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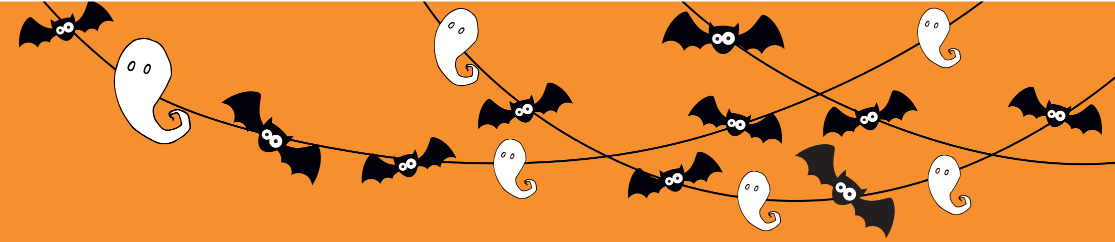
After hitting the deductible, you will likely have to pay a percentage of costs—coinsurance—until you hit your "out-of-pocket maximum," which caps how much you could have to spend in a year.

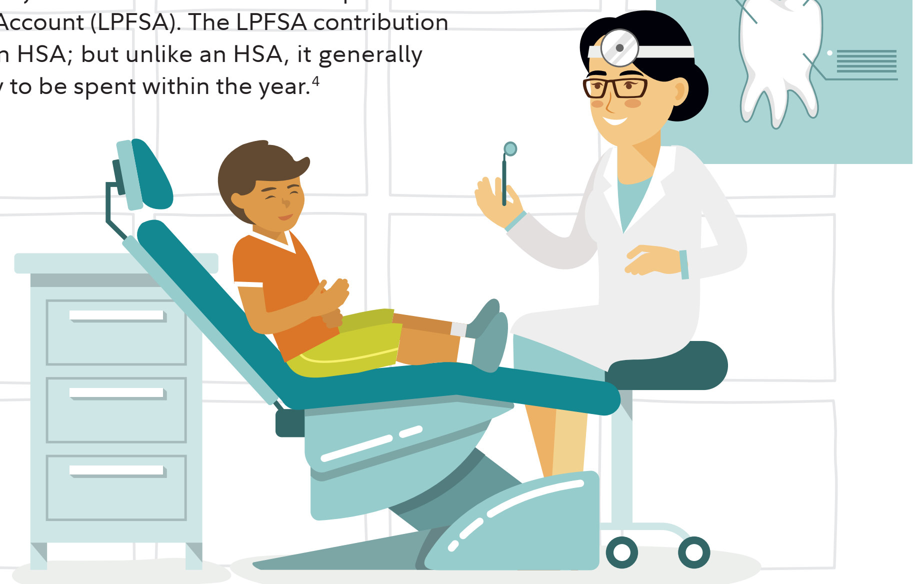
September — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$660	$350	$60	$3,000	$950	



October

Matt's refills arrive

IT'S TIME FOR EVERYONE TO VISIT THE DENTIST.
Andrea and Matt enrolled in **dental insurance** this year, so everyone's checkups are covered. But this time the conversation turns to braces for Nicholas. Knowing the cost and treatment plan ahead of time will help Andrea and Matt decide how much to contribute to Andrea's HSA next year—but also whether they want to fund a Limited-Purpose Flexible Spending Account (LPFSA). The LPFSA contribution is pretax just like an HSA; but unlike an HSA, it generally requires the money to be spent within the year.[4]



October is Breast Cancer Awareness month, so Andrea gets a mammogram—another preventive service at no cost.

October — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$950	$350	$22	$3,000	$1,278	

November

IT'S TIME FOR ANNUAL ENROLLMENT AGAIN.
This time last year, Andrea and Matt decided to take the plunge on an HSA-eligible health plan and see how it would go.

Even after Nicholas's broken arm in February, they feel pretty good about things—they get their preventive care at low or no cost, and that accounts for most of their needs in a normal year.

They're going to stick with the HSA-eligible health plan, and even **increase Andrea's HSA contribution to the annual maximum**. They've decided to redirect the additional money from Andrea's 401(k), knowing she will still get her full company match, and they can save the money or invest in the HSA for qualified medical expenses in retirement.

November — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$1,278	$350	$0	$3,000	$1,628	

December

AS THE YEAR COMES TO A CLOSE, Andrea and Matt are happy with where they ended up. They have almost $2,000 to carry over to next year. With her employer's $1,000 contribution at the beginning of next year, they will have their deductible almost covered.

That has them thinking about what to do with the money in the account as it grows. They know it can be invested, just like any other brokerage account. But they also know they want to keep about $1,000 in cash, assuming they will spend that much on qualified medical expenses in a given year. So they've decided to invest any money over $1,000, knowing they can change the amount invested at any time. They plan to choose an investment they're comfortable with—something that gives them an opportunity for growth but isn't too risky for their comfort level.

They're feeling good about their decision a year ago and are ready to celebrate a new year.

December — TALLY —	Starting HSA balance	HSA contribution	HSA spending this month	Total spent toward $3,000 deductible	HSA balance at month's end	2022
	$1,628	$350	$0	$3,000	$1,978	

Ready to enroll in an HSA-eligible health plan and open an HSA? Here are a few resolutions to help make your first year in the plan successful.

- **OPEN YOUR HSA,** if you need to, so you will be sure to get your employer contribution.
- **KEEP IN MIND YOU CAN ADJUST** the amount you contribute to your HSA any time. You don't need to wait for annual enrollment to come around again.
- **KNOW WHAT SERVICES ARE AVAILABLE TO YOU TO HELP MANAGE YOUR COSTS.** You may have telemedicine options or access to online service that helps you manage your expenses, payments, claims, and receipts all in one place, on any device.
- **THINK ABOUT THE FUTURE.** You can save the money in your HSA until you really need it—including all the way into retirement. If you're thinking long term, consider investing some of your HSA balance to make it work harder for you.

Important information

This hypothetical example is based on the following assumptions:

- The family's deductible is $3,000, lower than average for family coverage. The minimum deductible for a family plan to qualify as an HSA-eligible health plan is $2,800 in 2022. The average annual deductible for family coverage in 2020 was $4,601, according to the Kaiser Family Foundation 2020 Employer Health Benefits Survey, the most recent data available.
- The plan counts prescription costs toward the deductible. Some plans only count prescription costs toward the out-of-pocket maximum for the year.
- The employer contribution of $1,000 is similar to the average employer HSA contribution for family coverage of $1,018, according to the Kaiser Family Foundation survey. This average includes firms that make no contribution to the HSA; when those firms are excluded, the average rises to $1,389 for family coverage.
- Total spending of about $3,000 is greater than average, based on the 2018 Consumer Expenditures Survey (CEX) from the Bureau of Labor Statistics, the most recent survey available.
- Investment returns on the HSA balance are assumed to be zero.

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1. Contributions, earnings, and distributions are tax-free for federal tax purposes when used to pay for qualified medical expenses. However, each state may decide to follow the federal tax guidelines for HSAs or establish its own.

2. The average employer HSA contribution for family coverage was $1,018 in 2020, according to the Kaiser Family Foundation survey.

3. Savings calculation is based on the following tax rates: 22% federal tax rate; 5% state taxes (in a state where HSA contributions are tax-deductible); and 7.65% FICA taxes. Monthly premium savings are based on the difference between the average employee premium paid for traditional plans ($5,925) vs. HDHP plans with an HSA option ($4,626), according to the Kaiser Family Foundation's 2018 Employer Health Benefits Survey.

4. While LPFSA funds are "use it or lose it," there are some limited exceptions.

Investing involves risk, including risk of loss.

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