Health Savings Account in Action

How Does a Health Savings Account Work?

Health Savings Account + **High-Deductible Health Insurance Plan**

Health Savings Account

An eligible individual establishes a Health Savings Account, into which tax-free contributions up to specified maximums are made each year. Contributions may be made by the eligible individual and/or the employer.

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If an illness or injury strikes, funds can be withdrawn tax free from the HSA to pay for qualified medical expenses. →

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Funds not withdrawn to pay for qualified medical expenses remain in the HSA and grow from year to year in an investment account whose earnings grow free of tax.

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HSA funds may be withdrawn for purposes other than paying qualified medical expenses, but are subject to income tax plus a 20% penalty tax (10% prior to 2011). Beginning at age 65, HSA funds may be withdrawn for any reason, subject to regular income tax without penalty, or can continue to be used to pay qualified medical expenses without tax.

High-Deductible Health Insurance Plan

The employer provides a lower-premium, high-deductible health plan for its eligible employees.

Once the health insurance deductible is satisfied, insurance benefits become available to pay for covered expenses.