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HEALTH SAVINGS ACCOUNTS

This article first appeared on the [ADP @Work blog](#).

Getting the most out of what each of us spends on our personal health care is top of mind for most of us these days. And recent news here in the United States has made it the subject of almost daily conversation.

All this public dialogue has made me think a lot lately about the benefits of Health Savings Accounts (HSAs) — so much so, in fact, that I wanted to share with you why I think they are a WIN-WIN-WIN for businesses and their employees.

Let's start with a basic understanding. HSAs were implemented in 2004 in the United States to provide a medical savings account for individuals who were enrolled in a

high-deductible health plan, or HDHP. An HSA allows an individual to contribute

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accounts/high-deductible health plans (HSA/HDHPs) totaled 15.5 million in January 2013. Clearly, a lot of people see the potential benefits of HSAs.

Let's look at three of those "wins" more closely.

WIN #1 – Out-of-pocket spending can be pre-tax using an HSA.

This can be a big win for an employee. In 2014, 72% of U.S. employees enrolled in HDHPs did not spend enough on health care to meet their deductible. That means that all of the money they spent came out of their own pockets, and their insurance provider was not involved in most of those events.

According to [HSACenter.com](https://www.hsacenter.com), HSA contributions can be:

- used to pay out of pocket expenses incurred prior to meeting the HDHP deductible.
- tax deductible from gross income.
- pre-tax when contributed through a cafeteria plan.
- invested tax-deferred.
- tax-free when used for qualified medical expenses.
- rolled over year after year (Said another way, there's no "use-it-or-lose-it" requirement.).

WIN #2 – Pre-tax contributions employees make to an HSA are pre-tax for the employer.

Employers who encourage their employees to open an HSA can benefit by potentially saving as much as 7.65% in employer tax costs. For example, if an employee puts \$1,000 into an HSA, they can save taxes at their own marginal rate, and the client can save as much as \$76.50 on those contributions. In addition to the financial wins, there is the additional win of getting the employees even more engaged in managing their health care expenses. Our clients have told us that employees who have an

HDHP and an HSA are more likely to ask questions about the cost of health care

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needed the most.

HSA Savings also can be used for:

- health insurance premiums when you're between jobs.
- qualified long-term care premiums.
- Medicare premiums and out-of-pocket expenses.
- living expenses after age 65 (although they then are subject to ordinary income taxes).

Considering the potential benefits, it might be worth seeing if an HSA could be a “win” for your company and its employees.

Gerry Leonard is the President of [ADP Benefits Services](#).

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