Determining My HSA Election Amount

Planning your election: Tips and tricks to guide how much money you should put in your account.

The basic premise:

Health savings accounts (HSAs) were created to help people save and pay for healthcare in a tax-protected manner. Simply stated, every dollar you put into an HSA is worth more (up to 30% more!), because you don't get taxed on the money you put in – and, your IRS-reportable income is decreased by however much you contribute. The phrase "free money" comes to mind for many.

The reality of the situation is this: If you plan to participate in a high-deductible health plan next year, you really should have an HSA. It's rarely a matter of should you enroll, but rather how much should you contribute to your HSA. Remember, the funds in your HSA are yours, even if you leave your employer. Unused funds roll over year to year, can be invested, and grow tax-free – turning your HSA into a long-term investment vehicle that helps you save for future healthcare expenses.

Planning and calculating your election:

While many election planner calculators exist to help you better understand your individual healthcare and financial situation, there are some important things you should understand and consider – because deciding how much money to put into your HSA isn't always a perfect science:

1. **How much did you spend on healthcare last year?** If last year was a normal healthcare year for your family, consider funding up to the lower of the two figures: (1) last year's total spend, or (2) the IRS limit of $4,150 for an individual and $8,300 for a family. If you're going to spend, get the maximum tax savings.
2. To the best of your ability, **predict the health expenses your family will incur** next year and the costs of these expenses. Add up all your prescriptions, doctor visits, surgeries, orthodontia, and other anticipated costs. The sum of these costs can be a great minimum starting point for your election. At a minimum, contribute what you know you'll spend for certain.
3. **What's your deductible?** If you're not sure what you'll spend, putting enough money in your HSA to cover your deductible is a great strategy. If you're someone who typically reaches your deductible, you might as well reap the tax benefits of using your HSA to pay for it. There really is no downside to this strategy as any funds left in your account at the end of the year will roll over to the next year.
4. High-deductible health plans typically have lower premiums than traditional health plans. **Consider applying your premium savings** toward your HSA.
5. Arguably the hardest part of healthcare budgeting is **planning for the unexpected.** If you're typically a high healthcare user, it will probably benefit you to increase your election by adding some 'buffer funds' on top of what you know you'll spend. If you're generally healthy and a relatively low healthcare user, you may consider forgoing additional wiggle room.

The bottom line

If there was a way to perfectly predict your healthcare spending, you wouldn't be reading this. But, budgeting your healthcare finances can be downright challenging. The good news:

- HSAs give you a little tax-protected help to save on healthcare expenses
- Our election planning calculator helps you run different election/spending scenarios to help your decision making
- The money in your HSA is yours and travels with you, even if you change employers or retire
- Funds carry forward year to year and any interest or other earnings on the account are tax free

Many people fail to realize the tax and retirement savings potential associated with an HSA – do your homework, use these tips, predict your spending, and rest assured you're doing your best to save for current and future healthcare expenses.