

How to Maximize Your HSA Contributions

A Health Savings Account (HSA) can be a great alternative to traditional health care payment methods, especially if you're young and healthy.

If you're considering opening an HSA or already have one, here are a few ways that you can maximize your contributions and use the account's many benefits to your advantage.

Max Out Your Contributions

It may seem obvious, but maxing out your annual contributions to the account is one of the best ways to get the most of an HSA. This is especially true if you invest the funds and allow the account to grow tax-free. But be sure to stay within the annual contribution limit. If you go over, you may be subject to penalties. Reference IRS regulations or talk to a financial professional about the current limits.

Take Advantage of Employer Contributions

Many employers contribute to either your HSA or your HDHP plan premium. Much like a 401(k) match, it's a good idea to take advantage of this benefit. After all, it's essentially free money! While this lessens the financial burden on you overall, keep in mind that your employer's contribution can influence your HSA contribution limit.



Invest Your HSA Funds

If you want to grow your account over time, investing your HSA funds can help. You can choose from a variety of investment options, including stocks, bonds and mutual funds, as well as interest-earning savings accounts and money market accounts. This growth is fueled by the HSA's rollover feature: If you don't use all of your HSA funds in a given year, the money remains in your account. Assuming there aren't any dramatic market downturns, you may be able to grow the account and continue using it into retirement.



Investing your HSA contributions isn't right for everyone. It partially depends on how you use the account and your individual risk tolerance. For example, you may use all of your HSA funds during the year for qualifying medical expenses. If the money resides in a fluctuating investment, you could risk depleting the account—leaving you to pay out of pocket when medical expenses arise. If you anticipate using all of your HSA funds in a year, don't plan to continue contributing to the account, or have a lower risk tolerance, leave your contributions in a liquid form to ensure the money is available if you need it.

Watch Out for Fees

Some HSAs have account maintenance fees, as well as fees tied to investment management. Incur too many fees and you risk mitigating your gains. A financial professional can help recommend an HSA investment strategy that's right for your situation.



Stick to Qualified Medical Expenses

HSAs offer triple tax advantages when used for qualified medical expenses. You won't be taxed on distributions for these kinds of expenses and can deduct them from your taxes. Interest that accrues in an HSA is also tax-free.

Take full advantage of the account's tax benefits by using the funds exclusively for qualified medical expenses. It's possible to use your HSA funds for other purposes, but when you do this, the IRS will require you to pay income tax on your withdraw plus a 20 percent penalty.

In some cases, using your HSA for other purposes can be useful—especially after retirement. But, if you want to make the most of the account, focus your spending on qualified medical expenses.

There Are More Ways to Save

These aren't the only ways that you can make the most out of an HSA account. Whether you're thinking about opening an HSA or trying to make the most out of your current account, it's important to consult a professional. Speak with a financial professional for more information on how an HSA could benefit you.

