Is a high-deductible health plan and health savings account right for me?

If you are offered a high-deductible health plan with a health savings account (HSA), it's important to understand both the insurance itself and the potential financial benefits of an HSA.

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KEY INSIGHTS

- HSAs offer better tax benefits than both Roth and pretax retirement savings when used for qualified medical expenses.
- However, nonqualified distributions before age 65 trigger a 20% penalty and ordinary tax.
- If you have a choice of health plans, the first step is to estimate your costs based on anticipated medical expenses.
- You should also consider the tax benefits if you're able to invest in an HSA for the long term.

When choosing health benefits coverage for the coming year, you may be one of many people who have the option to select a high-deductible health plan (HDHP). By enrolling in an HDHP, you are also eligible to contribute to a health savings account (HSA), either through your employer or on your own. An HSA is intended to pay for out-of-pocket medical expenses, such as a deductible—either now or in the future.

Before we address the health coverage decision, some background on HSAs may be helpful. HSAs offer a "triple tax benefit" for federal taxes:

- Contributions reduce your taxable income.
- Growth of the account is tax-deferred.
- Distributions for qualified medical expenses are tax-free.

This essentially combines the benefits of Roth and pretax retirement account strategies. However, you don't want to tap in to the HSA for nonmedical expenses, or you could trigger a 20% penalty and ordinary tax.

An HSA is owned by the individual. It's your money, so you never forfeit an unused balance or lose it if you change employers. That can be a significant advantage over health reimbursement

Key Facts About HSAs and HDHPs for 2025

	Individual	Family
HDHP minimum deductible	$1,650	$3,300
HDHP maximum out-of-pocket expenses	$8,300	$16,600
Maximum HSA contribution*	$4,300	$8,550

*Can contribute an additional $1,000 if 55 or older.

arrangements (HRAs) and flexible spending accounts (FSAs).

If you have the choice between an HSA-eligible HDHP or a traditional, low-deductible health plan, how do you decide?

Remember: The choice between benefit plans is primarily a health insurance decision.

The tax advantages of an HSA can certainly be significant for people who have the ability to save. But, first, you need to make sure the HDHP makes sense for your situation.

With a typical health plan—either an HDHP or a traditional, low-deductible health plan—the total cost you pay includes three main components: the insurance premium, the deductible, and the coinsurance (a percentage you pay after meeting the deductible). The trade-off is that the HDHP has lower premiums than a traditional plan—but a higher deductible and often higher coinsurance. The higher your expected medical expenses, the more you should favor a traditional plan.

Your employer may provide tools to help you assess which plan is best for you, or you can compare the plans based on your estimated level of medical expenses. In many cases, the break-even point—the level of medical expenses where the plans result in the same cost to you—equals approximately the difference in premiums plus the traditional plan deductible.

You'll also want to consider coinsurance, prescription cost structures, out-of-network provider rules, and any HSA/HRA contributions made by your employer. Since medical needs are hard to predict, you should also compare the plans' out-of-pocket maximums.

For many people, the insurance comparison is where the analysis should end. If you have access to an FSA with the traditional plan, in the short term, you get similar tax benefits as with a high-deductible plan and an HSA.

If you're able to invest in an HSA for the long term, consider the tax benefits.

If you can invest for the long term—as opposed to using the HSA for current-year medical expenses—this is when you will reap the full triple-tax benefit.

An HSA has better tax benefits than both Roth and pretax retirement savings accounts, provided the distributions are used for qualified medical expenses. The value of those tax benefits depends primarily on your time horizon, marginal tax rate, and investment returns. We estimated the value of a $4,300 HSA contribution, compared with the other retirement savings options, using conservative assumptions.

Present Value of a $4,300 HSA Contribution vs. Other Tax-Advantaged Savings ($)

	Marginal Tax Rate (Federal Plus State)			
Years to Retirement	**15%**	**25%**	**35%**	**45%**
5	1,025	1,200	1,650	2,100
15	1,125	1,325	1,800	2,300
25	1,225	1,450	2,000	2,525
35	1,350	1,600	2,200	2,800

The chart is for illustrative purposes only and is not indicative of any specific investment. Assumptions: 5% return, 4% discount rate, and marginal FICA tax rate of 7.65% for the 15% column and 1.45% for the other columns. The employer does not match contributions (or the match has already been maximized). Values assume investments are held until retirement age and tax rates stay constant. Rounded to the nearest $25.

Here's an example that can help you understand the chart: Suppose your marginal tax rate is 25%, you're 15 years from retirement, and you're able to invest the 2025 HSA contribution of $4,300 (holding it until retirement). This single HSA investment is worth around $1,325 more than a comparable retirement plan contribution in today's dollars. So even if you estimate that the traditional coverage would cost you $1,000 less in 2025 based on your projected expenses, the additional tax benefit means a high-deductible plan with an HSA may make sense.

As you consider making the switch to an HSA-eligible HDHP, keep in mind:

- You may benefit from consulting with a tax professional or financial planner.
- You shouldn't use your HSA as an emergency fund, given the 20% penalty on early nonqualified withdrawals.
- Generally, it makes sense to take advantage of your company's retirement plan matching contribution before investing for the long term in an HSA. If you have to choose between the two, ask yourself whether you're really likely to keep the HSA investment untouched.

An HSA can be a powerful savings tool—but make sure it's right for you.

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