Health Savings Accounts & Open Enrollment

Deciding if an HSA is right for you and your family
October 30, 2019

Halloween, Thanksgiving, Christmas…those are the dates most of us are starting to look towards in the months ahead. However, another important set of dates comes at us later this week. Running from November 1 – December 15, it's the annual 'Open Enrollment' season for health insurance. This is the yearly period when people can enroll in a health insurance plan without certain special triggering events (that would make you eligible at other times in the year). In addition to new enrollments, it is the time when employers will update their plans – leaving you with the need to consider and choose your coverage for 2020.

Whether you access health insurance through your employer or the individual markets, one thing you should consider during this open enrollment period is whether an HSA-eligible plan is right for you. Let's start by clearly saying that they are not the best option for everyone. However, they are a great option for many – especially those who are:

1. Relatively healthy and don't consume much in the way of medical care.
2. High-earners who can afford to absorb more of the out-of-pocket expenses and that will significantly benefit from the tax-deduction that comes with an HSA contribution.
3. Under age 65, as you cannot contribute to an HSA once you are eligible for Medicare (however, if you are 65+ and already have an HSA account, we encourage you to keep reading…)

Later this year, Fidelity will unlock the ability for us as your advisor to help you open, manage, and service an HSA account on the Fidelity platform. While you can open an HSA with any number of providers, we have found that the unknowns of this process have often kept clients from even considering whether an HSA is right for them. More on this later in this piece…

Let's now look at some of the key questions you need to consider.

What is an HSA (and what is it not?)

A Health Savings Account is – shockingly – a savings account designated primarily to pay for out-of-pocket health care expenses. More specifically, it is a tax-advantaged account – and is actually the only account type out there that enjoys a "triple tax advantage." More on that later.

Some users will choose to simply use their HSA as a "pass-through" account, meaning they put the money in to get the tax deduction and then use that account to pay current medical bills. Others will choose to use this as a long-term savings account, putting funds in to invest them for medical expenses in retirement while paying current medical bills out of pocket. The "right" approach here completely depends on your own financial situation, and we're happy to help you explore the best solution for you.

Note while you can only contribute to an account if you have an HSA-eligible plan, you can use funds from the account to meet qualifying medical expenses for any member of your family. In other words, if Sally has an HSA-eligible plan through work, while her husband and kids are covered through his work on a normal plan, money from Sally's HSA can be used to pay out-of-pocket expenses for anyone in the family. If both Sally and her husband are covered by an HSA-eligible plan, they can opt to open two HSA accounts in their own names, or contribute up to the "family" limit each year into a single account in one of their names.

What is it NOT?

It's also important to note what an HSA is <u>not.</u> It is not a "Flexible Spending Account" or FSA, which many of you may have access to at work. Those accounts have a "use it or lose it" feature in many cases. An HSA does not, meaning you can accumulate funds year upon year, eventually amassing a very significant account balance to help meet the very significant cost of health care in retirement.

What makes a health insurance plan "HSA-eligible"?

To contribute to an HSA in any given year, you must be enrolled in an "HSA-eligible" plan during that same year. To meet this criterion, your health plan must be a "high deductible health plan" (HDHP). The annual minimum deductible for an HDHP must be at least $1,400 (individual) / $2,800 (family). The max out-of-pocket expenses (deductibles, co-pays and other amounts, but not premiums) are $6,900 (individual) / $13,800 (family). Make no mistake about it, these are big numbers – but for many the savings on your insurance premiums, the tax savings from your HSA contribution, and the ability to invest to meet long-term medical needs may make it worth it to go with a HDHP if available to you.

What are the tax benefits of an HSA?

An HSA enjoys a "triple tax advantage" status – meaning you:

1. Get a tax deduction (above-the-line) for any contributions.
2. Enjoy tax-free growth of assets in the account.
3. Pay no taxes on withdrawals, so long as they are for qualified medical expenses

In addition, once you turn 65, you can effectively turn this account into an IRA. What we mean by this is that you can withdraw funds from the account to meet non-qualified expenses (read: anything) without incurring any penalties (a 10% penalty applies for non-qualified withdrawals prior to age 65). In this case, you would owe income taxes just as you would if you drew the same funds from an IRA. That said, you will have plenty of qualified medical expenses once you turn 65 – and you can even use HSA funds to pay Medicare premiums tax-free.

Given all of this, we can easily argue that funding an HSA (assuming you are eligible) should be prioritized above funding an IRA for the year. Of course, if you have the means to do both – you certainly should. Oh, and we should mention that there are no income limitations or eligibility restrictions based on 401(k) participation that would limit your ability to fully fund an HSA. The same can't be said for your IRA.

How do I set-up an HSA account?

You can establish an HSA at any number of financial institutions – though I will warn that not every bank offers them, and what you will get from each can be very different (some offer the ability to invest while others do not, some require a certain account balance before you can invest, some charge fees while others are free, etc.). Fortunately, Fidelity has a great offering in the HSA realm, and starting in December we, as your advisor, will be able to help you open, manage, and service your HSA account on their platform. I personally have been trying out their product via their retail platform for a few months and have been very pleased with it both from an investing and spending perspective – and I also love that there are no account fees assessed. In fact, Morningstar recently ranked Fidelity's HSA offering as "the best HSA provider for both spenders and investors." Please see the next page for next steps.

Open Enrollment: Nov 1 - Dec 15, 2020

Do you have to establish your HSA during Open Enrollment?

No! This period is simply for selecting your insurance for the coming year. If you choose an HSA-eligible plan, you can then open an HSA account at any time and can fund it for 2020 anytime between Jan 1 - Dec 31, 2020.

Let's chat!

If you are interested in opening an HSA with us, please let us know and we will be in touch once Fidelity has finalized the advisor functionality on these accounts in the coming weeks. We will help you structure the cash and investment portions of the account in a way that works well for you both in the short- and long-term.

Not ready to open an account but simply interested in learning more? If so, please reach out at any time. This email by no means covers every detail (believe it or not now that you've hit page 4), and we'll be happy to explore the finer points with you to determine if this is a good solution for YOU.

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About Madison Park Capital Advisors

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We invite you to contact us at any time! Let's grab coffee or share a meal and see how we might be able to serve you.

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