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Life and Health, Disability, Long Term Care, Annuities, IRAs and Rollovers, Pension and Retirement Plans

SAVING FOR RETIREMENT WITH A HEALTH SAVINGS ACCOUNT

The increasing cost of health care is a concern for workers of all ages. Each year health care becomes more expensive, meaning a larger portion of retirement savings will be spent on health related costs. A health savings account, commonly referred to as an HSA, is a tax-advantaged account that can be used to pay for medical expenses now or in retirement. The account is FDIC-insured, and can be invested for greater returns.

Who qualifies?

To be eligible to establish a health savings account, an individual must:

5 Be covered by a high deductible health plan. A HDHP is one with a minimum deductible for individuals of $1,300 and for families of $2,600.
5 No alternative health coverage such as Medicare, military health benefits, or medical FSAs.
5 Not claimed as a dependent on another person's tax return.
5 Under the age of 65.

It is possible that an individual's eligibility will change after opening an HSA, especially if he or she enrolls in a different health care plan. Regardless of eligibility, the account owner maintains control of the account and funds indefinitely. If the individual loses eligibility, he or she may not contribute to the HSA, but the account may be invested and continue to grow, or be withdrawn from if the need arises.

Tax benefits

5 **Contributions:** Contributions to the health savings account can be made with the owner's pre-tax income, lowering the taxpayer's total taxable income. If the contribution goes into the account via payroll deduction, the amount is not subject to the FICA tax that 401(k) and IRA contributions incur.
5 **Growth:** A health savings account can be used as an investment vehicle and account earnings are tax-free.
5 **Spending:** Withdrawals that are used to pay for qualified medical expenses, such as deductibles, co-pays, prescriptions, and Medicaid premiums, are tax exempt.

Other important facts

- **Ownership/Portability:** While some employers sponsor and even contribute to health savings plans, the employee is the account owner. This means that the account owner can take the account to a new employer, even in self-employment or unemployment. The health insurance provider may offer a health savings account, but an individual also has the option of opening an account with a financial institution.
- **Contributions:** In 2018, $3,450 may be contributed to an individual's account and $6,900 to a family account. Catch-up contributions are an additional $1,000 for individuals age 55 or older. At age 65, the account owner is no longer eligible to make contributions.
- **Distributions:** Unlike with an IRA or 401(k), there are no minimum required distributions at age 70½. That means that if an individual does not need to use funds from the account, the assets can continue to grow for the individual or designated beneficiaries.
- **Penalties:** If funds used from the health savings account are used for nonqualified purposes, and the owner is under age 65, the distribution is taxable as income and subject to a 20% penalty. If the funds are used for a nonqualified expense but the account owner is over age 65 or disabled, the distribution will only be subject to income tax, making the distribution similar to that of a 401(k) or IRA.
- **Beneficiaries:** HSAs can be inherited if a beneficiary is named. A beneficiary is not required to be covered by a HDHP, but must meet account eligibility qualifications to make future contributions. If the beneficiary is a spouse, the spouse becomes the account owner and incurs no additional taxes. However, if the beneficiary is not the owner's spouse, the value of the account becomes taxable in the same year of inheritance, which may create a tax liability.
- **Reimbursement:** An account owner is not required to reimburse qualified out-of-pocket expenses within the year of incurring the expense. Therefore, an owner may choose to reimburse themselves tax free for any expense incurred after the establishment of the HSA. This is an excellent option for account owners with large account balances later on.

The sooner the account is established and contributions made, the more opportunity the funds will have to grow over time. Please call us at (717) 533-6243 to discuss health savings accounts and how they can be an asset to your retirement savings strategy.