

HSA Breakdown: Understanding What a Health Savings Account is and its Benefits

By: Kerri M. Sullivan-Kreiss, CFP®, AIF® & Morgan Kreiss

An important consideration when planning for a financially secure retirement is how to best manage health care costs. A Health Savings Account (HSA) can be an excellent way to accumulate funds on a tax-favored basis for future health-related expenses. HSAs allow US taxpayers who are enrolled in a high-deductible health plan (HDHP) to use pre-tax dollars to save and pay for qualified medical and dental expenses. Growth in assets invested in HSAs is tax-deferred and withdrawals used for qualified expenses are tax-free. HSAs offer a unique triple tax benefit. One way in which people can position themselves to be in a good position in regards to both current taxes and future planning is through a Health Savings Account (HSA).

What is a HSA?

The IRA defines an HSA as a, “tax-exempt trust or custodial account you set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur”. HSAs have yearly maximum contributions specific to category of health care policy and age. The maximum yearly contribution for 2018 is \$3,450 for an individual policy and \$6,900 for a family policy. People ages 55 and older are allowed to contribute an additional \$1,000 per year.

What are the benefits of a HSA?

- **Tax Benefits:** Contributions to HSA accounts are not taxed and are excluded from your gross income for the year. Funds in an HSA grow and earn interest tax free. Distributions for qualified medical expenses are not taxed, as well.
- **Growth:** There are no time constraints to HSA funds; so, the account balance can grow for numerous years before the funds are needed.
- **Investing:** HSA funds can be invested in savings accounts, stocks, bonds, and mutual funds.
- **Premiums:** Having a health savings account will likely lower your health insurance premiums.
- **Flexibility:** At 65 or older, you can take out money from your HSA for any reason, not just qualifying medical expenses. However, if your distribution is not for a medical expense, it will be considered taxable income.

What are the potential negatives of utilizing a HSA?

- **High deductible health plan requirement:** The IRS defines health plans as “high deductible” if a health policy has a deductible of at least \$1,350 for an individual or \$2,700 per family. The out of pocket maximum for an individual’s policy is required to be at most \$6,650, whereas a family’s maximum is \$13,300. Saving for medical expenses has to be a priority to cover high deductibles. If you have a health condition which might result in contributions to your HSA being used on an annual basis, the tax break may not be significant enough to offset the out-of-pocket cost of the high deductible health plan.
- **Unexpected medical costs:** You may not have enough money saved in your HSA to cover unanticipated medical expenses.
- **Penalties for nonqualified expenses:** Funds in an HSA can only be used tax-free if they are for qualified medical expenses. The penalty of using these savings before age 65 for non-qualified expenses is 20%, plus income tax.

- Fees: HSAs may charge monthly maintenance or per-transaction fees which could impact your long-term HSA account value.
- Hesitation to seek medical care: The desire to save money in an HSA can discourage people from going to get medical attention when they are ill.

Overall, the HSA, with its triple-tax-free benefit, can be a great savings vehicle to help offset medical and dental expenses during retirement. Given the right circumstances, a HSA is most definitely a valuable planning tool. However, they are not appropriate for everyone. Please be sure to compare plans and consult with your financial advisor to help determine if a HSA is right for you.

Kerri M. Sullivan-Kreiss, CFP®, AIF®
President

SullivanKreiss Financial

225 Cedar Hill Street, Suite 200

Marlborough, MA 01752

T: 508-630-2200

F: 508-630-2333

Kerri@sullivankreissfinancial.com

info@sullivankreissfinancial.com



Securities and Advisory Services offered through Commonwealth Financial Network, Member FINRA/SIPC. A Registered Investment Adviser. Fixed Insurance products and services offered through SullivanKreiss Financial.