Health Savings Accounts

FINANCIAL PLANNING

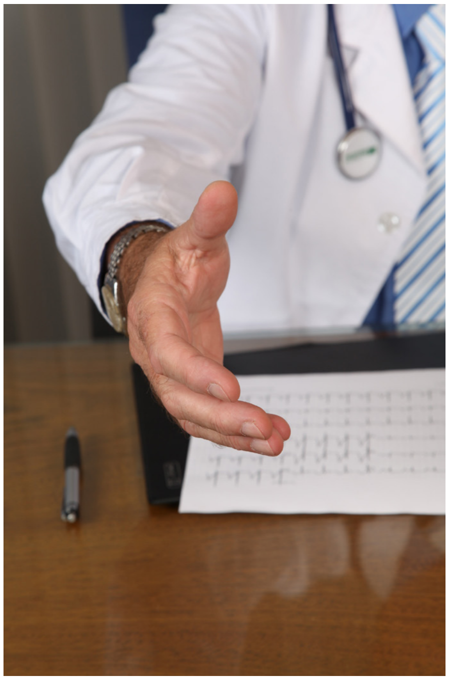
Health Savings Accounts, better known as "HSAs," are the only accounts available that offer triple tax advantages. Tax payers receive a tax deduction on contributions, growth is tax-deferred, and distributions are tax-free if used for qualified medical expenses. What are the rules for investing in an HSA and how can you get started?

Health Savings Account (HSA) Basics

HSAs are often opened up in conjunction with starting a new job and enrolling in the employer's high-deductible health plan. Once the HSA is open, you can direct a certain dollar amount of each paycheck to be directly deposited into the account. You can also link your bank account to your HSA and fund the account via electronic money transfer whenever you'd like. Be careful though, as there are maximum limits to how much you can contribute in a calendar year, just like with an IRA. The last day you can contribute to an HSA for a given tax year is by April 15th of the following year. If you don't use your account, unused balances in your HSA will continue to grow for use in future years. If you change jobs, you are able to keep your HSA or you can roll it over to a new employer's HSA, if they offer a high-deductible health plan. You can find a full list of the qualified medical expenses at the IRS website by going to Publications 502 and 969.[1] Most common expenses like visits to the doctor's office, prescriptions, and x-rays are covered.

Who is Eligible for an HSA?

To be eligible to contribute to an HSA, you must be covered under an HSA-qualified health plan. HSA-qualified plans are also known as high-deductible health plans, which typically have lower premium amounts, but higher deductibles than other health plans. You are disqualified from contributing to an HSA if you enroll in Medicare, can be claimed as a dependent on another person's tax return, or if you are covered by another health plan (including your spouse's).



HSA Investment Strategies

Use your HSAs as a powerful tool for retirement saving. All HSAs have the ability to earn money similar to a savings account, but many HSA providers also allow you to invest in mutual funds or Exchange Traded Funds (ETFs) to take advantage of stock market growth.

Use your HSA as another tax-advantaged retirement account. Pay for medical expenses out-of-pocket while working, allowing your HSA balance to grow tax-deferred. Once in retirement, take tax-free distributions from your HSA to pay for Medicare premiums, co-pays and deductibles, and even long-term care premiums.

Transfer money tax-free from an IRA to your HSA. To maximize your HSA contribution in a given year without reducing your income, you can make a one-time rollover from your Traditional IRA to your HSA tax free. You must be eligible to contribute to the HSA for that year, and you can rollover the maximum HSA contribution amount for that year. Think of it as being similar to a tax-free Roth conversion.

1. Source: https://www.irs.gov/forms-pubs/about-publication-502 and https://www.irs.gov/forms-pubs/about-publication-969