Health Savings Account (HSA)

CAPITAL ADVISORS

Health care costs can be a challenging planning aspect for many retirees. Utilizing a Health Savings Accounts (HSA) is a way for individuals to save for current and future health care costs in a tax efficient way. HSAs are available to individuals and families who are enrolled in a High Deductible Health Plan (HDHP). An HSA is similar to a personal savings account but can only be used for qualified health care expenses. There are very meaningful tax advantages for utilizing HSAs which we will outline below:

Triple tax advantage

- Contributions are tax-deductible at the Federal level and for most states
- Investment growth and interest are tax-exempt
- Withdrawals for qualified medical expenses are non-taxable

Other important advantages

- HSA funds can be used to pay Medicare premiums
- No lose it or use it provision – the contributions remain in your account until you use them
- Money is portable – it stays with you even if you change employers or leave the workforce
- HSA dollars can be used to pay for Long Term Care premiums – limitations apply based on age
- You do not need to itemize deductions to receive tax benefits

Limitations

- Only available for those enrolled in High Deductible Health Plans (HDHP). A HDHP is any plan with a deductible of at least $1,400 for an individual or $2,800 for a family
- Individuals cannot fund their HSAs when enrolled in Medicare
- Distributions not used for medical expenses will be taxed along with a 20% penalty if under the age of 65. For non-qualified medical distributions over 65, tax will be owed but no penalty

Contribution limits for 2020

Family - $7,100   Individual - $3,550
Individuals age 55 or older not yet enrolled in Medicare may make a catch-up contribution of up to $1,000

Beneficiaries should be chosen while setting up an HSA and should be updated as needed. What happens to an HSA when an account holder dies depends on the beneficiary's relation to the account owner:

- If a spouse is the designated beneficiary of the HSA, it will be treated as theirs at the account owner's death.
- If a non-spouse beneficiary is designated, the account stops being an HSA and the account value is taxed to the beneficiary in the year of the account holder's death.

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