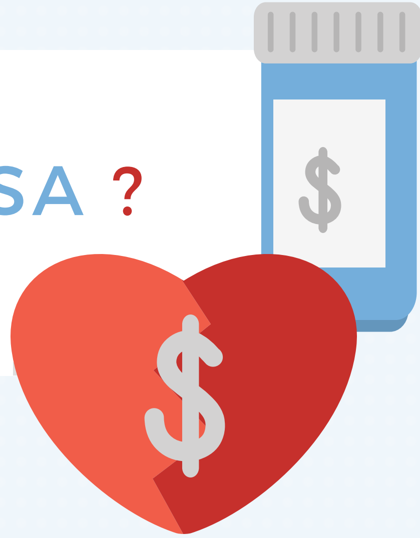
Should you start an HSA ?

Health Savings Accounts may help you shelter money from taxes.



What is a Health Savings Account?

An HSA is a tax-exempt account that eligible individuals can use as a vehicle to save money towards current and future health care costs. If the individual is eligible, her money can go into the HSA pre-tax and as long as the money is withdrawn from the account to pay for qualified medical expenses, the money is not taxed upon withdrawal.

An eligible individual using saved funds from an HSA can pay for qualified medical expenses with money that is never taxed.

Some employers make contributions on behalf of the eligible employee into her HSA; this employer contribution may be excluded from the employee's gross income, an additional untaxed benefit.

HSAs do not have a 'use it or lose it' rule which allows the individual to save up to the maximum allowable amount each year with no worry that the funds have to be used by year-end.

Funds can be used in the future, including in retirement. In addition, an HSA isn't directly associated with an employer. HSAs are generally held at a qualified trustee (think, a local bank) so if an employee leaves her job, her HSA is portable allowing the funds to still be accessible regardless of job turnover.

Who is eligible to contribute?

In order to be an eligible individual, your health insurance plan must meet the IRS' High Deductible Health Plan definition (HDHP). In short, your health insurance plan must have a higher deductible than typical health plans do and there must be a maximum limit on the sum of the annual deductible and out of pocket expenses. In addition to the plan meeting the HDHP definition, the individual is eligible to contribute if she is not covered by another health insurance plan, is not enrolled in Medicare, and cannot be claimed as a dependent on another person's tax return.

All contributions must be made in cash; stocks and property are not allowed. Some HSAs can be invested, but risk tolerance and purpose of the funds must be reviewed prior to investing funds earmarked for health care costs. There are limits on the amount an eligible individual can contribute. For 2018, an individual can contribute up to $3,450; a family can contribute up to $6,900. An individual can contribute a catch up if age 55 or older. The 2018 catch-up amount is $1,000.

How do HSA tax savings compare to a traditional IRA?

No. A traditional IRA allows an individual to shelter a portion of income from current income taxes by deducting the contribution on tax returns. Income tax is due on IRA withdraws in retirement based on the retiree's tax bracket.

The goal of deferring income taxes now by saving into a traditional IRA is to lower the overall taxes paid on the monies, assuming the retiree will be in a lower income tax bracket in retirement than while working. If used correctly, an HSA can avoid income tax completely.

Refer to your tax professional; every situation is different.

Publication 969: Health Savings Accounts and Other Tax-Favored Health Plans." IRS.gov, Department of the Treasury: Internal Revenue Service, 2016, www.irs.gov/pub/irs-pdf/p969.pdf.

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