Health Savings Accounts … are you taking advantage of them?

-Chris Brennan, CFP®

A Health Savings Account (HSA) is a powerful savings vehicle available to most participants of high deductible health plans (HDHP). An HDHP, for the purposes of determining HSA eligibility, is defined by the IRS as a plan with deductibles equal to or greater than $1,350 (for individuals) or $2,700 (for families). Also of note, the HDHP cannot have an out-of-pocket maximum of greater than $6,650 (for individuals) or $13,300 (for families). Provided these guidelines are met by your HDHP you ought to be thinking long and hard about the idea of contributing to an HSA.

No other savings vehicle allows for pre-tax contributions, tax-deferred growth, and tax-free distributions; the HSA does as much, provided the distributions are allocable to qualified medical expenses. So, you might think of an HSA as a Roth IRA that is funded with pre-tax contributions. A few other facts:

- The HSA contribution limit in 2018 is $3,450 (for individuals) or $6,850 (for families)
- HSAs can be contributed to in arears so contributions for 2017 can be made up and until the 2017 tax filing deadline (04/17/18); of note, the contribution limits were $3,400 (for individuals) and $6,750 (for families) in 2017 (please note this may not be allowed for contributions made via payroll deductions – check with your payroll administrator)
- Individuals age 55 and older can make a catch-up contribution of $1,000 in any given year, so spouses can contribute an additional $2,000 ($8,850 total) provided the contributions are allocated properly (as alluded to below)
- HSA contributions that are funded via payroll deductions allow the participant to avoid payroll taxes on the amount contributed (unlike 401(k)s).
- Withdrawals can be made at (or after) age 65 without being subject to a penalty if not allocable to qualified medical expenses (though the distribution would be taxable, much like it would be with a 401(k) or traditional IRA)
- Beneficiaries can be named; a spousal beneficiary can treat an inherited HSA as his or her own while a non-spouse beneficiary will owe tax on the entire amount (the funds are distributed outright upon the submission of a beneficiary claim form)

The catch-up contribution mechanics identified above involve the establishment of a separate HSA account to receive the $1,000 catch-up from the individual who doesn't own the primary HSA. For example, most families have just one HSA and contribute the maximum amount in any given year to just one account (almost always the account associated with the individual who is the high deductible health plan participant). If one of the individuals is 55 but the other is not, $7,850 can be contributed to the same account. But if both individuals are 55, while $8,900 can be contributed in total, at least $1,000 must go into a separate account. Two catch-up contributions cannot be allocated to the same account.

We are big proponents of utilizing the HSA to the fullest extent possible. Your top savings priorities should be contributing enough to your 401(k) to obtain any employer provided match and maximizing your HSA. The costs associated with healthcare continue to go up; a vehicle that allows for pre-tax contributions as well as tax-deferred growth and tax-free distributions should be considered the foundation of most, if not all, retirement plans.

Please feel free to reach out to us with any questions; we'd be happy to help.

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