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Health Savings Accounts as Retirement Savings

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Did you know that a Health Savings Account (HSA) can provide another source of retirement income? HSAs are not subject to the "use it or lose it" rule that applies to Flex Savings Accounts (FSAs). Contributions can remain in the account your entire life and even be inherited by a beneficiary. This means HSAs can provide a double benefit in both retirement and tax savings. The only requirement to participate in an HSA is that your health insurance plan is a qualified high-deductible plan.

An HSA is a special bank account that allows you to pay for qualified medical expenses with pretax dollars. Prior to age 65, there is a 20% federal tax penalty as well as ordinary income tax on HSA distributions that are used for anything other than qualified medical expenses. But once you reach age 65, the HSA can be used for any purpose without penalty. However, distributions that are not used for qualified medical expenses will be subject to ordinary income tax just like traditional IRA distributions. The HSA can also be used to reimburse yourself (tax-free) for any qualified out of pocket medical expenses going back to the date the HSA was first opened and the balance remained above $0, since the expenses do not need to be in the same year as the distribution.

The maximum HSA contribution for 2019 is $3,500 (single) or $7,000 (family). Those age 55 or older can make an additional $1,000 "catch-up" contribution. These contributions can add up to a significant source of retirement income, and the interest earnings are not taxed. Although you do not need to be in an employer plan to open an HSA at any financial institution which offers the accounts, contributions that are made through payroll deduction will also reduce Social Security and Medicare payroll tax, in addition to federal and Ohio income tax.

To be eligible to participate in an HSA, you must be enrolled in a qualified high-deductible healthcare plan. Check with your insurer to make sure your plan qualifies. Medicare Parts A or B are not qualified high deductible plans. Once you receive Social Security benefits at age 65 or older or enroll in Medicare, you must stop HSA contributions.

HSAs can be a great component of financial and tax planning, but it is important to understand the HSA rules.

For more information, please see the Calendar of Events in this publication for our upcoming seminars or visit our website www.mybuckingham.com.