Health Savings Accounts

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This is an important time of year as many employer benefit “windows” are open for a limited time. Now is when you should be reassessing how your benefits have been working for you and it is also critical to adjust these plans for 2020 while you are able.

More employers are utilizing Health Savings Accounts (HSAs) in conjunction with high-deductible health plans (HDHPs) to manage the rising costs of healthcare for their employee base. If you are eligible for one of these plans it is important to understand them and maximize them for your benefit.

In order to qualify for a Health Savings Account, you must first be enrolled in a qualified high-deductible health plan. For 2020, the IRS defines an HDHP as any plan with a deductible of at least $1,400 for an individual or $2,800 for a family. An HDHP’s total yearly out-of-pocket expenses (including deductibles, copayments and coinsurance) can’t be more than $6,900 for an individual or $13,800 for a family. There are a few other qualifications for HSA eligibility besides being enrolled in an HDHP. You cannot be claimed as a dependent on someone else’s tax return and you cannot have additional medical coverage that would disqualify you such as a flexible spending account (FSA). Further, once you enroll in Medicare, you are no longer eligible to contribute to an HSA.

The primary benefit of funding an HSA is that your contributions are made on a pre-tax basis. For 2020, a single person can contribute up to $3,550 where a family is eligible for up to $7,100 in contributions. In addition, for those over the age of 55, you can make a catch-up contribution for an additional $1,000 per year. The money you contribute into these accounts is deducted from your taxable income (just like pre-tax 401(k) contributions) and any increase in the value of your account is free from federal taxes if withdrawals are used for qualified medical expenses.

<u>Qualified expenses include the following:</u>

Qualified out-of-pocket medical expenses (irs.gov/publications/p502).

Medical, dental or vision coinsurance and copayments.

Prescription drugs.

Certain medical treatments not typically covered by insurance, such as visits to a chiropractor.

Certain kinds of medical equipment, such as eyeglasses.

When in doubt as to whether an expense is qualified, you should check IRS publication 502 mentioned above. Furthermore, IRS publication 969 has additional information specific to HSA distributions.

Most HSA providers will issue a debit card that allows you to draw directly from your HSA account to pay medical providers at point-of-service. In addition, most HSAs will also have a website where you can directly pay your medical providers like online bill-pay services you are probably already familiar. The great thing about an HSA is that unlike traditional flexible spending accounts, an HSA it is not “use it or lose it” by year-end. Any funds left in the account at year-end rollover for use in following years and unlike an IRA account, you are not required to distribute funds at 70 1/2. If you switch employers, you can also rollover your existing HSA into the new employer’s HSA plan if they have one. Any funds that are left-over in the account when you eventually retire can be used as you did while employed, however, the funds can also be used to cover Medicare premiums for Parts A, B or D and Medicare HMO premiums.

If you are generally planning on spending funds from your HSA over the next year or two, that money should remain in the basic savings account default or a money market where your principal is not at risk. However, if your goals for these monies can be considered long-term (5-years or more), then you could consider diversifying some of that money into stock and bond funds to potentially boost your returns. Investment choices are limited and will rely upon the options available within your HSA.

Over the last decade, healthcare and the costs associated with it, have become increasingly important issues for us to understand. Gone are the days where your employer provided plan covered everything other than a small co-pay for premiums. As a result, we need to maximize our benefits and save for our future whether it be for retirement, or in this case, for healthcare!