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Fund the max allowable on health savings account

Q: My employer recently switched our health insurance to a high-deductible plan with an HSA. Is there a good reason to fund it?

A: The answer is yes and better yet, fund the max allowable. HSAs are savings accounts that are regulated by the government allowing employees to set aside *pretax income* to use anytime to pay for health care costs not covered by insurance. These HSAs are only available with "qualifying" high-deductible insurance plans, usually offered through the workplace.

"Qualifying" plans have minimum deductibles, maximum out-of-pocket expenses, and expanded coverage for preventive care that includes chronic conditions.

For this year's individual plans, the minimum deductible is $1,400, the maximum out of pocket is $6,900 and the HSA contributions may be as much as $3,550.

The individual must file a tax return and not be considered a dependent on someone else's return.

Family plans have a minimum deductible of $2,800, maximum out of pocket expense of $13,800 and HSA contributions may not exceed $7,100.

A catch-up provision allows an additional $1,000 contribution for the over 50 crowd. If you're enrolled in Medicare, it's too late to fund an HSA.

HSAs are technically trust accounts used for lifetime medical expenses and at death, have beneficiaries much like a retirement account.

Pre-tax contributions to HSAs are deducted from pay checks before withholding for taxes and the earnings grow tax-free forever, not subject to SS or FICA tax.

Many custodians offer investment options beyond bank interest. Check out TD Ameritrade, Schwab and Fidelity and watch for fees. You're going to get the investment return minus fees, so fees matter.

Unlike Flexible Spending Accounts (FSAs) that have an annual 'use it or lose it' requirement, contributions to HSAs are permanent. When changing employers, funds can be rolled making HSAs particularly valuable as secondary retirement savings.

Under special situations, there may be an opportunity to have both an HSA and a FSA. Check with the HR department.

Consider the strategy of funding a 401(k) plan to get the employer match first. Next, fund the max in the HSA account. Then use extra savings to fund a traditional or ROTH IRA or max out 401(k) contributions. Another bonus to HSAs is no required minimum distributions.

HSA funds may be used for qualified medical expenses including doctors, dentists, copays, deductibles, acupuncture and wheelchairs. The extensive list is on the IRS's website, so save receipts and reimburse yourself. When HSA funds are withdrawn for anything except qualifying expenses, income tax is due and there is a *20% penalty*.

After age 65, HSA funds may be used to pay for Medicare premiums, except Medigap. Employee payments for employer health insurance premiums also can be reimbursed from HSA funds.

There is a little-known tax rule that allows a one-time (tax-free) transfer of funds from an IRA to an HSA. The limit is the annual HSA contribution and it's a 'once in a lifetime' approved event.

According to the Kaiser Family Foundation "2019 Employer Health Benefits Survey", the *average 65-year old couple* may spend as much as $380k on healthcare during retirement, and this does NOT include long-term care.

Fund your HSA account as soon as you've funded the 401K up to the match. These accounts can be life savers!

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