ON COURSE

Could You Benefit from a Health Savings Account?

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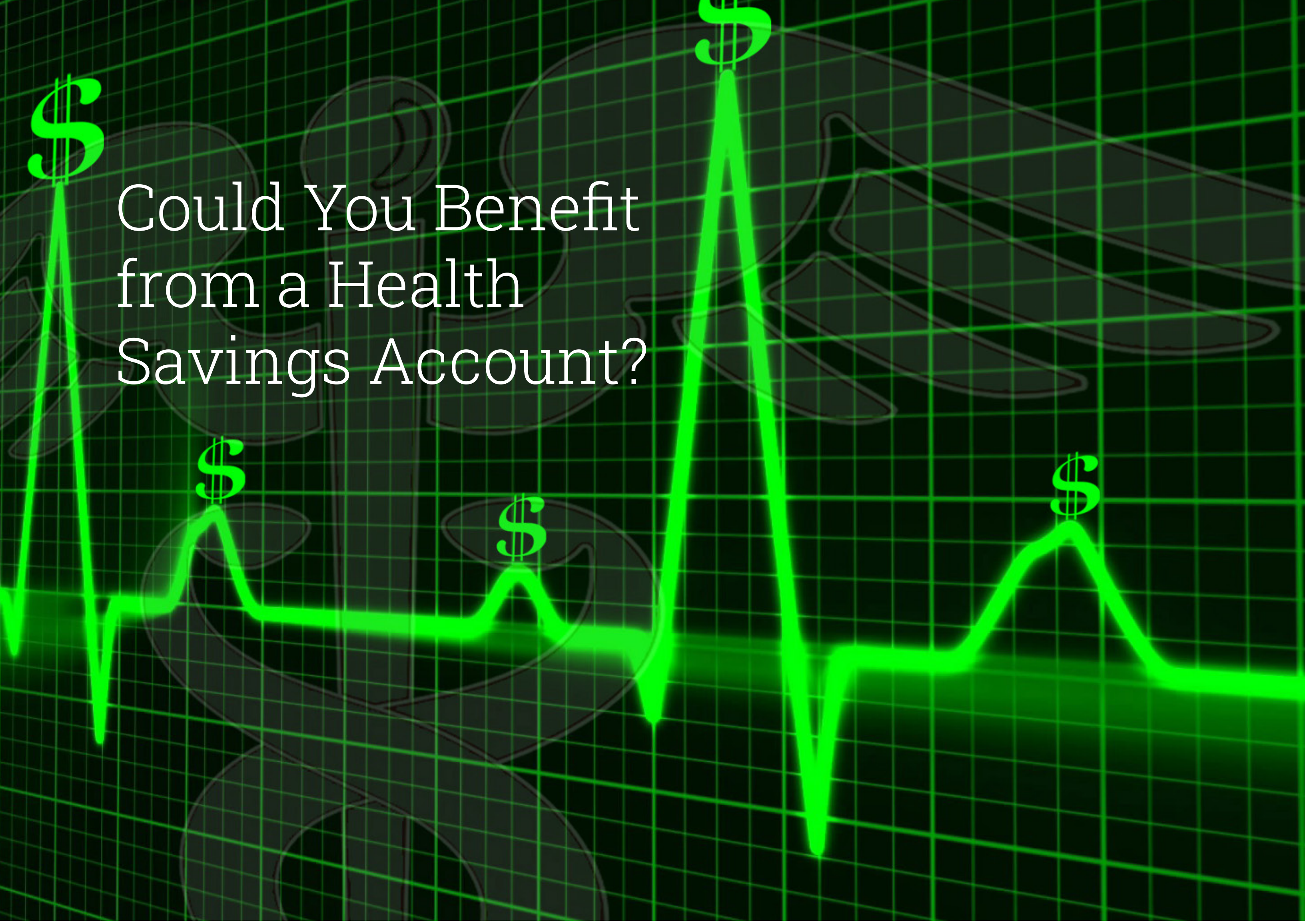

Could You Benefit from a Health Savings Account?

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> **Health Savings Accounts (HSA's) were first introduced in 2003 and have quickly grown in popularity as a savings vehicle for future health costs.** However, the advantages of an HSA extend beyond paying for medical costs and beg the question, 'are you taking full advantage of the benefits an HSA has to offer?'

HSA's are designed as a medical savings account for people who are covered under high deductible health insurance plans. Unlike cafeteria-style benefits plans, you don't have to be employed to take advantage of these accounts. In 2020, as long as your plan has a deductible of at least $1,400 for self-only coverage (or, $2,800 for family coverage) you can make a contribution to a Health Savings Account. When looking at plans through your employer or through the Affordable Care Act website, look for language such as "HSA-eligible" to identify qualifying plans.

For those covered under Medicare, please note that you cannot make a contribution to an HSA but you can still distribute funds to pay for medical expenses or pay your Medicare premium from an existing HSA.

If you are still working after age 65 and are on your employer's group health plan, it may be beneficial to continue HSA contributions and delay Medicare. However, this recommendation will vary based on health and other individual circumstances.

The maximum contribution to an HSA for self-only coverage in 2020 is

$3,550; and $7,100 for family coverage. There is also a $1,000 annual catch-up contribution for those age 55 and older. And, as I alluded to above, the advantages are many, including:

- HSA's have the rare triple advantage of giving a tax deduction for contributions made (including payroll tax), generating income on a tax-deferred or tax-free basis, and are tax-free for distributions as long as funds are used on health care costs.
- Balances roll over from year to year, so there is no "use-it-or-lose-it" provision like with Flexible Spending Accounts or other employer benefit plans.
- HSA's can be invested in mutual funds, offering greater long-term growth than cash.
- Funds can be spent for any purpose after age 65 without penalty, although they may be taxed if not used for health-related costs.
- Premiums are generally lower than for traditional health plans due to the higher deductibles.

Particularly for high net worth individuals, HSA's also provide these benefits:

- Your HSA account can continue to grow tax-free for as long as you like. Most high net worth individuals can cover the higher deductibles through normal cash flow. So, even though you're eligible to make a distribution from your HSA, it may be better not to. Let the account grow as long as possible. Unlike a 401(k) or IRA, HSA's have no required distributions, allowing you to hold money in the account until it's truly needed.
- HSA's can be used to reimburse yourself for healthcare costs at any time, even years later. Keep track of any costs that you incurred that were not reimbursed from your HSA. These amounts can then be withdrawn at any point in the future and used for any purpose. Just be sure to keep receipts or otherwise attribute reimbursements to actual medical expenses.
- Many high net worth persons are in high tax brackets, making any non-income related deductible expense valuable. And, even if you did not max out your HSA contribution the previous year, you have until April 15, of the following year to complete your full contribution. In other words, contributions made between January 1 and April 15 can be assigned to either the current year or the prior year up to the maximum contribution amount.

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In a 2018 study, Fidelity Benefits Consulting stated that the average couple

ABOUT RICHARD P. SLAUGHTER ASSOCIATES, INC.

Richard P. Slaughter Associates is a leading wealth-management firm specializing in delivering tailored strategies as a fiduciary for high net worth individuals, families and businesses. Slaughter Associates constructs a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management while coordinating with tax, insurance and estate professionals. The result is a holistic approach—unique in the financial industry—that generates a clear path to the individual financial goals of the client. Founded in 1991 in Austin, Texas, Slaughter Associates was among the first fee-only firms in the nation, a fiduciary status that allows it the freedom to provide advice that is always in the best interests of the client. Slaughter Associates is a NABCAP Premier Advisor, recognized for its commitment to maintaining top business standards, first-class financial-management capabilities and dedication to preserving transparency in the financial services industry.

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will incur $280,000 in out-of-pocket medical costs throughout their lifetimes. Depending on how early you start saving to an HSA, your contributions could be sufficient enough to cover all medical costs. But even if you started saving in your 40s or 50s, there are significant growth and tax savings opportunities available.

Despite the many benefits, there are some disadvantages to consider when using an HSA, including:

- Withdrawals prior to 65 that aren't used for medical expenses are heavily penalized. Not only will you pay income tax on the withdrawal, but you'll also pay a 20% penalty, which is double the standard penalty for early distributions from retirement accounts.
- You can leave your HSA to your spouse and he or she can continue to enjoy the tax-free benefits. However, if you leave your HSA to a non-spouse beneficiary such as a child, the entire balance of the account becomes taxable income to your beneficiary in the year of your death. HSA's provide no "stretch" provisions like are found in IRAs. So, it's generally best to spend down the balance of your HSA during your lifetime if you have a non-spouse named as your beneficiary. The balance is also included in your estate if you are in the taxable estate territory.

The future of HSA's is bright. And, as our country faces escalating health care costs, vehicles such as these are seen as ways to encourage people to shop around for lower-cost services. Furthermore, legislation has been introduced that would drastically increase the annual contribution to HSA's, though it has not received much attention thus far. Still, Health Savings Accounts are an essential strategy consideration for high net worth individuals to save for retirement.

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