HEALTH SAVINGS ACCOUNT:
The Account Your Portfolio May Be Missing

Question 1: What if you knew you were going to spend thousands of dollars and your life could depend on it? Would you start saving now?

Answer: Some things in life are just plain expensive. New cars, houses, fancy shoes…the list goes on and on. What if there was one major expense you weren't considering? An expense so important, your life could depend on it. A study by Fidelity recently estimated the average couple over age 65 will spend roughly $275,000 on health care costs in retirement.[1] Medical, dental, vision and other associated health care costs are some of the most commonly overlooked expenses by individuals, and with good reason.

The thought of sitting at home pondering how to pay for future ailments isn't how most people prefer to spend their time. So, when someone gets sick, he or she may not have a savings plan in place to cover deductibles, copays, prescription costs or other treatment expenses that may arise. Enter the Health Savings Account (HSA), a unique way to utilize a tax-advantaged account to save and invest while covering medical expenses now and in retirement

Question 2: What is a Health Savings Account?

Answer: An HSA is a tax-preferred medical, dental, vision, etc. savings and investment account. You fund the account with pre-tax dollars, invest the funds and let them grow tax free. As the account owner, you can withdraw funds to pay for certain eligible medical-related expenses tax free.[2] This trio of benefits is often referred to as a triple tax advantage or being triple tax exempt. The net effect of this account is that you can essentially pay for medical bills and expenses using tax-free money.

Question 3: Who Can Open an HSA?

Answer: While there are numerous benefits to an HSA, not everyone qualifies. In order to open and make contributions to an HSA, you or your family must be enrolled in a High Deductible Healthcare Plan (HDHP).[3] Those who elect to enroll in other traditional health care plans like Preferred Provider Organization (PPO) plans, Tricare, VA Benefits or Medicare can not participate in an HSA. The tradeoff between the HDHP and other types of plans is that the HDHP has a much higher deductible than a traditional plan in exchange for lower monthly premiums. HSA plan participants are responsible for their health care costs up to a set amount. The HSA's purpose is to assist in covering that higher deductible, but it's also used as an investment vehicle to cover expenses you are almost guaranteed to have at some point in your life.

Before deciding to enroll in a HDHP, you should consider your average health care expenses. While the majority of HSAs are opened after enrolling in HDHPs through an employer, individuals who don't have that option through work can also seek out their own individual plans through either private insurers or on the healthcare.gov exchange.

An HSA can be opened through a variety of different banks. While that eliminates the ease of having an employer-sponsored account with automatic payroll contributions, it does allow you to shop for a plan on the market and find the HSA provider that best fits your needs.

Question 4: Are There Limitations of an HSA?

Answer: Aside from being unable to open an HSA if you aren't enrolled in a HDHP, there are also limits on the amount you can contribute to an account in a given year. Individuals can contribute up to $3,450 per calendar year regardless of how much money they make.[4] That amount increases to $6,900 for families. Additionally, if an account is opened during the middle of the year, funding of the account must either be prorated for the remaining months in the year, or the full annual amount can be contributed, but the account holder must remain HSA eligible for all of the following year as well.[5] Much like an IRA, there is an early withdrawal penalty for taking funds out of the account for non-healthcare related expenses before the age of 65.

Once the account holder is age 65, however, he or she may withdraw funds to be used for any purpose without paying the 10 percent penalty, but income tax will be due on part of those non-medical distributions.[6]

Question 5: Where Can I Find More Information?

Answer: Healthcare.gov maintains a lot of information regarding HSAs and various health care plans in general. For a more detailed discussion of HSAs, and some of the considerations that go into funding one, please check out the Mariner Wealth Advisors Podcast series 'Your Life, Simplified'. **In Episode 8, we discuss Health Savings Accounts and delve into additional topics like Flexible Savings Accounts (FSA), employer considerations, and so much more!**

[1] https://www.cnbc.com/2017/08/24/average-couple-will-spend-275000-on-health-care-in-retirement.html
[2] https://www.healthcare.gov/glossary/health-savings-account-HSA/
[3] https://www.healthcare.gov/glossary/health-savings-account-HSA/
[4] https://www.healthcare.gov/glossary/health-savings-account-HSA/
[5] https://www.irs.gov/publications/p969
[6] https://www.irs.gov/publications/p969