Rochester Wealth Strategies

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401(k), IRA… HSA?

By Dominic Garcia

When people think of retirement accounts, only few realize the value that a Health Savings Account (HSA) could bring to their overall strategy. Despite being around since 2003, they have significantly grown in popularity over the last few years.

HSAs were created for those who are covered under a high-deductible health plan (HDHP) to help pay for the out-of-pocket costs that HDHPs do not cover. A good candidate is one who has a qualified HDHP, has no other health coverage, is not dependent on someone else's tax return, and is not enrolled in Medicare. The easiest way to determine whether this is an option for you is to ask your healthcare provider if you are part of an HSA-eligible plan.

Unlike most retirement plans where you must choose between a deduction today or tax-free withdrawals later in life, an HSA offers the best of both worlds; it allows for deductible contributions and tax-free withdrawals if used for qualified medical costs. In addition, you do not have to wait until 59 ½ to use the funds and there are no required distributions after age 72.

In 2020, you are allowed to contribute $3,550 for individual coverage or $7,100 for family coverage. If age 55 or older, you may contribute an additional $1,000. There are also no income restrictions. Since it is estimated that the average couple after age 65 will spend around $285,000 in out-of-pocket medical costs, your goal may be to max out your contributions each year until you reach this point. Upon your passing, your spouse can inherit the account tax free. However, you may want to be careful not to overfund the account as the one caveat to the plan is that the account becomes taxable once inherited by a non-spouse beneficiary. This would suggest naming a contingent beneficiary who is in a lower tax bracket or leaving it to a charity to prevent tax all together.

One strategy to utilizing an HSA is to hold off on using the account to pay for immediate medical costs. What makes this account so valuable is that it offers another way to grow your assets on a tax-deferred basis. Hence, the more money you leave in the account early on, the more you will benefit from its purpose in retirement.

The question of whether it makes sense to consider long-term care insurance can also be addressed with an HSA. There is no hiding the fact that insurance can be a very expensive planning tool. Instead, an HSA could offer the ability to self-insure, maintain control of your money, and minimize the overall costs involved with planning for unforeseen health risks.

Note: if you are eligible and considering a contribution for 2019, the deadline has been extended to July 15th. For more information regarding HSAs or any other financial related topic, please feel free to contact us.

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Dominic Garcia is President of Rochester Wealth Strategies LLC, an Independent Registered Investment Adviser located in Downtown Rochester. RWS is a Fiduciary and Fee-Only financial advisory firm. (248) 434-6550