What is an HSA?

Paul Roy

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The health insurance landscape continues to evolve and choosing the right healthcare plan can be confusing. We are bombarded with an alphabet soup of acronyms such as HSA, FSA, HRAS, MSAs, DCFSA, PPOs, HDHP and many of us simply default to the same plan year after year because it's familiar. This may be the path of least resistance, but depending on your circumstances you may be missing one of the most tax efficient investments accounts available, one known as the Health Savings Account, or HSA.

What is an HSA?

Health Savings Accounts were created by the Medicare Prescription Drug, Improvement, and Modernization Act in 2003 and are often referred to as an IRA for medical expenses. They allow for you to make tax deductible contributions to a medical savings account that can be used for qualified medical expenses. You can use the account for current expenses or let it accumulate, and you are also allowed to carry over your unused balance from year to year. HSAs are uniquely positioned to offer triple tax benefits and you can invest your balance much like a brokerage account. HSA's offer a tax deduction for contributions, tax deferred growth while invested, and <u>tax free</u> distributions if used for medical expenses! An HSA can be accumulated while you are working and your income is high and distributed as you see fit in later years. If you plan to accumulate for later years you can save receipts from current medical expenses and use them to make tax free distributions for any purpose down the road. With such an attractive tax advantage~~s~~ an HSA can be an important asset in your retirement plan to fight the rising cost of healthcare.

Who Qualifies?

To qualify for a HSA you need to be covered by a <u>High Deductible Healthcare Plan</u>. The IRS defines a HDHP as an insurance plan that has a minimal annual deductible for $1,350 for individuals and $2,700 for family plans.

How do they work?

Your employer may allow you to make regular contributions to your HSA through payroll deductions. You can also make a post-tax contribution to your HSA and if you qualify, take the deduction on your taxes. Once funds are deposited into your HSA you can leave them in a money market fund for current

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expenses or you can also invest the funds in a selection of mutual funds that are offered by your HSA provider.

How much can you contribute?

Many individuals contribute a regular fixed amount to their HSA, but are not making the maximum contributions. With the attractive tax advantages, it may make sense to maximize your retirement contributions which are capped at $3,450/year for an individual and $6,900/year for a family. If you are 55 or older you can also make a $1,000 catch up contribution for a total of $ 4,450 to an HSA for singles and $7,900 for families.

Why HSA's are important?

Healthcare expenses have grown at double the rate of CPI since 1940 and continue to represent an increasingly larger percentage of an individual's income need in retirement. The Employee Benefit Research Institute EBRI estimate a 65 year old couple will need to have $265,000 to pay for retirement healthcare expenses, not including long term care. This expense is often overlooked in the financial planning process because it is difficult to predict and is often taken for granted.

Bottom Line – If you are eligible for an HSA, you may want to take advantage of it. Tax free growth is a great option and despite the modest annual limits, an HSA can grow into a meaningful amount if you start early.

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