EMPYRION™

WEALTH MANAGEMENT

Monthly Insight

Save on Taxes and Insurance Premiums with a Health Savings Account

The topic of healthcare—especially paying for it—has been top-of-mind for many Americans for quite some time. And currently, with the potential health issues surrounding the coronavirus pandemic, access to quality healthcare has only become more important.

For those who qualify, a health savings account (HSA) can be a smart tool. Not only can an HSA give you peace of mind about healthcare, it will also help you save on taxes, both when contributing to the account and when withdrawing for qualified medical expenses. Plus, there are some important changes to the rules for HSAs in 2020 that make them an idea that is better than ever before. First, let's look at some basics of HSAs.

An HSA is a tax-favored way to save money to use for current or future medical expenses. Whether the plan is through your employer or you sign up on your own, the funds you contribute provide a reduction of your taxable income. So, if you make $100,000 per year and you contribute $5,000 to your HSA, you will pay taxes on $95,000. Also, when you withdraw money from your HSA to pay for qualified medical expenses, the withdrawal is not counted as taxable income. Qualified medical expenses include costs like copays, deductibles, coinsurance, and other payments not covered by your medical insurance. Typically, premiums for your medical insurance cannot be paid via your HSA.

Unlike a flexible spending account (sometimes called a "cafeteria plan"), which is usually offered through an employer, you don't have to use all the money you put into your HSA every year. Any unused balance rolls over from one year to the next, for as long as you own your plan. Another important advantage of HSAs is that many allow deposited funds to be invested in assets like stocks, bonds, or mutual funds. This means that if your plan's rules permit it and you choose this option, you can have a portion of your HSA working as a long-term investment. Given the trend of rising healthcare expenses, keeping a part of your plan balance invested in higher-return holdings can offer important protection against future healthcare cost inflation. Because any growth in your HSA is free from taxation, 100% of the increased value is available to you to offset future healthcare costs.

However, to qualify to contribute to an HSA, you must have a high-deductible health plan (HDHP). According to Healthcare.gov, HDHPs are defined for 2020 as health insurance plans that require the insured to pay a deductible of at least $1,400 for an individual or $2,800 for a family. These plans typically feature lower premiums but overall require higher payments from the insured because the high deductibles must be satisfied before the plan pays benefits.

It's important to note that according to the IRS, if you are enrolled in Medicare, you should stop making contributions to your HSA; failure to do so could expose you to a penalty for excess contributions. You can continue to make withdrawals from the plan for qualified expenses, but you can't add additional funds.

Changes to Contribution Limits for HSAs

The government has announced higher limits for contributions to HSAs in 2020. Individuals may contribute up to $3,550 (up from $3,500 in 2019), and those with family plans may deposit up to $7,100 (up from $7,000 in 2019). Also, those age 55 or older can make an additional $1,000 annual catch-up contribution to their HSAs. For those with employer-sponsored HSAs, it's important to remember that annual contribution limits include any funds deposited by the employer, not just what the employee contributes to the plan.

In addition to these changes, the CARES Act, passed in late March as a part of the federal government's response to the pandemic crisis, has extended the amount of time you have to make deposits into your HSA counting toward your 2019 contribution. Accordingly, the IRS has announced an extension of deadlines for filing certain forms and making payments, including 2019 contributions to your HSA. If you had an HSA in place for 2019, you now have until July 15, 2020 to make your contribution for 2019.

Of course, the ultimate value of your HSA is only as good as its fit with your overall financial situation, goals, and long-term strategy. Also, especially if you intend to invest a portion of your HSA balance in marketable securities such as stocks, bonds, or mutual funds, it is vital to have professional, fiduciary financial advice that places your best interests foremost. Our firm assists clients in developing strategies tailored to their specific goals and priorities, including HSAs and other tax-advantaged accounts. Because we are certified, fee-only financial planners, our recommendations are predicated on what is best for each client, not on selling products to generate commissions. If you would like more information on how an HSA could fit into your long-term financial planning and tax strategy, we would appreciate hearing from you.

Stay Safe, Stay Hopeful!

KIMBERLY FOSS

President, CFP®, CPWA®

"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."