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Who Has an HSA?

HEALTH CARE, WEALTH MANAGEMENT
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With the recent turmoil in Congress over health care mandates, one thing has become crystal clear: Health Savings Account (HSA) may be your best option. The HSA is the only account that is triple-tax advantaged. You get a tax deduction on contributions, it grows tax free, and distributions are tax free if used for qualified medical expenses. The HSA is also the only health spending account that you can retain year-over-year. No pesky spend-or-lose provisions.

Intrigued? There are a few requirements. You must be enrolled in a high-deductible plan (HDHP) and you cannot be enrolled in Medicare. An HDHP for 2018 is one with deductibles of at least $1,350 for an individual or $2,700 for a family. The HDHP also has maximum out-of-pocket amounts of $6,650 and $13,500, respectively.

Popular thinking is that it has to be employer-sponsored, but that is not accurate. If your employer offers a high-deductible plan, but no HSA, enroll in a self-directed HSA. Often your employer will be willing to direct payroll deductions to your plan, or you can set up automatic payments. High-deductible plan premiums are less expensive than traditional plans. Take that savings and contribute it to your HSA. An employer who offers an HDHP may also offer an HSA and make contributions on your behalf. This is a benefit you should not overlook.

This is a great planning tool. For a young worker, this may be a better place to maximize contributions. Send a bit less to your retirement account and fund an HSA. In 2018 you can contribute $3,450/individual or $6,900/family. An HSA works best if you are healthy and willing to pay trivial medical expenses out-of-pocket. To maximize the potential, allow the balance to grow. Your plan will determine how much needs to be kept in cash, typically $2,000. The balance can be invested.

Another cool cash flow feature is that you can accumulate receipts. Expenses do not have to be submitted in the same year. For instance, if you paid for your eyeglasses out-of-pocket, you can submit a claim any time in the future.

If you change employers and don’t have access to an HDHP, not a problem. Stop your contributions and the account will be waiting for you if and when your situation changes. Your new employer offers a different HSA plan? Also no problem. Your existing HSA can be rolled into the new plan. And what if your employer does not offer an HDHP? Time to talk to your employer about adding one; it saves them money as well.

Your action plan: Review your health insurance options and consider the HDHP/HSA combination. Carve out a portion of your pretax savings to fund both your retirement account and your HSA. Your future self will thank you.

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