

Health Savings Accounts: Retirement's Missing Piece?

What is a Health Savings Account (HSA)?

Offered in conjunction with a qualified High-Deductible Health Plan (HDHP), an HSA is a savings vehicle that can be used to fund qualified medical expenses today and throughout one's retirement. The account is owned by the individual, and money deposited into the account can be invested with the potential to grow over time like money in an IRA or a 401(k).

What Are the Benefits?

1. No Required Minimum Distributions (RMDs)
2. Funds roll over every year
3. No income limits
4. Triple tax-free

How Is It Taxed?

1. Money is saved pre-tax.
2. Investments grow tax-free.
3. Withdrawals for qualifying expenses are tax-free.

Healthcare:

#1

Threat to Retirement Savings*

2024 Contribution Limits

Single: **\$4,150**

Family: **\$8,300**

Catch-up (age 55+): **\$1,000**

HSAs & Retirement

While qualified medical expenses are always eligible for tax-free distributions, at age 65, you can also withdraw money from your HSA as ordinary income to help fund everyday expenses in retirement.

Distributions

1. Balances used for qualified health-care expenses are tax-free.
2. Withdrawals for non-qualified expenses are taxed as ordinary income and incur a 20% penalty if taken before age 65.

Determining How Much to Contribute

Consider These Options:

Think about how much you spent last year.



Will your costs be roughly the same this year? If so, target that amount.

Any medical, dental, or vision costs coming up?



Set aside funds for those expenses – tax free* – or pay yourself back once you build up the balance.

Prepare your safety net.



Save enough to cover your health plan's deductible or out-of-pocket maximum.

Save for retirement.



Max out your contributions if you are financially able to do so.

*Tax references are at the federal level. State taxes may vary. Consult your tax advisor.

Medicare and HSAs

Three facts to consider if you enroll in Medicare and have an HSA:

1. Once you enroll in Medicare, you are no longer eligible to contribute to an HSA and must stop contributions. Contributions made after enrolling are not deductible and are subject to an excise tax.
2. You can still withdraw funds from your HSA for eligible medical expenses, including premiums for Medicare Parts B, medical insurance, Part D, prescription drug coverage, and a Medicare Advantage plan, along with deductibles, copayments and coinsurance for medical care and medications.
3. You cannot use funds from an HSA to pay premiums for Medicare supplement insurance, also known as a Medigap policy.

Source: IRS, Publication 969