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BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

MONEY *notes*

A Health Savings Account (HSA) is a triple tax-advantaged savings account designed to help individuals and families with a High-Deductible Health Plan (HDHP) set aside funds for qualified medical expenses. Unlike Flexible Spending Accounts (FSAs), which often require funds to be used in full each year or to be forfeited, HSAs offer tax savings, investment options, and allow for unused balances to be carried over from year to year. This makes HSAs an attractive option for those aiming to save for both current and future healthcare needs.

To open and contribute to an HSA you must be enrolled in an HDHP. A HDHP is a specific category of health insurance. If you have an HDHP, you should consider opening and regularly contributing to an HSA as this is the only triple-tax advantaged savings vehicle available to US investors! More specifically:

1. Your HSA contributions can be made "pre-tax" (aka tax free), like a Traditional IRA or 401(k);
2. Your HSA account grows tax free; and
3. Your withdrawals are tax free, like a Roth IRA or Roth 401(k), so long as they are used for qualified medical expenses

Additional benefits of an HSA include:

- Unlike traditional retirement accounts, an HSA never requires you to take a required minimum distribution (RMD) from the account; and
- An HSA is portable – you can take it with you when you change employers or retire.

Contributions are tax free. If you contribute to your HSA through your employer's payroll system, this will be done with pre-tax dollars and lower your overall taxable income. If you separately contribute additional funds to your HSA, you may claim a tax deduction for your contribution – even if you do not itemize your deductions on Schedule A (Form 1040).[1]

The IRS recently announced the largest ever increase to the HSA annual contribution limits (see chart). In addition to annual contributions, HSA owners may also make a one-time only, tax- and penalty-free rollover from an existing IRA into an existing HSA. The maximum rollover amount is the same as the annual HSA contribution limit for that year. Before requesting an IRA rollover into your HSA, however, you should consult with your tax and financial advisors to ensure you are maximizing the full value of this once-in-a-lifetime opportunity.

	2023 Guidelines	2024 Guidelines
Minimum deductible accounts	$1,500 single plan $3,000 family plan	$1,600 single plan $3,200 family plan
Maximum out-of-pocket limits	$7,500 single plan $15,000 family plan	$8,050 single plan $16,100 family plan
HSA contribution limits	$3,850 single plan $7,750 family plan	$4,150 single plan $8,300 family plan
Catch-up contributions (55 and older)	$1,000 single plan $1,000 family plan	$1,000 single plan $1,000 family plan

https://www.healthequity.com/hsa-contribution-limits

Tax-free growth of the funds inside your HSA means that as your HSA account grows over time due to interest, dividends, and capital appreciation, you will not be taxed each year on this growth. As a result, many HSA accountholders choose to pay their out-of-pocket medical expenses with other money and let the funds inside their HSA grow and compound tax-free over time. The funds in your HSA can be invested in a variety of ways including stocks, bonds, ETFs, and mutual funds.

If you take advantage of all the tax benefits of an HSA, this account can significantly contribute to your retirement savings, even more than traditional retirement accounts like 401(k)s and IRAs. According to Blake Hilgemann, author of *Pathway to Financial Independence*, "every dollar in an HSA is worth at least 17.65% more than a dollar in a 401(k)."[2] Normal retirement funds are either taxed on the way into the account (Roth) or taxed as income when withdrawn (Traditional). Additionally, Traditional retirement accounts impose annual mandatory withdrawals later in life while HSAs have no such requirement.

Withdrawals from your HSA will be tax free provided they are used for qualified medical expenses. If you have diligently contributed to your HSA, invested it, and been able to avoid using it all for out-of-pocket medical expenses during your working years, you will most likely have a healthy account balance available to you in retirement. This can be an invaluable resource to you as you age. A number of studies estimate the average 65-year-old couple will spend about $315,000 on healthcare costs in retirement.[3]

Your HSA funds can be used tax free to cover all sorts of qualified medical expenses in retirement including long-term care insurance premiums, physical therapy, hearing aids and batteries, chiropractor treatment, acupuncture, doctor's office visits and co-pays, speech therapy, mobility aids (wheelchair, walker, cane), drug prescriptions, some Medicare premiums, and more.

Another important feature of an HSA is that the medical expenses you choose to pay from your HSA do not have to occur at the same time as the withdrawal you take to cover them, so you can pay yourself back for earlier medical expenses you may have incurred. For example, you may have chosen to cover your out-of-pocket medical expenses related to a knee-replacement surgery you had at age 60 with funds outside your HSA. Then, at age 67, you decide to take a tax-free withdrawal from your HSA to cover the qualified medical expenses related to your earlier knee replacement that you incurred and paid previously. As long as you keep your receipts, and the expenses incurred were for qualified medical expenses while you were enrolled in an HSA, you can submit for reimbursement from your HSA account at any time – even years after you originally incurred these expenses. This ability to reimburse yourself provides you with tax-free cash when you may need it for another expense, such as a trip, home repair, or anything else you might want or need. This is possible as long as the amount of your withdrawal directly relates to qualified medical expenses you previously incurred and paid, and you have all the required backup documentation to support these expenses.

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While HSAs have many favorable tax features, it is also important to understand there are times when IRS penalties and/or income tax liabilities may be imposed on HSA withdrawals. For example, if you take an unqualified withdrawal from your HSA, you will be subject to income tax on the amount of the withdrawal. Additionally, if you are under age 65 (and not disabled) when you take an unqualified HSA withdrawal, you will also get hit with a 20% IRS penalty on top of your tax liability. Your BLBB financial advisor can address any additional restrictions that may apply.

Who you name as your HSA beneficiary determines whether or not this account continues to exist after your death. If you name your spouse as your HSA beneficiary, upon your death, they will take ownership of your HSA (with the same HSA restrictions), even if they do not have an HDHP of their own already. This will not be a taxable event. However, if you name someone other than your spouse as your HSA beneficiary, then your HSA account ceases to be an HSA upon your death and your HSA funds will be included in your beneficiary's gross income for the year in which you die.[4]

Although some of the rules around an HSA may seem complicated, and we have provided just a broad overview here, it is worth opening and funding one so long as you are eligible to do so. As noted above, this is probably the most tax-advantaged type of investment account currently available. An HSA is not only a way to help cover out-of-pocket medical expenses during your working years, it is also an important tool you can use to save for the inevitable medical expenses you will likely face as you age. A large HSA balance can help cushion you against these expenses while not increasing your taxable income when you use your HSA funds to cover qualified medical expenses.

If you would like to learn more about whether you are eligible to enroll in an HSA or if you are wondering how you should fund and/or invest an HSA you already have, please reach out to your BLBB financial advisor (215-643-9100).

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[1] https://www.irs.gov/publications/p969#:~:text=You%20can%20claim%20a%20tax,excluded%20from%20your%20gross%20income
[2] https://twitter.com/PathwayToFI/status/1650914620222377984
[3] https://www.cnbc.com/2023/05/24/financial-coach-why-an-hsa-is-at-least-17percent-better-than-a-401k.html
[4] https://www.goodrx.com/insurance/fsa-hsa/hsa-funds-when-you-die

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