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HSA Retirement Loophole

A Health Savings Account (HSA) is a tax-advantaged savings account available for people who are enrolled in an IRS qualified high-deductible health insurance plan. The government provides tax incentives to participants in high-deductible health plans (HDHP) because the participants are willing to assume more out-of-pocket expenses due to higher deductibles. HSAs are powerful because they are triple tax free. They allow you to save and spend pre-tax dollars to cover medical bills. Earnings are also tax-free. You can think of it as an emergency savings plan for medical expenses. Unlike Flexible Savings Accounts (FSA), you don't have to use HSA funds for medical expenses during the year. If you choose not to use HSA funds, your (and your employer's) contributions and earnings will roll over until you need or want to use them. Also, the accounts are portable - meaning if you opened one with your employer can keep it if you change jobs or retire.

Here's the nice little known retirement benefit loophole. If you chose not to use your HSA funds for medical expenses, when you turn 65 or become eligible for Medicare you can withdraw the funds for *any* purpose penalty free. If you are retiring early, you can use the plan for current medical expenses - - *and* you can reimburse yourself for IRS qualified medical expenses you've already paid any time…as long as the qualified medical expenses were incurred after your HSA was established.

How HSAs Work

For 2019 you can contribute up to $3,500 if you have a qualified single plan or $7,000 with a qualified family plan. If you are 55 or older, you can contribute an additional $1,000 each year. There is also a once in a life-time roll-over opportunity. You can front-load an HSA with a once in a lifetime rollover to the HSA up to the annual contribution limit. So if you are retiring early – you can avoid IRA penalties and free up funds to cover medical expenses.

1. The money you (and your employer) contribute is treated as pre-tax money. Like IRAs this pre-tax treatment can help reduce your taxable income each year. You cannot contribute to an HSA once you are eligible for Medicare, typically by age 65. Medicare is not an IRS qualified plan.

2. Qualified medical expenses are tax-free. As long as you use your funds to cover qualifying medical expenses you won't pay taxes on withdrawals. If funds are used for non-qualified expense and you are under the age of 65, then there is a penalty.

3. Investment gains aren't taxed. You can choose to invest balances over $2000 (typically the investment choices are mutual funds). As long as you use your funds to cover qualifying medical expenses, your investment gains won't be taxed. Remember, once you turn 65 or are Medicare eligible then you can use the contributions and earnings any way you like.

So if, a high-deductible health plan is a right fit for you, then the HSA is another powerful tool to save for retirement or ease cash-flow if retiring before age 65.

To learn more about the various retirement tools and how you can maximize their benefits please contact me. I have guided many clients like you through this process over the years. Lean on our experience – we can help you through this process. You and Baird. Image Where We Can Go Together

Giovanna is a CERTIFIED FINANCIAL PLANNER™ with Baird specializing in assisting pre-retirees and retirees prepare for and navigate retirement.

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