

HEALTH SAVINGS ACCOUNTS

THE BEST RETIREMENT ACCOUNTS EVER!

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HSA NEWSLETTER #1 – MAY 18, 2019

Every tax season I'm disappointed at how many clients hand me a form 1099-SA indicating that they have withdrawn money from their health savings accounts.

When I ask why they have done that, they reply "to pay medical bills."

I reply, "I'm going to use my HSA to buy a business class round trip plane ticket to Thailand."

Legal?

Perfectly.

It's true that the funds in an HSA must be used to pay medical bills. But they don't need to be used to pay current medical bills.

When HSAs first came out, people smarter than I heralded them as the best retirement plan ever created.

Contributions to an HSA are tax deductible, as our contributions to an IRA. But unlike distributions from an IRA, qualified distributions from an HSA are not taxable.

Think about that. Deductible going in, but not taxable coming out. No other retirement vehicle is that advantageous.

The other great characteristic is that the funds do not have to be used to cover current medical bills. They can be used to cover any out of pocket medical bills since the first contribution to the

HSA. Or they can be used to cover future medical bills. In the meantime, the funds can be invested.

Example: Jane, age 70, began funding her HSA at age 50. She stopped at age 65. (Medicare recipients cannot fund HSAs.) Her \$50,000 in tax-deductible contributions, having been prudently and wisely invested, are now worth \$90,000.

Jane has tracked her out of pocket medical expenses on QuickBooks since she opened the HSA 20 years ago. Those expenses total \$50,000. To celebrate her retirement, she withdrew \$50,000 (tax free) from her HSA to reimburse herself for those medical expenses. She used the \$50,000 to fund the vacation of a lifetime.

As for the remaining \$40,000, Jane knows that aging has a downside: higher medical expenses. She will use the remaining \$40,000, now invested in bonds, to cover future medical expenses, possibly including long term care.

The moral of the story? Leave it alone. Let it grow.

For more information, Google “HSA Retirement Account”

For more tax and financial planning tips:

<http://www.lotusfinancialplanning.com/Blogs.4.htm>

HSA NEWSLETTER #2 – MAY 20, 2019

Last week I sent out an email regarding health savings accounts. I got a lot of positive responses, several questions, and only two unsubscribes.

I want to clarify a few points based upon those responses.

First of all, my target audience were those clients who already had HSAs. My objective was to persuade those clients to let the HSA funds grow.

People without HSAs were not my target audience. But clearly I was figuratively shouting from the roof tops how great HSAs are.

If you are interested in knowing more about HSAs, Google them. I could type all day and not describe them as well as the experts have already done so online.

But there are some of the rules:

You must have a high deductible insurance plan. Google what that means for you. Or ask your insurance company if your plan is HSA eligible. If it isn't, they might even tell you how to switch to one that is.

You cannot fund an HSA if you are on Medicare. But if you are on Medicare and you have funds in your HSA, you can save them for future medical expenses. Or a first class round trip ticket to Thailand. (See previous newsletter for details.)

If you have both a 401(K) and an HSA with your employer, you should fund them in this order:

1. Fund the 401(K) up to the employer match (it doubles your money!).
2. Fund your HSA to the max.
3. Resume funding your 401K up to the max.

My third and last HSA newsletter will tell you how to get a tax deduction of up to \$8,550 (2025 family HAS limit) starting with a single dollar.

HSA NEWSLETTER #3 – MAY 21, 2019

Would you like to get a tax deduction of up to \$8,550 with a single dollar? Yes, of course there's a catch. But keep reading to see what it is.

The limitations for contributions to health savings accounts vary depending on whether you have a single plan or a family plan, and how old you are. (This is where Google comes in handy.)

Let's say that you have a family plan and that you are at least 55. Your 2025 maximum contribution is \$9,550.

Then let's say that you are scheduled for surgery that will cost you at least \$8,000 out of pocket. You are eligible for an HSA, but don't have one. If you do nothing, the \$8,000 will not be tax deductible. If you fund an HSA, the \$8,000 will be tax deductible.

But you don't have \$8,000. What to do?

The first thing to do is open an HSA and contribute at least \$1 to it. Remember that qualified medical expenses are those that are incurred AFTER you set up and fund an HSA. You can't use HSA funds to pay for medical expenses incurred prior to funding the HSA. But just \$1 does the trick!

OK You've found a dollar in change under the sofa cushions and have contributed it to your new HSA. You have had the surgery. You have recovered from the surgery and from getting the bill. But what about the other \$7,999?

Unfortunately, I can't tell you how to change \$1 into \$8,000. You still have to come up with the \$8,000 to pay the hospital and surgeon eventually. But when you do, make sure it goes through your HSA first, even if it's only a few hundred bucks at a time.

Conclusion: Opening up and funding an HSA with a minimal amount of money BEFORE you incur major medical bills will give you options for making those medical bills tax deductible.