From the desk of
Peter S. Muffoletto, C.P.A.

Health Savings Accounts (HSA's) Used for Retirement Savings

Similar to traditional and Roth IRAs Health Savings Accounts (HAS's) have similar long-term growth potential and similar tax deferred benefits.

HSAs are used as savings accounts for medical expenses providing tax-deductible contributions and tax-free withdrawals.

There is an interesting fringe benefit in that some providers allow you to invest your HSA in mutual funds and other investments allowing the balance of the unspent funds to grow tax-free.

Your HSA must meet the following eligibility requirements:

- You must be covered under a high-deductible health plan.
- You cannot be enrolled in Medicare.
- You cannot be claimed as a dependent on some else's tax return.

Contributions to an HSA are made on a pretax basis similar to a traditional IRA those payments decrease taxable income by the amount contributed.

In addition like a Roth IRA you could potentially have tax-free growth as well as tax-free distributions equal to qualified medical expenses.

Keep in mind that while HAS's cannot be utilized for insurance premiums or over-the-counter medication they do cover most other out-of-pocket medical expenses including dental work and eyeglasses.

Withdrawals from HSAs are flexible as well.

There is no requirement to take distributions once you incur medical expenses. You may make these qualifying withdrawals after setting up the account at any time, whether that's next week or 30 years from now.

For example, say that at the beginning of 2017 you open an HSA for your family and contribute the maximum of $6,750. During 2017, you have $1,000 in out-of-pocket medical expenses. Instead of withdrawing the $1,000 from your HSA you can opt to leave the $1,000 in the account to grow and compound.

As long as you keep your medical receipts, physically or digitally, you can withdraw qualified expenses at any time, tax-free.

Should your HSA grow to a value that exceeds future medical expenses you may withdraw those excess funds for any reason without penalty after you reach age 65. This includes withdrawals not just medical expenses. After age 65, you will incur income taxes on distributions that are not used for qualified medical expenses, similar to a traditional IRA.

Deductible and contribution limits

HSAs are available to taxpayers with high-deductible health plans (HDHP). The minimum deductible must be at least $1,300 for an individual or $2,600 for a family to be considered an HDHP.

In order to qualify as an HDHP a health insurance plan must not offer any benefit besides preventive care before meeting the annual deductible. This means that the deductible must apply to prescriptions, visits with specialists and emergency room care, otherwise it will not considered an HDHP. Additionally, the total yearly out-of-pocket expenses (including deductibles, copayments and coinsurance) cannot exceed $6,550 for an individual or $13,100 for a family.

In 2017, the maximum annual HSA contribution for a family is $6,750 and $3,400 for an individual. There is also a catch-up contribution of $1,000 for each family member over the age of 55.

Unlike flexible spending accounts (FSAs), there is no limit on when funds in an HSA must be used.

There are some important issues to consider. While surviving spouses may inherit the HSA as if it were their own, the entire account will become taxable income to any non-spouse who inherits the HSA.

Unclaimed reimbursed expenses will also be lost. Additionally, Alabama, California and New Jersey do not recognize HSAs, which means that contributions are not deductible and earnings are taxable for state tax purposes in those states.

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