HSAs: Have it Your Way!

August 2012

By Amanda Lott, CFP®, CRC®,
Wealth Advisor

More than Just Part of Your Health Plan

We believe that Health Savings Accounts (HSAs) may be the most overlooked retirement savings account. Many individuals now have high deductible health insurance plans coupled with a HSA that they, their employers, or a combination of both, can contribute to annually. For 2012, the contribution limits are $3,100 for a single person and $6,250 for a family. There is also a catch-up provision which allows individuals over the age of 55 to contribute an additional $1,000. It's important to note that the annual contribution limit is the aggregate level that applies to employee and employer contributions. For example, for a single person, the employer could contribute $2,100 and the employer could contribute $1,000 for a total contribution of $3,100. Both parties could not contribute the maximum $3,100 amount.

What Can I Use My HSA For?

HSA funds can be used tax-free for qualified medical expenses, and any funds that are not used during the calendar year roll over to the following year. Money withdrawn for non-medical reasons is subject to income tax in addition to a 10% penalty. If you become disabled or reach age 65 the penalty no longer applies but you still have to pay income tax on any money that is withdrawn for non-qualified medical expenses.

*What is a Qualified Medical Expense?**

Some examples are:

- ✓ Eye exams, Eyeglasses, Contacts and materials required for using contact lenses, such as saline solution and enzyme cleanser.
- ✓ Amounts paid for the prevention and alleviation of dental disease
- ✓ Qualified Long-term Care Insurance Contracts and Qualified Long-Term Care Services
- ✓ Medicare Part B and Medicare Part D
- ✓ Chiropractor for Medical Care

Here are some examples of what does not qualify as a qualified medical expense:

- × Life insurance premiums
- × Teeth whitening or other cosmetic procedures
- × Nonprescription (i.e. over the counter) medications
- × Funeral expenses
- × Health club dues

*For a full list of qualified medical expenses see IRS Publication 502.

Does my HSA Expire? What Happens at Death?

There is no expiration date for using funds in an HSA. However, if you think you're running out of time to use the HSA funds and you do not have a spouse to whom you could leave the HSA, you should consider utilizing the HSA now.

An HSA is similar to an IRA in that it transfers at death via a beneficiary designation as opposed to a person's will. What happens to the HSA when you pass depends on who is designated as the beneficiary.

Spouse Beneficiary: HSA treated as the spouse's HSA going forward. This means that the spouse may continue to use the HSA for qualified medical expenses without having income tax imposed on the withdrawals.

Non-Spouse Beneficiary: The account no longer is an HSA and the fair market value of the HSA is taxable to the beneficiary in one lump sum in the year in which the account holder passes away. This means that the HSA will no longer exist and the new beneficiary cannot utilize it to pay for qualified medical expenses in a tax-advantaged way.

Due to the different treatments of the HSA depending on the beneficiary, if you do not have a spouse to leave the HSA to upon your death, it may make sense to spend down the HSA on qualified medical expenses during the latter part of your life.

Conclusion

In summary, the HSA may offer individuals a tax deduction for the contributions, and if used for qualified medical expenses, tax-free growth on the earnings. With no expiration date during your and your spouse's lifetime, the HSA can have a long-term time horizon. HSA accounts can be invested, so for the individuals who can afford to pay for healthcare costs with other cash flow resources, the HSA could be left untouched for years of tax-free growth. It could even be seen as a way to pre-fund retiree health care expenses in a super-charged way: deduction up front AND tax-free growth! If you have any questions, please contact your wealth manager.

RegentAtlantic. A better way.

1200 Mount Kemble Avenue, Morristown, NJ 07960-6797
PH: 973-425-8420 FX: 973-425-8434
www.regentatlantic.com

regent atlantic