Why Health Savings Accounts are Fantastic for Retirement!

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Why I put my Health Savings Account (HSA) before my 401k for Retirement Savings

Most people rely almost entirely on their 401k as their retirement savings investment of choice. As a supplement to your 401k you may also choose from a Traditional IRA, Roth IRA or taxable accounts. In all these accounts you could potentially own individual stocks and bonds, CD’s, mutual funds, exchange traded funds, money markets and savings accounts. But, you may not have known that you can invest in all these types of investments with the absolute best federal income advantage when you buy them in a Health Savings Account (HSA).

The tax benefits are the main reason my Health Savings Account is my favorite retirement planning vehicle.

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Every year I make sure to fully fund my family’s HSA. The benefits of a Health Savings Account (HSA) are one-of-a-kind. I’ve been using this as a retirement saving vehicle for about a decade. Thanks to my diligent saving, I’m on pace to have a six figure balance at retirement. If you qualify, you could do the same. Use this Health Savings Account Calculator to do your own calculations on how much you may have. Based on your contribution and growth rate. Keep reading to find out how to qualify and how much you can contribute.

5 GREAT REASONS TO LOVE HSA’S

1. Your HSA contributions are fully federal tax-deductible.

2. Unlike a Traditional IRA or Roth IRA, **there are no income limitations** on contributors. We can all use the current income tax deduction.
3. Any growth of the money while in the HSA account is tax-deferred (not taxed).
4. With some banks, you can invest your money in a brokerage account and keep the tax benefits while the money is in your HSA account. Companies like HSA Bank have teamed up with brokerage firms such as TD Ameritrade to make this seamless. I use these and love the simplicity of both.
5. What really stands out about a HSA, is that if/when you take money out of your account it is income tax-free for IRS approved medical expenses. These include dentist, doctor, hospital charges and prescriptions. It also includes insurance premiums, including Medicare and long-term care insurance premiums.

How much can you contribute?

In 2018, individuals can contribute up to $3,450 and $6,900 for couples. People over age 55 can contribute an additional $1,000. Money you contribute can be left to grow over time. I*t's not use it lose it*. ***Whatever you don't spend stays in your account.*** When I have medical expenses I choose to leave this account alone to grow and pay for medical expenses from other savings. Please understand this is part of my strategy. When possible I try to not spend the HSA on medical expenses as I would rather see this account keep growing tax-free.

Withdrawals for non-qualified reasons are taxed and have 20% penalty. This is no penalty for distributions after age 65, but they are subject to income tax if not used for qualified medical expenses.

Who Can Use HSA's?

Not everybody is eligible to fund a Health Saving Account. In order to be eligible to open and fund a HSA. Your medical insurance plan has to be a qualified High Deductible Health Plan (HDHP). These plans come with a minimum of a $1,300 deductible for individuals and $2,600 for families. A HDHP's total yearly out-of-pocket expenses (including deductibles, copayments, and coinsurance) can't be more than $6,550 for an individual or $13,100 for a family. (This limit doesn't apply to out-of-network services.) Check with your employer to see if they offer a qualified HDHP plan.

What about the burden of having a high medical insurance deductible?

Insurance 101 would describe insurance as a transfer of risk. If possible it makes sense to self-insure (high deductible). For large expenses that are unlikely to be incurred. In the case of medical insurance moving to a higher deductible. This can save you a pretty penny in monthly premium. For example, if you move from a $500 deductible to a $5,000 family deductible. You will save a bundle on your monthly premium. If you "bank" the premium savings (tax-deductible) in your health savings account. You would have plenty of money to pay should you have a large claim. In this example, you are simply redirecting money from your insurance premium to your HSA deposit. Set up your HSA deposit to be automatically taken from your checking account each month to make sure it gets done.

How do you use/spend the HSA money?

Upon opening an account, you will be given a checkbook and a debit card. You can use either to pay your medical bills. Check your balance and transactions on the bank's website. If you use your HSA money for a non qualified expense, you will be subject to income tax and a 20% penalty. Doing this after age 65, the penalty is waived. Yet you still claim distribution as income on the non-qualified distribution.

How does the money grow in a Health Saving Account?

Basic HSA's are just like interest bearing checking accounts. The accounts are generally held at a bank and come with a check book and a debit card. With some HSA accounts you have the option to move your money into a brokerage account. HSA Bank offers its health savings account and customers the ability to open an account with TD Ameritrade. Therefore, you can buy and sell investments within your HSA. I have a portfolio of mutual funds growing in a brokerage account for my family's HSA.

In summary, a Health Savings Account is a Tax Haven. Tax-deductible contributions, tax-deferred growth and tax-free distributions (qualified expenses). It doesn't get any better than that!

Join me and Sign up here and start saving in 2018.

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