TANDEM WEALTH MANAGEMENT

August 2023

Health Savings Account

In preparation for Open Enrollment season, I encourage you to review your plan options, specifically Health Savings Accounts (HSA). September's newsletter will focus on other selections that you will need to make during this time.

If you have the option to choose a plan that offers an HSA, it is worthwhile to calculate the potential cost savings. The HSA provides a triple tax benefit: reducing taxable income when you contribute, allowing tax-deferred growth, and tax-free distributions if used for a qualified medical expense. You are only eligible for an HSA if you enroll in a health insurance plan that includes it. For instance, most families are covered by one spouse's health insurance. The HSA would need to be titled in the same spouse's name as the health insurance plan and would be utilized by the entire family for qualified out-of-pocket medical expenses. The elective contributions you make through payroll deduction to an HSA will lower your taxable income. Self-employed individuals can make contributions directly.

When reviewing whether an HSA plan makes sense, compare the following:

- **Annual Premium** - The cost to you for the plan you select. This will be broken down per pay and deducted from your paycheck.
- **Deductibles** - Generally, you will pay the costs to providers up to the deductible amount before the plan begins to pay. HSAs can be used to pay these expenses.
- **Maximum Out-of-pocket Expenses** - The most you could pay in a year for covered services.

Typically, premiums are less with HSA plans, but the deductible is higher. Employers often contribute a portion on behalf of their employees. The maximum amount that you are allowed to contribute including the employer contribution is as follows:

2023 HSA Contribution Limits:

- $3,850 self
- $7,750 family
- $1,000 catch-up for age 55 or older

Unlike Flex Spending Accounts (FSA), where you use or lose it, HSAs can carry forward a balance that can continue to grow tax-deferred until it is used for qualified medical expenses, including vision and dental. If you are in the 22% federal tax bracket and subject to Michigan Income tax of 4.25%, you will save 26.25% on medical expenses paid through the HSA.

If the HSA is not depleted, it will act similar to a Traditional IRA. Starting at age 65, you can take taxable distributions for non-medical expenses without a penalty. Before age 65, taking a distribution for a non-medical expense will incur a 20% penalty above federal and state taxes.

One of the challenges for early retirees is the cost of health insurance prior to qualifying for Medicare at age 65. You cannot use the HSA to pay private health insurance premiums unless they are through a COBRA plan or you are receiving unemployment. COBRA allows eligible employees and their dependents the ability to continue their health insurance coverage after leaving employment. COBRA premiums can be expensive and it might be more affordable to select an outside high deductible plan and use the HSA to pay for out-of-pocket expenses.

You may be permitted to invest your HSA, but I advise caution and recommend allocating enough cash to cover one year of max out-of-pocket expenses into a money market within the account. Not all HSAs allow investing.

In the event the account holder passes away, spousal beneficiaries inherit the account tax-free and can continue to receive the benefits of the HSA. Non-spousal heirs inherit the cash value at the time of death, which is taxable.

Please reach out to me, I am happy to help you review your options.

Kind regards,
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