51 Monroe St, PW-06, Rockville, MD 20850

Memorandum

Date: December 2, 2019

To: Joseph Rinaldi

From: Jaime Salazar, Research Associate (IIIIP)

Re: How to Use the HSA, for Medical or Retirement Savings

Health Savings Accounts (HSAs) allow individuals to set money in tax-advantaged account to pay for medical expenses tax-free. If approached correctly, HSA can be a very powerful savings tool and can be a complementary savings to 401(k) plans.

Health Savings Accounts offer a unique triple tax advantage. Here is how you may save money in the short and long term by:

- Deducting 100% of your HSA contributions from your taxable income (federal and state[1]).
- Having the money in your HSA accrue interest and/or gains on a tax-free basis.
- Paying no penalties or taxes when you use your HSA to pay for qualified medical expenses, which you cannot be done with a 401(k) or an individual retirement account.
- Having a high-deductible HSA-compatible health insurance plan, which typically has a lower premium than a plan with a lower deductible.

Anyone is eligible for an HSA as long as you meet the following requirements:

- You are not enrolled in Medicare.
- You cannot be claimed as a dependent on someone else's 2018 tax return.
- You are covered under a high deductible health plan (HDHP) on the first day of the month.
- You have no other health coverage except (Accidents, disability, dental care, vision care and long-term care).

The HSA contribution limits for 2020 are $3,550 for an individual with a high deductible health plan and $7,100 for an individual with family coverage. The catch-up contribution amount for those 55 years old or above is an additional $1,000. <u>The amount contributed to an HSA does not affect the contribution limits for 401(k) plans or IRAs, which are $19,500 and $6,000 respectively for 2020</u>. Further explained in chart.

Footnotes

1. You cannot deduct taxes in California, New Jersey, Tennessee and New Hampshire
Reference - IRS Publication 969 Health Savings Accounts and Other Tax-Favored Health Plans www.irs.gov/pub969

HSA 2020 IRS Limits

	Single Plan[1]	Family Plan[2]
Maximum Contribution Limit	$3,550	$7,100
Minimum Deductible	$1,400	$2,800
Max Out of Pocket	$6,900	$13,800
Catch-up Contributions	$1,000	$1,000

1. Single Plan – is HDHP coverage for an eligible individual
2. Family Plan – is HDHP coverage for an eligible individual and at least one other individual (whether or not that individual is an eligible individual).

To make most of tax-savings you should research if your employer offers HSA matches in addition to your 401(k). The approach to the HSA is to consider paying for current medical expenses out-of-pocket after establishing the HSA; you can then file for reimbursement in retirement. You can also utilize your HSA as a "rainy day" medical fund that works in tandem with your 401(k) to help offset the cost out-of-network care, over-the-counter medicines or other things your insurance may not cover. Even if you are healthy now you will probably be spending a lot more on medical expenses once you reach your retirement age.

A medicine or drug will be a qualified medical expense for HSA purposes only if the medicine or drug:

- Requires a prescription.
- Is available without a prescription (an over-the-counter medicine or drug) and you get a prescription for it.
- Insulin.

Qualified medical expenses are those incurred by the following persons:

- You and your spouse.
- All dependents you claim on your tax return.
- Any person you could have claimed as a dependent on your return except that:
    a. The person filed a joint return.
    b. The person had gross income of $4,150 or more.
    c. You or your spouse if filing jointly could is claimed as a dependent on someone else's 2018 return.

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