# Reimagining the Health Savings Account

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When most people think of a Health Savings Account ("HSA"), they see a tax-efficient way to pay for medical expenses. During their company's annual enrollment window, they elect to contribute enough into the plan to cover the upcoming year's out-of-pocket healthcare expenses. By contributing into the account, they reduce their federal, FICA, state and local taxes. This can easily add up to 30% savings on every dollar contributed. Not a bad plan. This approach, however, can leave a massive investment opportunity on the table.

## THE FACTS

Before we go deeper, we first need to take a step back and understand the ins and outs of HSAs (2019 figures):

- To contribute, you need to be covered by a high deductible health plan ("HDHP"), which is an insurance plan that has a minimum family deductible of $2,700 ($1,350 for individual coverage)
- The maximum allowable contribution is $7,000 annually for family coverage ($3,500 individual)
- Individuals age 55 or older may contribute an additional $1,000 per year
- Limits are inclusive of any employer contributions
- Contributions are pre-tax
- Distributions for medical, dental, and vision expenses are tax-free

On the surface, HSAs can resemble the more popular Flexible Spending Account ("FSA"). They differ in two significant ways. First, it's not a use-it-or-lose-it proposition. If you don't spend the funds during the year, they carry over into future years and are fully portable when you leave the company. Second, monies in the account don't have to remain in cash. Each account will have a list of available fund options you can choose to invest in.

## A STRATEGY SHIFT

Knowing what we know now, this is the only account that avoids taxes at every corner. You receive a tax deduction for contributions, no taxes are levied on earnings, and distributions are tax-free when used for qualified healthcare expenses. No other account enjoys this triple tax advantage. So why would we use it as an annual reimbursement account and not as a long-term investment vehicle?


One could argue that the HSA's major weakness is that it must be used for healthcare expenses. Conversely, this is the HSA's most potent benefit, because healthcare expenses are never more prevalent or greater than they are in retirement.

## IN CONCLUSION

If you have a Health Savings Account AND cash flow permits, consider taking advantage of this unique account and contribute the maximum each year. Invest the account for long-term growth and, while working, pay medical expenses out of pocket to allow the HSA to grow unencumbered. If used this way, it's potentially the most powerful retirement vehicle at your disposal.

There are several other factors to weigh when implementing this approach. Reach out to a CERTIFIED FINANCIAL PLANNER™ to determine whether this strategy could be a good fit for you and your family.