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Golden Club Newsletter: April 2014

How a Health Savings Account could be your best Retirement Plan

Greetings Golden Club!

As healthcare costs have skyrocketed in recent years, many individuals and employers have turned to "high-deductible" health insurance plans for their coverage. The primary benefit associated with these plans is the lower monthly premium cost. However, individuals who have a qualified high-deductible health plan also benefit because by having the plan, they may become eligible to make contributions to a Health Savings Account.

Health Savings Accounts (HSAs) are a great way to save pre-tax money. This is done by making pre-tax payroll deductions through an employer, or by claiming an "above the line" deduction for the amount of the contribution. Funds in a HSA can be withdrawn at any time, for any reason. However, unless the money is spent on qualified medical expenses or used to reimburse you for qualified medical expenses, the amount of the withdrawal will be subject to ordinary income taxes and a 10% penalty.

However, there is one big exception to the 10% penalty. If the owner of the account is 65 or older, or has become disabled, the penalty is waived *regardless of how the proceeds from the withdrawal are spent*. This is why some people consider an HSA to be a "Stealth IRA." Like similar retirement plans, contributions into the account are deductible and earnings grow tax-deferred. Additionally, withdrawals can be made for any reason after the account owner turns 65. The major advantage that HSAs have over other pre-tax retirement plans is that HSAs offer account owners the potential to withdraw money free from income taxes if the money is spent on approved health care expenses.

In order to be eligible to make contributions to an HSA, you must be covered by a qualified high-deductible health plan. Also, you must not be enrolled in Medicare, not be claimed as a dependent on somebody else's return, and not have other health care coverage (some exceptions apply). Once funds are contributed, they can be invested in much the same way other retirement accounts can be. Of course, if you plan on using the funds in the near future, it's usually prudent to keep it invested in something very low risk.

If you would like more information, please reference IRS Publication 969 or contact your tax advisor. Our personal bankers and financial advisors would also welcome the opportunity to discuss your options if you determine that an HSA is right for you!