Quarterly Financial Integration Planning Opportunity
"HSA - The Triple Tax Savings Play"

In light of the recent congressional activity and related media attention regarding health care and the Affordable Care Act, it seems appropriate to devote this quarter's commentary to a related tax saving opportunity - Health Savings Accounts.

Health Savings Accounts (HSAs) combine high deductible health insurance coverage with tax-favored savings accounts. For years, the rapidly rising cost of health insurance has negatively impacted employers and their insured employees, as well as individuals purchasing private health insurance policies. In an effort to control the impact of escalating annual premiums, the insurance industry developed "high deductible" health insurance plans to pass more financial risk to the insured, corresponding with reduced premiums. Recognizing the hardship these increases had on families and individuals who shifted their health insurance coverage to high deductible plans, Congress created HSAs, a tax-favored voluntary savings account. These accounts provide an opportunity to utilize the pre-tax dollars for the payment of out of pocket *qualified medical expenses*. Operating similar to an IRA, qualified taxpayers may establish an HSA, and make annual contributions to these accounts that are tax deductible. For 2017, the maximum allowable contributions are $3,400 for a self-only plan or $6,750 for a family plan. The investment earnings in these accounts are tax deferred, similar to a traditional IRA account. However, unlike withdrawals from an IRA, amounts withdrawn to pay qualified medical expenses are not subject to tax. Thus the triple tax favored result:

- Tax deduction of the contribution
- Tax deferred investment earnings within the account
- No tax on withdrawals to pay qualified medical expenses

Many of our clients who qualify are utilizing their HSAs as a vehicle to annually reduce their current income tax and maximize their tax deferred investment accounts. Rather than withdrawing these dollars to pay current medical expenses, they are allowing their HSA accounts to grow via the account earnings. This increases their tax-deferred investment amounts accumulated during their pre-retirement years and creates a pool of tax deferred dollars to hedge against increased medical costs in retirement. If not needed to fund post-retirement medical costs, there is no penalty for account holders age 65 or older when withdrawing funds from HSAs for non-medical expense purposes, thus these accounts may serve as an alternative source of cash flow during retirement.

** Caution - Withdrawals from HSA accounts not utilized for payment of qualified medical expenses before age 65 are subject to a 20% penalty plus regular tax.

** Caution - When you enroll in Medicare Part A and/or B you can no longer contribute to your HSA. By law, people with Medicare are not allowed to contribute to an HSA. In certain circumstances, it may be advantageous to delay enrollment into Medicare so you may continue to contribute to your HSA.

Similar to all tax-favored programs, understanding the rules that govern them is critical. For personalized advice, contact us with any questions about HSAs and whether they are applicable to your situation.

Sincerely,
Your TD Capital Team

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