**Health Savings Accounts are Worth a Close Look**

By William C. Larson

Not long ago I wrote an article about our state’s new long term care law and its cost impacting wage earners. There is much being written about this law and whether the program will benefit the people paying for it in a meaningful way.

No such debate exists as far as I am aware about ***Health Savings Accounts (HSA’s)***. They have always been an attractive solution to many of our clients and there are now dynamics afoot that may make them even more so.

But first, a primer on ***HSA’s***. It is important to know not everyone can participate. A properly structured ***HSA*** must be coupled with what is known as a “high deductible health plan.” In the case of single people younger than 65, the deductible needs to be $1,400 per year or higher. For a family it is $2,800. But once a person determines they are eligible and that the high deductible plan is a good fit for them, what are the benefits? Glad you asked:

* Contributions made by an individual are tax deductible, similar to IRA contributions;
* Contributions made by an employer are excluded from income, similar to a 401(k);
* Contributions remain in the HSA until they are used, similar to an IRA;
* Earnings are tax free like a Roth IRA;
* Distributions are tax free if used for qualified medical expenses;
* An HSA is portable. It remains with the individual even if there is a job change.

At age 65 people are eligible for Medicare and cannot continue to contribute to an HSA after enrolling. But after age 65, HSA funds can be withdrawn for any reason without penalty, but they will be taxed if not used for medical expenses.

Why don’t we hear about them? Simply put, financial advisors think of HSA’s as health care and the health care community thinks the tool is in the financial advisor arena. Therefore, no specific professionals own the space.

What is compelling about HSA’s? There are several features and benefits that stand out. Some are included below:

* They are the triple tax crown winner. Contributions are tax deductible, can grow without tax, and are withdrawn without tax when used for medical expenses;
* Expenses can be for care, insurance premiums and for care one HSA already paid for. Really? Expenses I have already paid for? Yup! These are called “shoebox receipts” where you save your receipts for a later time when you would like a tax free withdrawal of cash from your HSA;
* There are no required distributions like an IRA, no Social Security or Medicare tax on contributions, and withdrawals do not affect modified adjusted gross income (MAGI) that can affect other costs;
* HSA’s can be used for long term care and Medicare supplement premiums;
* Employers can match up to the maximum amount of $7,200/year with no payroll taxes on the amount contributed.

Like Washington’s long term care efforts, much is happening to address the health care worries affecting our country. The prior administration and Congress passed the Hospital Price Transparency Act effective January 1, 2021. Also passed was Transparency in Coverage to come on line January 1, 2023. This legislation requires 500 medical procedures to be “shoppable,” with clearly disclosed pricing. By January 1, 2024 all procedures must be able to be shopped by the consumer, which is intended to bring transparency and incentives to bring health care prices down.

There is more transparency of health costs coming, and with it come awareness and knowledge. More astute consumer activity will come that hopefully reduces the upward trajectory of health care costs.

I remember grocery shopping with my children on our way for various camping trips. I would attempt to limit them to one package of Skittles and one of Red Vine licorice. When we would get to the campsite, invariably they would have included bonus items in their candy stash among the groceries. It became a game as they got older and we laugh about it today, but what was happening?

They weren’t spending their own money. It was Dad’s, so the recognition of the cost of each item didn’t matter. We have a similar situation in our health care system which needs an influx of individual responsibility price signals and transparency to bring costs under control. When something appears free or someone else is paying, there is no motivation to contain costs as we have in other transactions of life. Health Savings Accounts may help us achieve more control, better outcomes and lower costs going forward with our health care choices.

July, 2021

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.