

## *Financially Speaking*

With Trisha Arndt

### **Don't Overlook Health Savings Accounts**

A lot of attention has been paid recently to the health care system in our country, with sometimes extreme emotions on all sides of the issue. Some advocates are looking for a complete overhaul while others want to keep parts of our current system in-force and focus on amending it to try and make improvements.

While it remains to be seen how the health care system will change going forward, we do know that having health insurance is very important – and that for many it is quite expensive. For individuals that do not have employer provided health insurance and do not qualify for government subsidies, the cost of coverage is a significant issue that has to be looked at each year, especially as rates continue to increase. As a small business owner myself, I can attest to the issue as the cost I pay for health insurance for my family has more than doubled in the last 6 years.

One way that people often try to moderate the cost of their health insurance is by taking on more of the initial financial risk in the form of higher deductibles and copays. A deductible is the amount of money that the insured is personally responsible for paying for health care expenses before the insurance company begins covering costs. A copay is often expressed in the form of a percentage and represents a shared financial responsibility between the insured and the insurance company once the deductible has been met. Generally speaking, the higher the deductible and/or copay that a plan has, the lower the monthly premium will be.

Health Savings Accounts, or HSAs, were designed to help people pay for current and future healthcare costs. To qualify, you must have a high-deductible health plan which in 2017 means an annual deductible of at least \$1300 for single coverage (with an out-of-pocket maximum, including copays, of \$6550) or \$2600 for family coverage (with an out-of-pocket maximum of \$13,100). You cannot be covered by another type of health insurance, be on Medicare or be claimed as a dependent on someone's tax return to make contributions.

If you qualify to contribute in 2017 you can set up an HSA account and contribute as much as \$3400 if you have an individual health insurance plan or \$6750 if you have a family plan. If you are over 55 and able to contribute you can add up to an additional \$1000. HSAs can be set up and funded either individually or in conjunction with an employer as long as the guidelines are met.

HSA's can be established with many banks and investment firms and can offer the ability to invest the balance in options ranging from money markets to mutual funds. The contributions roll over year to year if not used and can accumulate for long term use.

If used correctly, HSA's can provide a triple tax benefit. Contributions to an HSA plan are tax deductible in the year made (or pre-tax if made via an employer plan), the balance grows without incurring taxes and if the money is withdrawn for a qualified medical expense it comes out tax free. What could be better than that?

The list of medical expenses that can qualify for tax free withdrawal from an HSA is quite extensive and includes things like doctor's visits and prescription drugs but also more extended care like dental expenses and eye glasses. And – perhaps best of all – you can take a tax free distribution from an HSA plan to pay for most medical insurance policies, including Medicare and Medicare supplement premiums. Even some long term care insurance premiums qualify. For more details on qualified expenses take a look at IRS Publication 502.

Like most retirement accounts, money withdrawn from an HSA for a non-qualified expense is subject to income tax and a 20% federal penalty. The federal penalty is waived however if you are over 65 when the withdrawal occurs.

Establishing and funding an HSA in conjunction with a high deductible health insurance plan can be a great way to redirect a portion of your health care costs away from insurance premiums and into an account that you can control and use in the future.

*Trisha Arndt, CFP<sup>®</sup>, is President of Wealth Strategies of Wisconsin Ltd, 901 Kimball Lane, Suite 1400, Verona, WI 53593, 608-848-2400. Securities and Advisory Services offered through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Adviser.*