4 ways a health savings account and an IRA are a powerhouse combination

By Jennie L Phipps • Bankrate.com

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There are a lot of reasons to love a health savings account, or HSA. An HSA complements its cousin, the Individual Retirement Arrangement, or IRA. Steadily accumulating money in both of these savings vehicles can really pump up your total retirement reserves.

As a refresher, these are the rules for HSA accounts:

- You can sign up for an HSA if you have a qualifying high-deductible health insurance plan. HSAs are designed to help you pay the medical costs that aren't covered by the plan.
- The savings are an above-the-line tax deduction, which means you don't have to itemize. The money is subtracted from your earnings before you arrive at your adjusted gross income or AGI.
- There are no phase-outs. It doesn't matter how much money you make, you can still deduct the whole thing -- up to $3,400 for individuals in 2017, $50 more than in 2016. Contribution limits for families are $6,750 a year, the same as in 2016. An additional $1,000 catch-up contribution is permitted for those 55 and older.

Here are four ways to manage HSAs with IRA accounts to maximize the benefits.

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1. Rollover can get you out of a bind

Only once in your lifetime, you can roll money from your IRA into your HSA. You are limited to the amount the IRS says you can contribute in a year, and if you decide to roll the maximum allowable, you can't contribute any more that year.

Why would you want to do this? Let's say you have an unexpected health emergency and you have exhausted your HSA, but you haven't contributed anything so far in the current year. If you roll the money over from your IRA, even if you are younger than 55, there won't be any penalties as long as you eventually spend the money on health care. Plus you won't have to pay any taxes, as you would if you withdrew the money from an IRA.

"Keep this as an ace up your sleeve," says Scott Sader, executive vice president of Somerset Wealth Strategies. "If you are having a cash crunch, it can be powerful."

2. No RMDs with an HSA

Here's another good reason to fund your HSA as well as your IRA.

When you reach 70 1/2, the IRS requires that you take required minimum distributions or RMDs from your traditional IRA, but there are no such requirements with an HSA. That means money saved in an HSA can continue to grow tax free until you need it.

If you designate your surviving spouse as the beneficiary of your HSA, upon your death, it will become your spouse's HSA -- more tax-free growth and no RMDs for that person, either.

But be aware, if you don't have a spouse or you designate someone else as the beneficiary, the HSA becomes taxable income to your beneficiary in the year of your death.

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3. It isn't now or never

The HSA outshines the IRA in yet another way, especially considering the IRA is under the RMD gun: There is no time limit on withdrawing qualified medical expenses.

Somerset's Sader points out that you can save up your medical receipts and claim them when you need the money -- even years later. In the meantime, the money sits in your HSA and grows tax free.

If you are contemplating this strategy, be a good recordkeeper. The IRS says that you "must keep records sufficient to later show that the distributions were exclusively to pay or reimburse qualified medical expenses, that the qualified medical expenses have not been previously paid or reimbursed from another source and that the medical expenses have not been taken as an itemized deduction in any prior taxable year."

4. Medicare and HSAs don't always mix

At 65, most people sign up for Medicare Part A, the premium-free hospital portion of Medicare, even if they are still working and getting their employer's health insurance. But the Centers for Medicare and Medicaid Services as well as the IRS say that anyone who has signed up for Medicare cannot continue to save in an HSA. That's because Medicare is not a high-deductible plan.

However, all is not lost. If you turn 65 and already have a health savings account, you can use the money you've accumulated to pay the deductibles, premiums and copays of Medicare Parts A, B, C (Medicare Advantage) and D, plus out of pocket expenses like vision and dental. Medigap plan premiums are off limits.

If you were to pay for these expenses with money from your traditional IRA, you'd have to pay taxes on the cash you withdraw. But HSAs are a triple treat -- the money goes in tax free, it grows tax free, and there are no taxes when you take it out and spend it on health care costs.

Viva la HSA.