INVESTMENT UPDATE
NEWSLETTER

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What's Happening with Health Savings Accounts in 2017?

Health Savings Accounts (HSA) have been in existence since 2004 and as a primary component of the Trump and Republican healthcare platforms their future looks secure. With their triple-tax-shelter status, they continue to gain popularity as a retirement investment vehicle and estate planning tool.

How They Work

HSAs are available for participants in high-deductible health insurance plans (HDHPs). HDHPs are defined by the IRS as a plan with an out-of-pocket maximum of $6,550 and a minimum deductible of $1,300 for individuals and an out-of-pocket maximum of $13,100 and a minimum deductible of $2,600 for families in 2017. If you qualify, you may either set up your HSA account through an employer directed account or open a separate HSA account. The maximum amount an individual may contribute to an HSA account in 2017 is $3,400 and $6,750 for a family. There is also a $1,000 per year catch-up amount for adults 55 and greater.

HSA funds may be used to pay for eligible medical expenses including copays and coinsurance, deductibles, and other medical expenses your insurance plan doesn't cover. The money may also roll over year to year with no penalty and no loss of savings. Unlike a flexible spending account (FSA) there is no annual forfeiture of unused funds and it is a triple-tax-winner. What do I mean by "triple-tax-winner"? Allow me to explain below.

First, income is taxed after your HSA contribution is made, meaning you appear to have less income to tax. For example, if you make $100,000 a year and put away the current maximum contribution of $3,400 in your HSA account, you will be taxed on $96,600 of your income, not $100,000. Second, investment growth in your HSA account is not taxed. And third, if you use the money in your HSA account for eligible medical expenses, there's no tax to pay on your withdrawals.

Other tax perks of HSA accounts are that they are not subject to the 7.65% FICA tax and there are no required minimum distributions upon reaching 70½. All of the above reasons may make your HSA account already more attractive for savings than an IRA or 401(k)!

Proposed Changes

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Proposed Changes (cont'd)

President-elect Donald Trump has outlined in his healthcare platform that he plans to make HSAs even more attractive. And with a Republican majority in the House and Senate, it is entirely possible that his proposed changes will go into effect. On his website, https://www.donaldjtrump.com/positions/healthcare-reform, point four outlines his plan for HSA accounts. Under his plan, these accounts would continue to grow tax-free and would have no restrictions on their balances. In addition, they would be considered part of the account owner's estate and would escape the death penalty tax when they are inherited. Currently only spouses receive HSA accounts tax penalty free upon inheritance.

While not included explicitly in Trump's plan, other Republicans, including Speaker of the House Paul Ryan, have said they will work towards increasing the HSA contribution limits to nearly twice their current amount to match the current maximum out-of-pocket costs associated with high-deductible health plans. In addition, Republican leadership have suggested a provision to allow account owners to be reimbursed for qualifying medical expenses incurred before an HSA account has been set up, as long as the new account is active within 60 days of the incurred expense.

This isn't to say that HSA accounts are a free ride to financial bliss or will be in the future. They are created separately from health care enrollment and fees from account providers apply just as they do with retirement accounts. They also require some understanding of often opaque health care costs and a degree of technical financial savvy to navigate set-up efficiently and effectively.

Allen Capital Management/Allen Trust Company can help you with questions regarding health savings accounts and retirement planning. If you are one of our clients, or think you might want to be, please contact us at (503) 292-1041 or via email at allison@allentrust.com.