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Health Savings Accounts (HSA)

Taking advantage of the catch-up contribution

Health Savings accounts (HSA) are one of the primary investment vehicles to save for future medical expenditures. However, they also a great source to help build one's future retirement assets. The accounts require that participants be covered under a high-deductible health insurance plan in order to make qualifying pre-tax or deductible contributions. For tax year 2019, the self-only HSA contribution limit was increased to $3,500, and the family contribution limit was increased to $7,000. For individuals age 55 and older, an additional $1,000 catch-up contribution is permitted. The accounts are set up with the account holder listed as the beneficiary, and a spouse, estate or other individual identified as a designated beneficiary. Because there can only be one account beneficiary of an HSA, a husband and wife may not have a joint HSA; each must maintain a separate HSA, particularly where both spouses want to make catch-up contributions when they reach age 55.

For a married couple maintaining two HSAs – with one spouse having family coverage and the other with self-only coverage – you might assume that they can simply combine the contribution limits, for a total contribution ceiling of $10,500. However, this is not the case. The combined contribution ceiling will be limited to the family limit (plus the applicable catch-up allowances).

The IRS gives married couples three options when there are multiple HSA accounts: (1) Split the family contribution evenly between the two spouses, (2) allocate it according to a division that they both agree on, or (3) put 100 percent in one spouse's account. In any case, the IRS treats married couples as a single tax unit, which means that they must, in total, share one family contribution limit of $7,000.

If an individual or married couple exceeds the HSA contribution limit, they will be subject to a 6 percent excise tax. In this event, the taxpayers will need to withdraw the excess contribution amount from the HSA before the tax deadline for that year to avoid the fee.

Contribution Maximization Opportunity

An opportunity is available when both spouses have attained age 55. If one spouse (age 55) has made contributions reaching the family ceiling limit of $8,000 ($7,000 standard family contribution limit plus the $1,000 catch-up contribution), the other spouse could potentially contribute an additional $1,000 to their own separate HSA account, reaching a total combined contribution level of $9,000. To do so, the second spouse would need to establish a self-only HSA account, of which the account would receive the second spouse's $1,000 catch-up contribution.

What happens upon the death of the Account Holder?

If the surviving spouse of the account beneficiary acquires the account holder's interest in the HSA as the designated beneficiary upon the account holder's death, the HSA is treated as if the surviving spouse was the account beneficiary.

If, by reason of the death of the account beneficiary, the account beneficiary's interest in the HSA is <u>not</u> acquired by the surviving spouse, (1) the account ceases to be an HSA as of the account beneficiary's date of death, and (2) an amount equal to the fair market value of the assets in the HSA on the account beneficiary's date of death is includible in the acquirer's gross income for the tax year it is received. However, if the recipient of the account beneficiary's HSA interest is the account beneficiary's estate, the fair market value of the assets in the HSA are includible in the estate of the decedent.

Low-Cost HSA Options

1. Lively
    - Free for their basic HSA – No minimum balance
    - To access investments (through TD Ameritrade), there is a $2.50/month fee
    - Additional investment transaction fees as incurred.

2. HSA Bank
    - Monthly Administrative fee of $2.50 if minimum balance of $5,000 isn't maintained
    - $3.00 per month Investment Service fee.
    - Investment options available through TD Ameritrade

3. Optum Bank
    - Monthly administrative fee of $2.75
    - No minimum balance required
    - A $2,000 balance is required to make investments.
    - Investment options available through Optum

4. Further (formerly SelectAccount)
    - Monthly administrative fee between $0.00 - $4.00
    - No minimum balance required.
    - Investment options available through Charles Schwab

5. Healthy Equity
    - Monthly administrative fee between $0.00 - $3.95
    - Investment options available through Vanguard

6. Elements
    - Monthly Administrative fee of $4.00 if minimum balance of $2,500 isn't maintained
    - Investment options available through TD Ameritrade

7. Saturna HSA
    - No fees if you make at least one trade per year.
    - Commission free investing with their affiliated funds, otherwise $14.95 per trade

Disclaimer:

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Investment decisions should be made based on an investor's specific circumstances taking into account items such as, risk tolerance, time horizon and goals and objectives. All investments have some level of risk associated with them and past performance is no guarantee of future success.