HSA Opportunity for Independent Children Covered on HDHP with Parents

Contributions to a heath savings account (HSA) can be made by, or on behalf of (for example, by a family member) any eligible individual and are deductible by the eligible individual above the line in arriving at AGI. Furthermore, you can then withdraw the money to spend on IRS-approved medical costs – tax free – or you can keep it invested, from one year to the next. The money can also be invested along the way, and eventually used as an emergency fund, or as an extra retirement account.

An important thing to keep in mind for the following discussion is that the insurance rules (which pertain to who is allowed to be covered under an insurance plan) are separate from the income tax rules (which pertain to who can make HSA contributions and withdrawals).

For purposes of insurance coverage, your specific insurance carrier will help you identify who can be covered under your specific policy.

To be eligible to make qualified HSA contributions, an individual must be covered under a high deductible health plan (HDHP). In order to be considered a HDHP, the plan must satisfy certain criteria. For 2019, for self-only coverage, the plan must have an annual deductible of at least $1,350, and an annual limit on out-of-pocket costs of no more than $6,750. For family coverage, the insurance must have an annual deductible of $2,700 and an annual cap on out-of-pocket costs of no more than $13,500.

Under the income tax rules, no HSA contributions are allowed to be made for a person who can be claimed as a dependent on another person's federal income tax return. Furthermore, no deduction is allowed for an HSA contribution for any month that an individual is eligible for and enrolled in Medicare. Ineligible contributions to a HSA are subject to a 6% excise tax and continue to accumulate until withdrawn.

Based on the above criteria, a planning opportunity is available for families that cover an adult child under their family insurance coverage.

***Example**: You're 63, your husband is 64, and you've got a 25-year-old son. You've been keeping your son on your health insurance, because the coverage that he is offered from his employer is significantly more expensive. You've got a HDHP through your employer, which covers you, your husband and your son.*

You're allowed to contribute the full family amount to your HSA, because your HDHP is covering you, your husband and your son. However, you can only use your HSA funds to pay for your own medical care and that of your husband's. You're not able to pay for any of your son's care, because you can't claim him as a dependent for income tax purposes.

Because your son is covered by your HDHP and no longer a dependent for income tax purposes, he is permitted to open his own HSA. As a result, he can contribute the full family limit to his own HSA, since the plan that he is covered under is a <u>family</u> HDHP.

The opportunity to note from the above example is that both the mother and the son can contribute to their own respective HSA accounts. Furthermore, as the insurance coverage is a family policy, both are eligible to make contributions up to the family limit. For 2019, the family coverage limit for the son would be $7,000, and the limit for the parent would be $8,000 ($7,000 plus an additional $1,000 for being age 55 or older). Adding to this example, the parents could technically contribute a total of $9,000, since they are both age 55 or older and each would therefore be eligible to make the $1,000 catch-up contribution[1].

While the above facts may be specific to the identified situation, opportunities exist for maximizing your potential HSA contributions (See SilverOak Mini-Whitepaper from November 2018 titled *Health Savings Accounts (HSA)*, which can be found on the SilverOak website at https://www.silveroakwealth.com/whitepapers).

If you have any questions regarding HSA contributions, please reach out to your SilverOak advisor or call us at 952-896-5700.

[1] Excerpt from *Health Savings Accounts (HSA) Mini Whitepaper* - 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.