Slide 1

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GET TO KNOW OUR TEAM

Brittany Vollmar is a Client Relationship Consultant at Shepherd Financial, providing support and strategic direction to client relationships.

Brittany enjoys implementing best practices to stay healthy; just as she did growing up, she continues to take Flintstone vitamins daily.

Holly Willman is the Director of Creative and Strategic Operations at Shepherd Financial. She's been with our team since 2013, utilizing a variety of skills in different roles.

Holly really likes doing escape rooms; during one, her competitive (and thorough) nature earned her the nickname 'Hurricane Holly.'

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I’m glad to be with you to talk about one of the hot topics in the industry right now – health savings accounts. Just so you know, throughout our webinar, we’ll refer to them interchangeably as health savings accounts or HSAs. You might have joined us today because you have one but don’t understand what all the fuss is about.

I’ll address these concerns today by walking you through the many benefits of HSAs, like their tax advantages, portability, and how they can be used for long-term investing.

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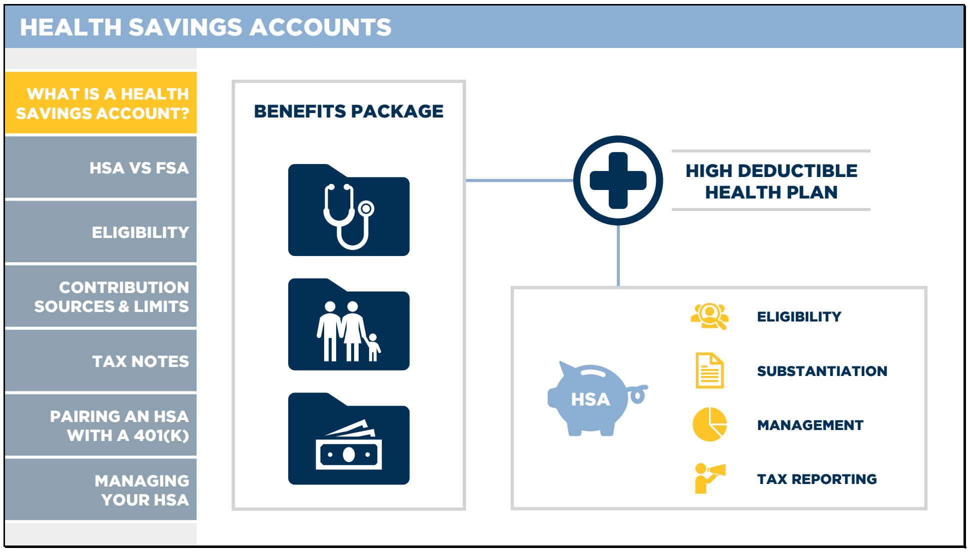

It’s important for me to point out that while I will be talking about some tax advantages today, this is not tax advice. Think about your personal situation and consult with a professional.

I want to break everything down as simply as possible, but there are a lot of terms you need to understand before we can really dive in. So here’s our starting point: a health savings account is a tax-advantaged medical savings account – usually checking or savings – that helps people save money for current and future qualified medical expenses. Do you know where HSAs came from, though?

In 2003, HSAs were created as part of the Medicare Modernization Act to provide Americans with more knowledge about and more control over their health care spending. But not everyone has access to an HSA. They go hand-in-hand with a high deductible health plan – and if you’re keeping track of our acronyms here, that’s an HDHP. A high deductible health plan is health insurance providing preventative care services at no cost, and it has lower monthly payments in exchange for higher deductibles. A deductible is the amount you pay out of pocket for medical expenses before your insurance kicks in. You have to be enrolled in the high deductible plan to be eligible for an HSA.

A unique feature of the HSA is that it’s owned by the individual and established under their Social Security number, which means certain responsibilities fall on the account owner – eligibility, substantiation, management, and tax reporting. I’ll get to all that in a bit.

And a very helpful thing about HSAs is that they are portable. So as the owner of a portable account, the money is yours, and you don’t lose it at the end of the year.

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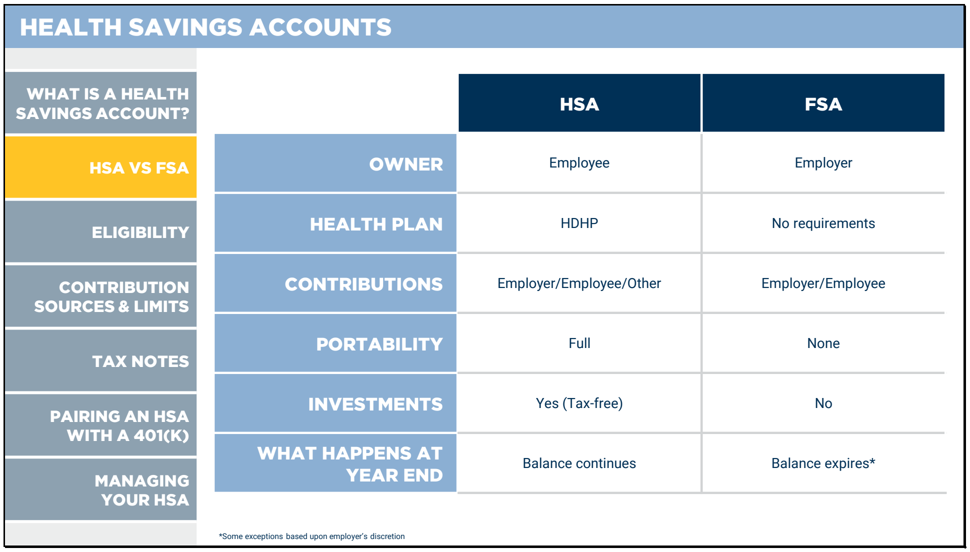

Which brings me to a comparison of another common benefit. There is a lot of confusion about HSAs and FSAs – those are flexible spending accounts. An FSA is also sometimes called a flexible spending arrangement. You should know that HSAs and FSAs are not the same thing.

While an FSA can be used for medical expenses, it's not linked to a high deductible health plan – it can be used with any health plans. Another difference is that this account is owned by your employer, not you, the individual.

I just said that with an HSA, the money is yours. But since the company owns the FSA, it means the money expires at the end of the year. Now, there are some exceptions, but that depends on what the employer chooses to do with the FSA. So you'll commonly hear FSAs referred to as 'use it or lose it' accounts.

If you don't qualify for an HSA but your employer offers an FSA, it may be a good option for you, because it does provide tax savings. But overall, an HSA is more flexible and has even greater benefits than an FSA.

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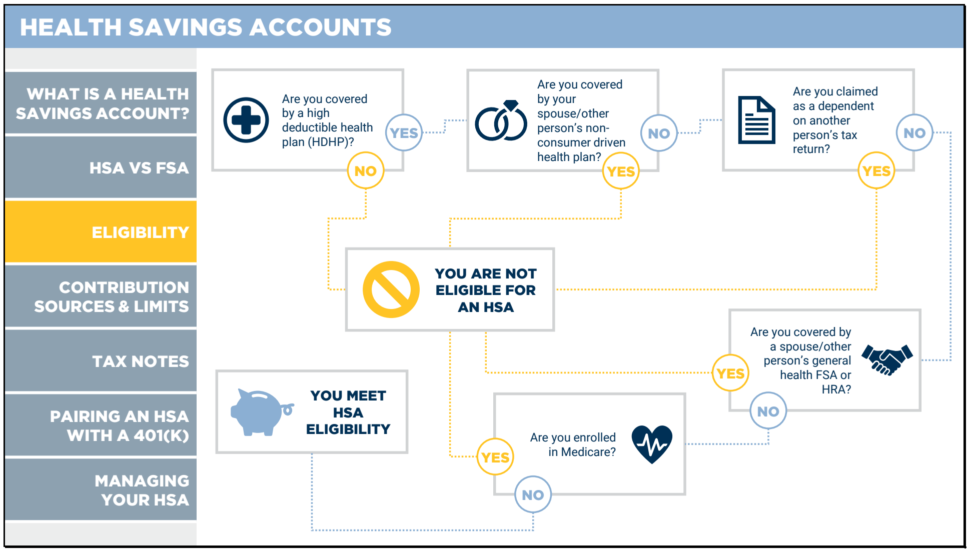

So how would you know if you're eligible for an HSA? First things first: are you covered by a high deductible health plan?

Next, determine if you're covered by your spouse – or another person's – non-consumer driven health plan. Traditionally, we've had HMOs, or health maintenance organizations, and PPOs, or preferred provider organizations. The HMO makes you choose a primary care physician and stay within a network of providers to keep costs lower, while the PPO gives you more flexibility – but you pay more for that flexibility. These traditional systems are referred to as non-consumer driven health plans, because they don't really allow an individual to control their health care dollars. But an HSA is considered consumer-driven.

This is important – we have to think big picture when it comes to family insurance and health savings accounts, so the next question is if you can be claimed as a dependent on somebody's tax return.

I haven't mentioned it yet, but an HRA is a health reimbursement arrangement. It has some similarities to both HSAs and FSAs. It's important to know if you're covered by an HRA as we talk about eligibility requirements. So you have to determine if you're covered by your spouse's general health FSA or HRA. The IRS says that FSA coverage extends tax benefits to family members as well, and that's because medical expenses can be deducted for the account holder, their spouse, and their dependents. So even if I'm eligible for the HSA and my husband is eligible for an FSA at his company, we can't do both. We have to pick one or the other.

One last qualification – you can't be enrolled in Medicare to be eligible for an HSA.

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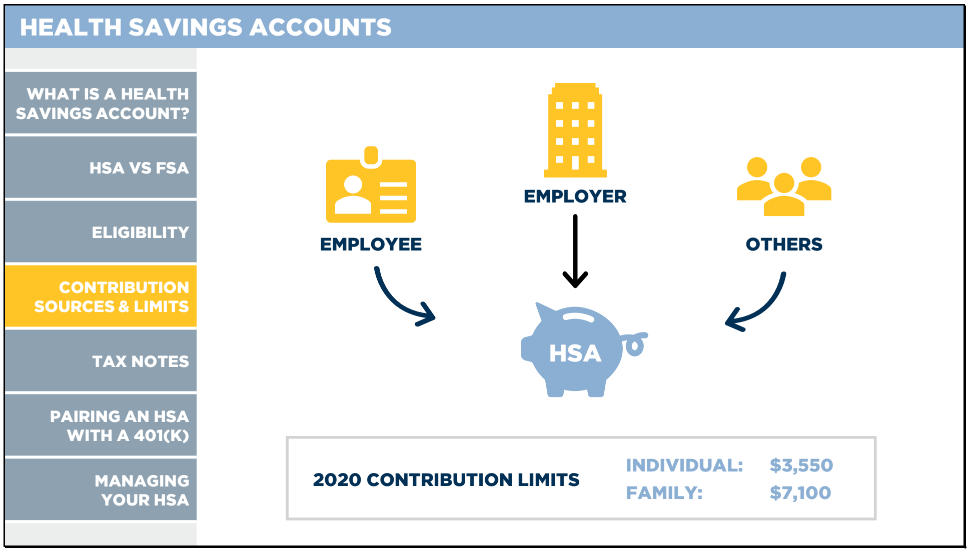

Now I want to talk about how to fund a health savings account. An HSA is generally considered established at the time of funding, and it's the HSA owner's responsibility to track this establishment date. The establishment date is important because you can pay medical expenses tax-free after that date.

As long as you have HSA eligible health insurance during the year you wish to contribute, as an employee, you can put money in pre-tax or after-tax. Many employers can set up your HSA savings election via payroll deduction, like you might into your 401(k) plan. If you make an after-tax contribution from your bank account, you can take that as a tax deduction on your personal tax return. But you're not the only one who could contribute to your account.

Your employer can also contribute to your account. They don't have to, but over 80% of employers make contributions to their employees' HSAs. Employers may make a lump sum contribution at the beginning of the year or make their contributions with every payroll period.

Additionally, other people could contribute to your account. The important thing is that your contribution, your employer's contribution, and any other money people put in is all added together – it all counts toward your contribution limit.

Every spring, the IRS announces limits for the upcoming calendar year. The limits are different for the individual plan and the family-covered plan. In 2019, individuals have a contribution limit of $3,500 and families have a limit of $7,000. Looking ahead to 2020, though, the limits increase. Individuals have a contribution limit of $3,550. And families have a contribution limit of $7,100.

Similar to 401(k) plans, HSAs have what's known as catch up contributions. So if you are 55 years or older, you can make an additional $1,000 contribution.

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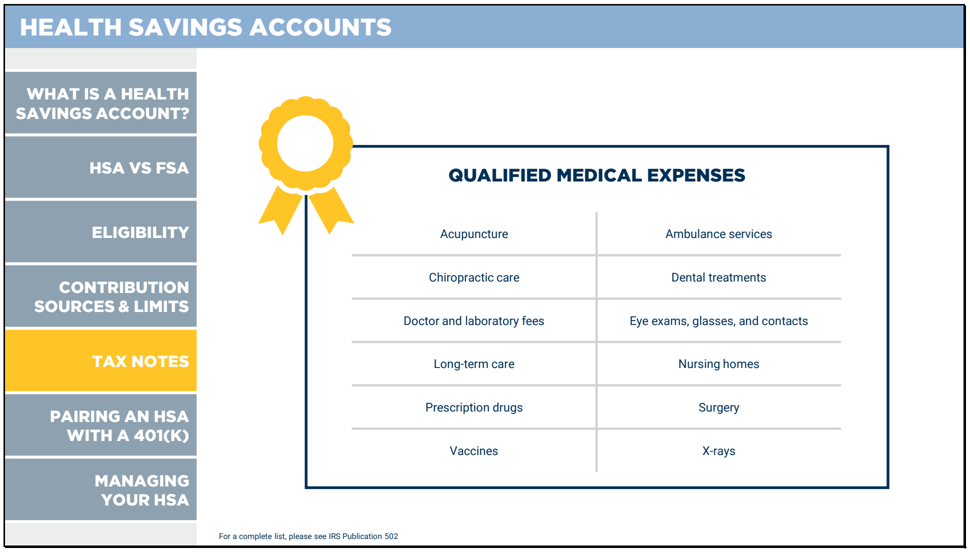

Let's talk about the triple tax savings. First of all, like your 401(k) account, you can make pre-tax contributions, which lowers your taxable income. Next, the money grows in your account tax-free and can be invested. And finally, as long as the money is used for qualified healthcare expenses, your withdrawals and any investment gains are 100% tax-free.

HSAs can be a helpful tool in your retirement planning process. A major fear for adults when it comes to aging is that they're going to run out of money to pay for health care or long-term care. Studies estimate the average 65-year-old retired couple is going to need between $250,000 and $300,000 for out-of-pocket health care expenses, although I have also seen reports pushing that number over $400,000. I think we can agree it's a big number.

After reaching age 65, you can withdraw money from your account for any reason at all – it doesn't have to be medically-related – without paying a penalty. It is considered taxable income in that case, though, so you do pay taxes on those types of withdrawals.

If you withdraw money from your HSA before age 65 for any reason other than paying qualified medical expenses, you face a 20% penalty from the IRS. And it's considered taxable income.

Which naturally leads to the question: what's a qualified medical expense? There's a pretty long list, and if you're interested in reading all of it, visit the IRS website and check out Publication 502.

A few examples are things like dental services, hearing aids, eye exams, prescription medications, and vaccinations.

There’s also something called the retroactive use of HSA eligible expenses. Let’s say you’re putting money in your HSA during your working years and paying your medical bills out of pocket. But you’re a smart person, so you hang on to all those receipts. Well, you can reimburse yourself later on for those qualified medical expenses. A couple of notes here. These expenses have to occur after you’ve established your HSA. And if you claimed those medical expenses as an itemized deduction on your taxes, you can’t do the retroactive payback.

I’ve already covered the eligibility piece of account owner responsibility, but what I just mentioned is substantiation – verifying that expenses are qualified. If you have an FSA or HRA, you might be asked by a third-party for this verification. But with an HSA, you’re reporting to yourself. This doesn’t mean you should spend the money on non-qualified expenses – if your taxes are audited, you will have to show proof.

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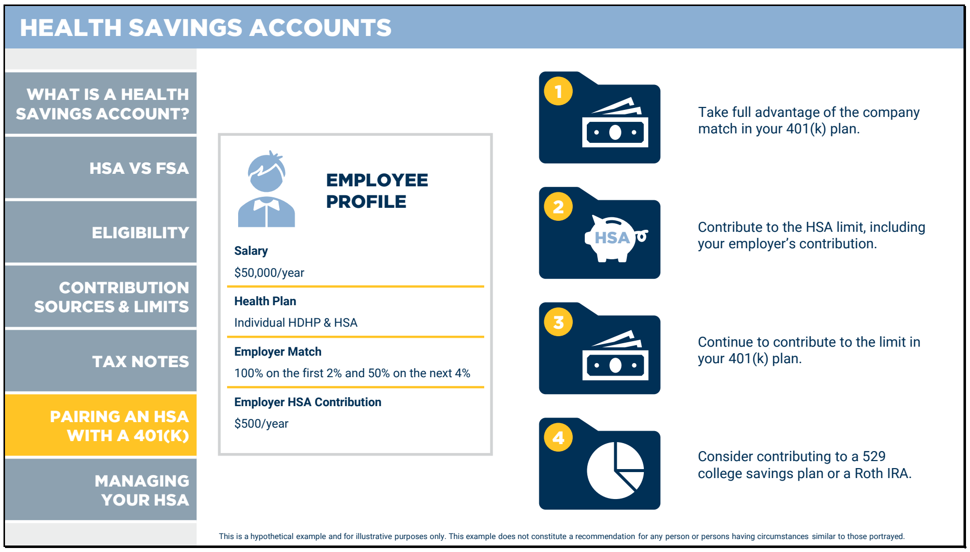

If you can’t pay a medical bill out of pocket, you probably want to use your HSA to cover it. But I hope what you’ve been hearing so far tells you that it can be a helpful strategy, if possible, to keep money in your HSA rather than spend those dollars. Let’s unpack that a little bit.

Again, this is no FSA. You don’t have to ‘use it or lose it’ at the end of each year. Instead, you can think of an HSA as a ‘stow it and grow it’ account.

Please remember that each person’s case is unique, so when I talk about different strategies, you need to factor in your own life circumstances. What I want to show you is how an HSA can be a really effective companion to a 401(k) plan in preparing you for retirement. So here’s a potential flow for your dollars. I’ll say this till I’m blue in the face: contribute to your 401(k) plan to take full advantage of your company match.

In this example, the company matches dollar for dollar of the first 2% this employee saves in the plan and another 50 cents for every dollar of the next 4% saved in the plan. So this employee needs to save 6% to take full advantage of the company match – they put in 6%, and the company puts in another 4%, so the total 401(k) savings is 10%. Look at the screen – we’re using pre-tax dollars here. This sample employee’s salary is $50,000. 6% of that is $3,000.

The next stop is the HSA. I’m going to use 2020 numbers here, since we’re almost there anyway. As an individual, this employee can contribute $3,550 in 2020, but remember – that includes the employer contribution. So in our example, I’m assuming this employee is single. That means the employer is putting in $500, so the employee can put another $3,050 in there. 401(k) savings of $3,000 and HSA savings of $3,050 means this employee has put $6,050 into retirement savings of some kind.

But what if he wants to save a little bit more?

You can contribute to a much higher limit in your 401(k) – we’re saying our sample employee is under age 50, which means his contribution limit in 2020 is $19,500. And so far, he’s only put $3,000 in his 401(k). So he can contribute another $16,500 if he wants. The employer match doesn’t count against that contribution total.

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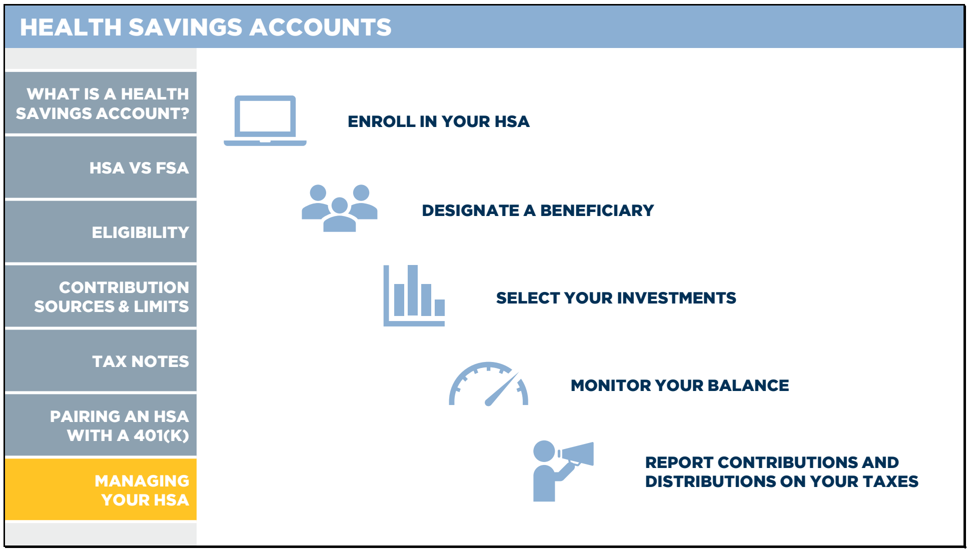

Did you know you can potentially invest the money in your HSA? It depends on where your HSA is – not all providers allow you to invest. Some providers require a minimum balance in order to invest your money – that could be up to $5,000. But we've talked about the portability of the HSA, so consider this: you don't actually have to keep your HSA at the institution your employer offers – you can choose any provider you want. So that may be a way to help you get around the minimum balance requirement.

Let's assume you have hit that minimum balance and want to invest the funds in your HSA. Keep a few things in mind: like in your 401(k) account, you will probably have to pay investment fees. You may also have to pay transaction fees. So check into that before you make an investing decision.

So what kind of funds can you invest in? HSA money can be placed in investments approved for IRAs, like stocks, bonds, and mutual funds, but you can't invest in life insurance contracts. And your HSA provider may restrict you to a set of particular funds.

Your investments may earn interest – that's the hope, anyway! – and a kind of cool tax benefit is that those earnings are tax-free.

Your situation – meaning your investing time horizon and risk tolerance – will help guide which investments make the most sense for you, but it's a helpful idea to keep at least a portion of your account in cash so that it is easily accessible if you do need to pay for medical expenses right now.

Ok, as we finish up, I want to touch on the final two owner responsibilities we haven't discussed yet.

The management of your HSA is your responsibility. That means it's on you to monitor the balance of your account, keep the contact information up to date, select your own investments – if that's an option – and designate beneficiaries. This is an account with real dollars in it, so it's important to name at least one beneficiary in case something happens to you. You can also name a trust as a beneficiary. And if you don't designate your beneficiary, then the assets are distributed to your estate if you pass away.

We'll wrap up with tax reporting. You have to do this if you have any kind of contribution, including from your employer, or you withdrew funds. You should get one tax form from your custodian for contributions and one for distributions. These are also both provided to the IRS. And as we said earlier, you need to save your receipts in case you are ever audited.

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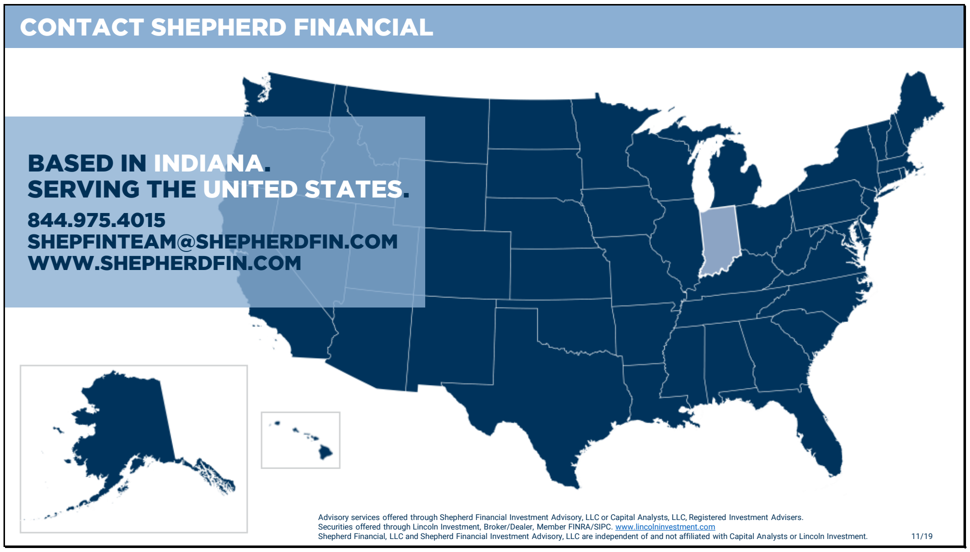

Remember, HSAs are great tools because they have triple tax savings, they're portable and can be taken from one job to another, and they're flexible – you can use them in different ways as your life and health circumstances change.

If you have more questions, feel free to give us a call at 844.975.4015 or 317.975.5033. And you can also email us at shepfinteam@shepherdfin.com.

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The consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.

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