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CAPITAL MANAGEMENT

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Greetings!

Our newsletter this month is titled "Lowering Your Tax Bill with an HSA: Today and in Retirement."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

Doug Flynn, CFP®, ChFC®
Rich Zito, CFP®, CMFC®
Ryan Haiss, CFP®
Steve Aberman
www.FlynnZito.com

Flynn Zito Capital Management, LLC
A Registered Investment Advisor
585 Stewart Avenue, Suite 620
Garden City, NY 11530

(516) 746-9000
flynn.zito@lpl.com

Lowering Your Tax Bill with an HSA

For years, Americans have been schooled on the benefits of saving: for retirement, for a child's higher education, and even for a rainy day. It's time to add another item to that list: health care. As health insurance premiums, deductibles, and co-pays rise, the need to set aside funds specifically for medical costs has become a reality for a growing number of people.

Enter the health savings account (HSA). Created in 2003, HSAs are special savings accounts that can be used to pay for out-of-pocket health care costs. Contributions are generally tax deductible and withdrawals for qualified costs are tax free. What's more, since unused balances can be carried over from year to year, they can be used to fund health care costs today and in retirement.

But some restrictions do apply. Here is a summary of HSAs and their different features.

Eligibility

You can open an HSA, whether through your employer or on your own, provided you:

- Are currently covered by an HSA-qualified high-deductible health plan (HDHP).* For 2019, that deductible must be at least $1,350 for single coverage and $2,700 for family coverage
- Do not have other health coverage (although certain types of insurance are allowed, such as dental and vision care)
- Cannot be claimed as a dependent on someone else's tax return
- Are not enrolled in Medicare

Contributions

Your contributions to an HSA are tax deductible and there are no income or phase-out restrictions. Employers can make nontaxable contributions on behalf of their employees. But the annual limits listed below still apply:

- For 2019, singles can contribute up to $3,500 and families can sock away $7,000
- If you're 55 or older anytime in 2019, you can contribute an extra $1,000
- Contribution limits are adjusted annually for inflation

Withdrawals

You can tap into your HSA tax and penalty free to pay for any "qualified medical expense" incurred on behalf of you, your spouse, or your dependents. Below is a partial list:

Qualified expenses:

- Preventative care, including doctor visits, and screening services
- Prescriptions
- Dental care
- Vision care

Unqualified expenses:

- Insurance premiums (limited exceptions apply)
- Non-prescription drugs (except insulin)
- Expenses incurred before you establish your HSA

Note that any withdrawals that aren't for qualified medical expenses are taxable and may be subject to an additional 20% tax.

Additional Features

HSAs can be invested in a variety of different vehicles, and interest accumulates tax free. What's more, HSA funds never expire. You can carry over unused balances from year to year. And if you leave your job, your HSA goes with you.

Once you reach Medicare eligibility age (currently age 65), you can take withdrawals from your account for any reason without penalty, not just for medical expenses. But be warned: If not used for medical care, withdrawals are no longer federally (and in some cases, state) tax free.

Upon your death, your HSA can be passed along to your surviving spouse. Unmarried individuals can pass the account to their beneficiary or estate; however, applicable taxes will apply.

Considerations

If an HSA sounds like it might work for you, contact your employer to see if it offers one, or open one directly through one of the many online providers.

Footnotes/Disclaimers