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Supersize Me: Here's a Way to Help Fatten Up Your Retirement Savings

Wouldn't it be something if you could plump up your retirement savings as easily as you can put on a few pounds eating fast food? Here's one way to help do it: Open a health savings account (HSA). It offers a triple tax advantage and you can contribute the maximum every year.[1]

Here's the catch: Not everyone can do this.

HSAs are like side dishes. They are only available to people enrolled in their employers' high-deductible health insurance plans (HDHP) and who do not participate in any other health insurance plans.[1]

In addition, the HDHP must have minimum deductibles ($1,300 for an individual and $2,600 for a family for 2017) and maximum out-of-pocket costs ($6,550 for an individual and $13,100 for a family for 2017). If you are enrolled in a plan that meets these requirements, then you may be able to fatten up your retirement savings with an HSA.[1]

HSAs offer a triple tax advantage:[2]

1. Contributions are tax-deductible
2. Any interest and earnings grow tax-deferred
3. Distributions are tax-free when used for qualified medical expenses

These accounts were created to help people in HDHPs pay for current medical expenses, but the money saved in HSAs can also be used for healthcare expenses in retirement.[2]

You see, unlike flexible spending accounts (FSAs), there is no 'use it or lose it' provision. Any money left in an HSA at the end of the year belongs to the account owner and remains in the account, growing tax-deferred, until it is distributed.[2]

In fact, it's important not to confuse an HSA with an FSA. They are distinctly different. For example:

- **You can save more in an HSA than in an FSA.** An individual can contribute up to $3,400 to an HSA in 2017, and a family can contribute up to $6,750. That's a lot more than anyone can save in an FSA, which has a maximum contribution of $2,600 pre-tax for 2017.[1]

  Also, if you're age 55 or older, you can make a catch-up contribution and save an additional $1,000 in your HSA each year.[1]

- **HSAs are portable. FSAs are not.** The money in your HSA account is yours. If you change employers, the account, and any savings in it, remains yours. Typically, FSAs are 'use it or lose it' plans. If money is left in an FSA at year-end, one of three things may occur:[1]

  1. Any unspent savings is lost.
  2. The employer's FSA provides a grace period of up to 2½ months after the end of the plan year during which the savings can be used for qualified medical expenses.
  3. The employer's FSA has a carryover feature, which allows up to $500 to rollover and be used for qualifying medical expenses during the following year.

  HSAs offer a clear advantage for people who may not incur significant medical expenses each year. HSA assets can accumulate until you need them – even if that's after you retire.[1]

- **You can invest HSA savings, but not FSA savings.** Some HSAs offer investment options. If your plan is to save for medical expenses later in life, then being able to invest – having an opportunity to grow your savings tax-deferred over a long period of time – may provide a significant advantage.[3]

  Consider these hypothetical scenarios*:[4]

  - An individual who contributes $3,400 to an HSA for 30 years, earns 4 percent each year, and does not spend any of the money, would have almost $200,000 more for retirement.

  - A family that contributes $6,750 to an HSA for 30 years, earns 4 percent each year, and does not spend any of the money, would have almost $400,000 more for retirement.

  Sometimes, employers and health plan providers have relationships with HSA providers. Before defaulting to your employer's choice, compare the investment options offered and the fees and expenses charged against those of other HSA providers.[3]

Here's some food for thought for Millennials and Generation Z. Many young people have few medical expenses. Consequently, saving in an HSA may seem unnecessary. If you cast your eyes

to the future, or think about the health of your parents and grandparents, it's not difficult to see health expenses are likely to increase with age.

Even if you stay healthy well into retirement, which we all hope to do, the money in an HSA can be used to help pay Medicare premiums tax-free after age 65.[5]

Saving in an HSA gives participants in HDHPs opportunities to set aside pre-tax dollars, grow any earnings tax-deferred, and pay no taxes on distributions, as long as they're used for qualified medical expenses. It's a win-win-win opportunity.[1]

So, if you're already saving for the future in an IRA, 401(k), or another qualified retirement plan – and you have the opportunity to enroll in an HDHP and open an HSA – you may want to consider it.

Sources:
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