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# Getting to know HSAs

A powerful healthcare savings tool and its role in long-term financial planning.

Created as part of the Medicare Prescription Drug and Modernization Act of 2003 and rapidly growing in popularity, health savings accounts (HSAs) are a tax-advantaged way for individuals to save for healthcare expenses. Due to the highly advantageous features of this **triple tax benefit** account, clients should consider the role an HSA could play in their retirement savings picture.

## KEY FEATURES

### ELIGIBILITY

- Anyone with a high-deductible health policy (HDHP) can qualify for an HSA, it is not limited to employees.
- There are no income limits affecting eligibility.
- The HSA belongs to the individual not the employer.
  - If an individual has a qualified HDHP through their employer but the employer does not offer an HSA, they can still open an HSA.
- An HSA can be set up with any qualified trustee or custodian.
- As long as an individual has not enrolled in Medicare Part A or B, they are eligible and may contribute to an HSA. Once an individual enrolls in Medicare, they may no longer contribute to an HSA.
- There is also a requirement that they not have any other health coverage or an FSA, and they can't be claimed as a tax dependent on anyone else's tax return. See IRS Publication 969 for full requirements.

### CONTRIBUTIONS

- In 2024, individuals can contribute **$4,150** to an HSA and families can contribute **$8,300**. In 2023, individuals could contribute **$3,850** and **$7,750**, respectively.
- An individual over 55 can contribute an additional **$1,000** catch-up contribution for a total of **$5,150** in 2024, and **$4,850** in 2023. If a spouse is also 55 they can contribute an additional **$1,000** to their respective HSA for a total family contribution of **$9,300** in 2024, and **$8,750** in 2023.
- Anyone can make a contribution to an HSA on another person's behalf and, per IRS HSA rules, the account holder is the one who claims the deduction.
- If an employee makes HSA contributions directly through payroll, they generally will not pay FICA taxes on those contributions.

### CONTRIBUTIONS CONT.

- If an employee with an HSA loses their job, the HSA is theirs to keep and can even be transferred to another custodian.
- There are no limits on the amount that can be carried forward each year.
- For qualified individuals, HSAs are the only type of tax-preferenced investment account that enjoys the benefits of tax-deductible contributions, tax-deferred growth of earnings and tax-free distributions (for medical expenses).

### INVESTMENT AND WITHDRAWAL STRATEGIES

- Individuals can invest the funds in bank accounts, money markets, mutual funds and stocks. They may not invest in collectibles, art, automobiles or real estate.
- A common funding strategy is to contribute to a 401(k) to receive the full company match, then switch to fully fund the HSA account before maxing out 401(k) contributions. In most cases, this provides the most tax efficient way for assets to grow.
- The law allows a once-in-a-lifetime transfer of IRA assets to fund an HSA.
  - The amount transferred may not exceed the amount of one year's contribution and individuals must be otherwise eligible to open an HSA.
- Withdrawals from an HSA for qualified medical expenses are tax-free.
  - The only requirement at the time of distribution for tax-free treatment from an HSA is that the withdrawal either cover a current medical expense, or be used to reimburse a prior one (that was itself paid out of pocket, was not reimbursed from another source, and was not previously claimed as an itemized deduction).
- Medical expenses can occur now and be reimbursed in the future and still be qualified, as long as documentation of the medical expense is maintained and the medical expense occurred after the HSA was originally established.
- Non-qualified withdrawals are taxable as ordinary income plus a 20% penalty tax, with the penalty waived for:
  - Those over age 65
  - Those who are disabled
  - If withdrawn as a non-spouse beneficiary after the death of the HSA owner
- If a spouse is the designated beneficiary of an HSA, it will be treated as the spouse's HSA after the owner's death **and continue the preferential tax treatment** (including future tax-free withdrawals).



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INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863
RAYMONDJAMES.COM