PRATO CAPITAL

The Newsletter - August 2020

Health Savings Account

by Christopher Conway

Due to its tax advantages, Health Savings Accounts can be good for both the employers and the employees.

Health Savings Accounts (HSAs) are growing in popularity and can be a tool to help manage rising health care costs both now and in retirement.

What is an HSA?

HSAs were created in 2003 to help individuals with high-deductible health plans (HDHP) pay for medical costs as employers have shifted more health care costs to the employees.

A Health Savings Account is an account that lets an individual set aside money on a pre-tax basis to pay for qualified medical expenses. Contributions to the HSA are tax-free, interest and investment gains in the HSA are tax-free and withdrawals for qualified medical expenses are tax-free. Employers can contribute to an HSA for their employees as an incentive to have higher deductible health insurance. If an HSA is not offered by an employer, an individual can set up their own account if certain requirements are met.

The HSA is owned by the individual, can be rolled over when changing jobs and unused funds stay in the account from year to year. Funds in HSA accounts can be invested and grow tax-free.

Like other tax-deferred accounts, such as IRAs and 401Ks, the Internal Revenue Service sets annual contribution limits for HSAs and does allow for catch-up contributions if over 55 years old.

Benefits for the Employer.

Moving to an HDHP/HSA combination can help your company save on health insurance premiums without sacrificing quality on employee coverage. HDHPs are often more cost-effective than traditional health plans and an HSA can provide flexibility to the employees.

When employees contribute to their HSAs pre-tax, those contributions are not considered wages under the current tax code. That means the employee and the employer both save the FICA taxes of those contributions.

For many employees, good benefits are the deciding factor when looking for a job. An HDHP/HAS combination can add value to any benefits package and help employees save money and invest for the future.

Benefits for the Individual.

HSAs provide unmatched tax advantages for an individual. Contributions reduce current income tax, any growth of funds in the HSA are not taxed and withdrawals for qualified medical expenses are also not taxed.

HDHPs often have lower monthly premiums than traditional health plans, for both the employee and the employer. This allows employees to save money each month on their health insurance premiums.

Once an individual turns 65 years old, HSA funds may be withdrawn for any reason penalty-free but will subject to income taxes. Withdrawals for qualified medical expenses are always tax and penalty-free at any age. Before an individual is 65 years old, funds withdrawn from an HSA for reasons other than a qualified medical expense will incur a penalty, currently 20%, and be taxed as income.

Health Savings Accounts can be invested and managed by a financial advisor. This provides the ability to cover short-term medical needs and save for long-term medical expenses for the future and into retirement. Since all withdrawals for qualified medical expenses are tax-free, this is equivalent to a discount on your medical costs equal to your tax bracket, which can be up to 37% depending on income. This can greatly benefit anyone’s Financial Life Plan.

Conclusion

It is rare for a program to be beneficial to both the employer and the individual. The Health Savings Account is one such program. Providing cost savings and tax advantages to the employer and tax advantages and savings benefits for the individual, the HSA is indeed a program that is good for everyone.

At Prato Capital Management, we believe this is a great program for anyone with a High-Deductible Health Plan and it can be an important part of a

Financial Life Plan both now and in the future. We can help setup an HSA for your business or for yourself if you qualify.

Thinking of you always,
Gregory, Gabriella, Brian, Chris, and Samer