



Curbing Health Care Costs & Health Savings Accounts

October 2018

[Join Our Mailing List!](#)

[Forward to a Friend](#)



**Wishing you a
Happy
Halloween!**

Curbing the Costs of Health Care

Health care expenses are a major concern for people of all ages, from recent college graduates to those nearing retirement. While it's impossible to predict how much health care will cost in the future, there are a number of strategies that may help reduce the financial burden, whether you're close to retirement or have many years left to work.

Planning ahead for retirement

Unfortunately, retirement has become synonymous with steep health care costs. To help minimize your expenses and make things easier on yourself, here are some tips to consider as you approach retirement:

Review your current benefits

As you begin looking into health insurance options, it's important to have all the information regarding your current policy at the ready. Coverage, deductibles, and benefits change regularly, so be sure you're up to speed on the details of

your plan. Knowing where you stand today will give you a head start in planning for retirement and may help you trim costs.

Research supplemental insurance

Medicare is the primary source of health care coverage for Americans age 65 and up. Most retirees qualify for basic Medicare hospital insurance (Part A), which is free. It's important to note that Medicare medical insurance (Part B), which covers doctors' services, outpatient hospital care, and other day-to-day medical needs, requires a monthly premium. Although it can be time consuming to review all the options, purchasing private insurance to supplement basic Medicare may help offset expensive premiums. To compare coverage in your state and find insurers that offer the best value, visit www.medicare.gov.

Assess your employer's benefits

Some retired employees receive coverage from their employers instead of through Medicare. Employer-provided retirement benefits are becoming less common, however, so be sure to find out whether your company offers such a plan and if you are eligible.

Retiring early?

Look into your options. Since Medicare isn't available until you reach age 65, consider other possibilities, such as:

- Joining your spouse's health care plan
- Paying to continue your current employer coverage for a specified time under COBRA
- Purchasing your own personal medical insurance policy
- Using Veterans Administration benefits (if you are a veteran)

Saving tips for everyone

No matter where you are in life, the commonsense strategies below may help you save money on health care costs.

Choose the right provider

Should you go to the ER if you break your arm? Most would say yes, but an urgent care facility may offer the same treatment for \$1,000 less. Determining when you need to visit your primary care physician, a specialist, an urgent care provider, or a full-service hospital can play a big role in reducing costs.

Cut out unnecessary tests

Certain preventative tests are free if you use an in-network provider. Imaging tests such as MRIs, X-rays, and ultrasounds may still put a dent in your wallet, however. Keep in mind that, in many cases, these procedures aren't necessary to treat simple aches and pains. If you or a family member suspects a more serious condition that may require one of these tests, visit www.healthcarebluebook.com to compare prices.

Buy generic drugs

Most insurance plans have different copayment tiers for various brands of the same drug, including generic, preferred, and nonpreferred (the most expensive). Buying generic-brand drugs may be one of the easiest and most effective ways to cut back on your health care spending. A great resource for researching

lower-priced pharmaceuticals is www.goodrx.com, where you can compare drug prices and find the best deals near you.

Refining your health care strategy

It's never too early (or too late) to review your personal health care plan. There are many ways to create a cost-effective strategy, and, given the ever-changing health care landscape, it's wise to be aware of what you can do to reduce your risk and protect your savings.

Consider establishing a Health Savings Account

Thanks to their flexibility and tax benefits, health savings accounts (HSAs) are emerging as a popular savings method for covering current out-of-pocket health care costs, as well as qualified medical expenses in retirement. Changes in the health care marketplace, rising medical costs, and the tax advantages that accounts offer make them an attractive planning tool for many individuals covered by high-deductible health plans (HDHPs).

What is an HSA?

An HSA is a tax-advantaged account that can be used to pay for specific qualified medical expenses. Unlike money in flexible spending accounts (FSAs), which are designed to cover current out-of-pocket medical costs, HSA funds never expire and can be used to pay for health care expenses now and in retirement. HSAs may be offered through your employer or purchased directly if you are eligible. Accounts can be established at a bank, insurance company, or IRS-recognized third-party administrator.

Generally, contributions to an HSA are tax deductible, earnings accumulate tax deferred, and withdrawals are tax free as long as they're used to pay for qualified expenses. If, before you turn 65, you withdraw funds from an HSA that are not used for qualified medical expenses, the withdrawal will be subject to a 20-percent penalty, in addition to income tax. After age 65, distributions not used for qualified medical expenses are no longer subject to the 20-percent penalty.

Who is eligible?

In order to establish an HSA, you must be covered by an eligible high-deductible health plan (HDHP). For 2018, this is defined as a plan for which the family annual deductible minimum is at least \$2,700 (\$1,350 for an individual), and the annual out-of-pocket costs are limited to \$13,300 for family coverage (\$6,650 for an individual). Your health care benefit provider can confirm if your plan is considered an HDHP that is eligible for an HSA.

You are generally not eligible to contribute to an HSA if:

- You are enrolled in Medicare
- You are claimed as a dependent by another taxpayer

What are the contribution limits for 2018?

In 2018, the HSA contribution limits are **\$6,850** for a family account and **\$3,450** for an individual account. If you are 55 or older, you may make an additional catch-up contribution of **\$1,000** per tax year. You can contribute to an HSA for the current tax year any time prior to the tax filing date of April 15.

Contributions to an HSA may be made by you, another individual, or your employer. Employer contributions made on your behalf through a cafeteria plan are generally not income taxable to you. If you contribute directly to an HSA, these contributions are considered "above-the-line" deductions, which means that you can claim them without itemizing deductions on your tax return. Your tax advisor can provide more information on the tax treatment and deductibility of HSA contributions.

What medical expenses are covered?

You can make tax-free withdrawals from an HSA for qualified medical expenses for you, your spouse, or other dependents. Eligible expenses include lab fees, prescription drugs, and dental and vision care, as well as out-of-pocket health insurance deductible costs.

You may also use distributions to pay for certain insurance coverage, including:

- Long-term care insurance (subject to specific limits and guidelines)
- COBRA health care continuation coverageHealth care coverage while receiving unemployment compensation under federal or state law
- Medicare and other health care coverage if you are 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap)

Qualified medical expenses are detailed in IRS Publication 502.

Can both spouses contribute to an HSA?

Both spouses can contribute to an HSA if they are covered separately under eligible HDHPs.

Can I take a distribution from an existing individual retirement account (IRA) and contribute this to an HSA?

You are allowed to take a qualified HSA funding distribution from your traditional IRA or Roth IRA into an HSA once in a lifetime. This must be a trustee-to-trustee transfer. The amount is limited to your maximum HSA contribution for the year minus any contributions you have made for the year. (Distributions are not allowed for SEP IRAs or SIMPLE IRAs.) A benefit of doing this is that there are no required minimum distributions beginning at age 70½ from an HSA. Plus, withdrawals can be taken income tax free when used for qualified medical expenses.

What other planning considerations should I be aware of?

Since there are no restrictions on when you need to distribute HSA funds, you may wish to pay out-of-pocket health care costs from your current income and allow the HSA to continue to grow tax deferred, reserving those funds to cover medical care in retirement.

HSAs offer a number of other advantages, including the ability to take the account with you if you leave your employer. You can also name a beneficiary to inherit the account in the event of your death. It's important to note that your spouse can step into your role upon your death and the account will remain an HSA. If you name a nonspouse beneficiary, however, the account will no longer

be considered an HSA, and the inherited amount will be treated as taxable income. Additional information on HSAs is available in IRS Publication 969.

Please call my office if you would like more information on Health Savings Accounts.

My staff and I deeply appreciate the continuing opportunity to work with you. Please let me know if you have any questions or requests. Thank you.

Sincerely,

Paul S. Bonapart, JD, RFC, AIF®, President
Financial Security Planning Services, Inc.
520 Tamalpais Dr, Suites 103 & 104
Corte Madera, CA 94925
(415) 927-2555
www.FinancialSecurityPlanning.com
CA Insurance License No. 0808412

-
- Registered Representative with/and offers securities through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Advisor.
 - Advisory services offered through Financial Security Planning Services, Inc. a Registered Investment Advisor, are separate and unrelated to Commonwealth Financial Network.
 - Fixed insurance products and services offered through CES Insurance Agency.
 - Indices are unmanaged and cannot be invested into directly. Past performance is not indicative of future results.



-This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

- © 2018 Commonwealth Financial Network®

Delivering financial confidence since 1992