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HEALTH SAVING ACCOUNT

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McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio management and Tax Planning.

Introduced in 2003 as an alternative to increasingly costly health insurance plans, a health savings account ("HSA") allows a taxpayer to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. Based on seeing these more frequently with my tax clients, I believe HSAs have become increasingly popular. Personally, I have been very pleased with the HSA that I established for my family in 2009. In this article I will discuss how these accounts work as well as list some of their pros and cons. *If you are eligible but don't currently have a HSA, I recommend you consider setting one up.*

How an HSA works: Before opening an HSA, you must first enroll in a high-deductible health plan (HDHP), either on your own or through your employer. For 2013, the annual deductible for an HSA-qualified HDHP must be at least $1,250 for individual coverage and $2,500 for family coverage. Once you've satisfied your deductible, the HDHP will provide comprehensive coverage for your medical expenses (though you may continue to owe co-payments or coinsurance costs until you reach your plan's annual out-of-pocket limit). A qualifying HDHP must limit annual out-of-pocket expenses (including the deductible) to no more than $6,250 for individual coverage and $12,500 for family coverage for 2013. Once this limit is reached, the HDHP will cover 100% of your costs, as outlined in your policy.

Here are some of the benefits of a HSA:

- **Tax Incentives:** Contributions to a HSA are tax-deductible while withdrawals to cover medical expenses are tax-free. Effectively, with a HSA your out-of-pocket medical expenses become tax-deductible (i.e. to the extent they are paid out of the HSA). You receive an "above the line" tax deduction equal to the amount contributed to your HSA. The 2013 contribution limits are $3,250 for individual coverage and $6,450 for family coverage (plus an extra $1,000 if you are over age 55).
- **Lower Insurance Premiums:** Because a HSA requires a high-deductible insurance plan, the healthcare premiums are typically lower. The savings in the premium costs can be used to at least partly fund the contribution to the HSA.

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.

- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained several outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.

- **Control of the Funds:** You own and control the money in your HSA. You decide how and when to spend the money on qualified medical expenses and how to invest the money in your account to make it grow.
- **Cover Healthcare Expenses in Retirement:** One of the biggest financial challenges of many retirees is covering their out-of-pocket medical expenses. Money saved in a HSA (including the earnings within the account) can be used tax-free to cover these expenses.
- **Additional Retirement Savings:** To the extent you accumulate savings in your HSA that aren't needed to cover medical expenses, the money can be withdrawn after age 65 without a penalty (although the amount withdrawn will be taxed if not used for medical expenses).

Here are some of the disadvantages of a HSA:

- **Higher Out-of-Pocket Costs:** Because a HSA requires having a high-deductible insurance plan, your out-of-pocket medical expenses will likely be higher than they would be with a non-HDHP. *If you and/or someone in your family is likely to incur high medical expenses, a HSA may not be a good choice.*
- **State Taxes:** California does not recognize HSAs, so contributions to a HSA are not state-deductible for CA residents.
- **20% Penalty for Non-qualified Withdrawals:** If HSA funds are used for other than qualified medical expenses, the expenditures will be taxed and, if you are not disabled or over age 65, will also be subject to a 20% penalty.

Who can open a HSA?: Any individual with a qualifying HDHP coverage can open a HSA. If you are covered under your employer's plan, check to see if they provide a HSA option. Once you reach age 65 and enroll in Medicare, you can no longer contribute to your HSA.

How can you use your HSA funds? You can use your HSA funds for many types of health-care expenses, including prescription drugs, eyeglasses, deductibles and co-payments. Although you can't use funds to pay regular health insurance premiums, you can withdraw money to pay for specialized types of insurance such as long-term care or disability insurance. IRS Publication 502 contains a list of allowable expenses.