

# FINANCIAL PLANNING TIPS

QUICK AND ACTIONABLE IDEAS TO HELP IMPROVE YOUR FINANCIAL WELL-BEING



## Health Savings Accounts

### How a Health Savings Account Can Be a Powerful Long-Term Savings Strategy

**H**ealth Savings Accounts (HSAs) are often touted as a way to save on medical expenses, but they hold significant potential as a long-term savings strategy. By maximizing annual contributions, allowing tax-free growth, and saving medical receipts for later reimbursement, an HSA can accumulate substantial wealth to fund healthcare needs well into retirement. Additionally, an HSA can be a powerful funding vehicle for future long-term care costs if held into one's 80s or 90s.

This article explores how HSAs can be leveraged as a retirement savings tool, the potential for long-term growth, and what happens to HSA funds when the account holder passes away.

### Overview of Health Savings Accounts

An HSA is a tax-advantaged savings account available to individuals with high-deductible health plans (HDHPs). These accounts offer three main tax advantages:

1. **Tax-Deductible Contributions:** Saving into your HSA is tax-deductible.
2. **Tax-Free Growth:** Earnings within the account grow tax-free.
3. **Tax-Free Withdrawals for Qualified Medical Expenses:** Withdrawals used for qualified medical expenses are tax-free.

For 2024, the IRS allows individuals to contribute up to \$4,150 and families up to \$8,300 annually, with an additional \$1,000 catch-up contribution for those over 55. HSAs are unique because, unlike other flexible savings accounts (FSAs), they do not have a "use it or lose it" provision; any unused funds roll over indefinitely.

## HSAs as a Long-Term Savings Strategy: The Power of Compounding

When used for immediate healthcare needs, an HSA functions like a regular savings account. However, by letting the balance grow untouched, the HSA transforms into a powerful investment vehicle. Let's explore how maximizing HSA contributions annually, investing in a balanced portfolio, and deferring withdrawals until later in life can lead to substantial growth.

### Maximizing Contributions and Investment Growth

Assuming an individual contributes the maximum of \$4,150 each year and achieves an 8% annual return, here's a breakdown of how the account balance might look over the long term:

- 10 years: \$63,359
- 20 years: \$182,297
- 30 years: \$451,602
- 40 years: \$1,049,422

This compounding growth shows the potential of an HSA if it remains untouched for decades. Unlike traditional retirement accounts, an HSA offers both tax-free contributions and tax-free distributions for medical expenses, maximizing tax savings over time.

### Reimbursement Strategy

A unique advantage of HSAs is that, unlike other retirement accounts, they do not require mandatory distributions at any age. Account holders can keep receipts for all medical expenses paid out-of-pocket throughout life and choose to reimburse themselves in retirement, years after the expenses were incurred. For example, if an individual spends \$10,000 on medical costs in their 50s and keeps the receipts, they could take a tax-free \$10,000 distribution at age 70, allowing the account to grow uninterrupted in the meantime.

## What Happens to an HSA When Someone Dies?

The treatment of an HSA upon the account holder's death depends on the designated beneficiary:

1. **Spouse as Beneficiary:** If the spouse is named as the beneficiary, the HSA transfers to them, and it remains an HSA. The spouse can continue using the funds tax-free for qualified medical expenses, and they can also continue making contributions if they are eligible.
2. **Non-Spouse Beneficiary:** If the beneficiary is not the account holder's spouse, the HSA is liquidated, and the value of the account becomes taxable income to the beneficiary in the year of the account holder's death. While the funds no longer retain their tax-advantaged status, non-spouse beneficiaries may still have options for using the funds effectively, particularly if they have significant healthcare costs.
3. **No Designated Beneficiary:** If there is no designated beneficiary, the HSA balance becomes part of the account holder's estate. The HSA's value is included in the account holder's taxable income for that year, potentially increasing the tax liability for the estate.

### Key Considerations and Best Practices

Here are some practical strategies to maximize an HSA's potential as a long-term savings vehicle:

- **Invest for Growth:** Rather than treating an HSA as a simple savings account, consider investing the balance in low-cost, diversified funds, such as index funds or ETFs. This approach aligns with long-term growth objectives.
- **Save Receipts:** To maximize tax-free withdrawals, save all receipts for medical expenses incurred over the years. This can create flexibility to take large distributions later in life without incurring taxes.



- **Contribute the Maximum Annually:** Consistently contributing the maximum allowable amount each year and taking advantage of catch-up contributions after age 55 can help grow the HSA balance significantly.
- **Plan for Estate Needs:** Consider the implications of naming a beneficiary. For spouses, the HSA retains its status, but for non-spouses, planning for taxes on the HSA balance can help mitigate tax liability.

**Conclusion**

A Health Savings Account can be more than a short-term solution for medical expenses. When used strategically, an HSA can serve as a powerful long-term savings tool, enabling tax-free growth and tax-free distributions for future healthcare needs. By allowing the balance to grow through compounding, maximizing annual contributions, and deferring withdrawals, an HSA can provide significant funding for long-term care expenses and reduce the financial strain of healthcare costs in retirement.

Whether it's covering Medicare premiums, nursing home fees, or in-home healthcare, an HSA offers flexibility and tax efficiency that traditional retirement accounts don't. For those planning well into their 80s or 90s, an HSA can be an invaluable part of a comprehensive retirement and healthcare strategy. ■

**HEALTH SAVINGS  
ACCOUNT (HSA)  
CONTRIBUTION LIMITS FOR  
2024 AND 2025**

Contribution Type	2024	2025
Individual Coverage	\$4,150	\$4,250
Family Coverage	\$8,300	\$8,750
Catch-Up Contribution (55+ years)	\$1,000	\$1,000



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