https://www.unionleader.com/news/business/money_sense/marc-a-heberts-money-ense-could-your-retirement-plan-get-a-boost-from-a-health/article_0b152533-8435-5730-b20a-94f4693e54ac.html

Marc A. Hebert's 'Money $ense': Could your retirement plan get a boost from a health savings account?

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HEALTH CARE costs in retirement are a major expense. The Employee Benefit Research Institute estimated that in 2019 a 65-year-old couple would need about $300,000 in savings to pay medical costs throughout their retirement.

Which costs are included in the $300,000? Medicare Part B and D premiums, a Medigap policy, and the average for out-of-pocket expenses. Dental, eye care, and long-term care are extra costs excluded from the $300,000.

A Health Savings Account (HSA) may be an option to help manage these costs. This is an account that can be used to pay current as well as future health costs and is tied to a high-deductible health plan (HDHP). The minimum deductibles for these plans in 2020 are $1,400 for individuals and $2,800 for families.

Because of the high deductibles, HSA owners are compelled to review what they are paying for medical expenses. However, some preventive benefits may be provided without being subject to the deductible. These could include medications and treatments for diabetes, depression, heart disease, asthma and kidney disease. Routine physicals and cancer screenings may also be included.

HSA plans also have out-of-pocket maximums. To help workers budget for disaster-case scenarios, the out-of-pocket maximum for 2020 is $6,900 for individuals and $13,800 for families.

HSAs offer three main benefits. The contributions to the account can be made on a pre-tax basis. A pre-tax contribution will not only help you save for your medical costs, but could also reduce your adjusted gross income and federal income taxes for the year. Sometimes employers may help by allowing employees to make contributions via payroll deductions.

Similar to an IRA, funds inside the HSA can grow tax-free. After the account reaches a certain size, there may be investment options to choose from. Once funds are in the account, they are completely portable. This means you can carry forward unused balances, even if you change employers or health plans.

When the funds are withdrawn and the money spent on qualified medical expenses, the withdrawals are tax-free. If the funds aren't used for medical costs, a 20% penalty will apply for those taxpayers under age 65.

Consequently, as a bonus for retirees, once you reach age 65, the funds can be used for other expenses without worrying about the penalty. For example, they can be used for Medicare and certain long-term care premiums. If you start saving in an HSA early, your balance could be substantial once you reach retirement.

Just as with IRAs, HSAs have contribution rules associated with them. For 2020 the limit is $3,550 for individual coverage and $7,100 for family coverage. These figures are an overall limit — the amounts that you, your family members and your employer contribute all count toward the limit.

Similar to the catch-up provision for IRAs, if you are age 55 you are allowed an extra $1,000 contribution amount per spouse. Be aware though, once you receive Medicare benefits you can't contribute to your HSA. Another characteristic similar to IRAs is that contributions for 2019 can be made up to April 15, 2020.

As with any plan, consider your options carefully. Be certain to read and understand the policy. See if there are any areas in which you need coverage that are not provided for. Are your prescription drugs covered? Are there any exclusions in the policy? Make sure your doctor is in the network. Ask questions and seek advice from a person knowledgeable in the field, such as a benefits adviser or certified financial planner, to help make sure you choose the plan that is right for you.

Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to Marc at **mhebert@harborgroup.com**. Your question and his response might appear in a future column.

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