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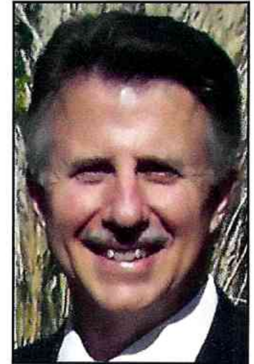

Bob Scott
Broker

New Rules May Boost the Appeal of Health Savings Accounts

By Ed Slott, CPA

Legislation passed in 2022 made it possible for high-deductible health plans (HDHPs), which are often paired with health savings accounts (HSAs), to offer improved benefits. The Inflation Reduction Act permitted HSA-eligible HDHPs to cover selected insulin products prior to meeting the deductible. Later in the year, the SECURE 2.0 Act extended first-dollar coverage for telehealth services. Plan sponsors are not required to provide this coverage but doing so could spur more participants to select HDHPs.

Premiums are typically lower for HDHPs than they are for traditional HMO and PPO health plans; members pay more upfront for services such as physician visits, surgery, and prescriptions, though they typically receive the insurer's negotiated discounts. The primary purpose of an HSA is for workers to set aside pre-tax income to pay current and future medical expenses not covered by insurance, but those assets could become a key retirement resource.

Tax Triple Play

HSAs incentivize saving with three powerful tax advantages: (1) the dollars you contribute are deducted from your adjusted gross income, (2) investment earnings compound tax-free inside the HSA, and (3) withdrawals are untaxed if the money is spent on qualified health-care expenses. (Depending on the state, HSA contributions and earnings may or may not be subject to state taxes.)

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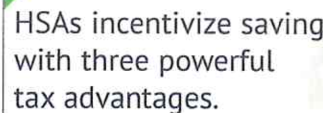

Money that is not needed for health expenses can be used for any other purpose after you reach age 65 — which is why HSAs are sometimes called medical IRAs. When account funds are spent on anything other than qualified medical expenses, withdrawals are taxed as ordinary income, but they don't incur the 20% penalty that applies to taxpayers under age 65.

Eligibility and Contribution Rules

To be eligible to establish or contribute to an HSA in 2024, you must be enrolled in a qualifying high-deductible health plan (an HDHP with a deductible of at least $1,600 for individuals, $3,200 for families).

Qualifying HDHPs also have out-of-pocket maximums, above which the insurer pays all costs. In 2024, the upper limit is $8,050 for individual coverage ($16,100 for family coverage), but plans may have lower caps. This feature could help you budget accordingly for a worst-case scenario.

The maximum HSA contribution limit is $4,150 if you have individual coverage or $8,300 if you have family

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If you have any questions about the topics in this newsletter or about your financial future, call us. We are available to help.

How Taxes Impact Your Retirement-Income Strategy

Retirees face several unique challenges when managing their income, particularly when it comes to taxes. From understanding how taxes relate to Social Security and Medicare to determining when to tap taxable and tax-advantaged accounts, individuals must juggle a complicated mix of factors.

Social Security and Medicare

People are sometimes surprised to learn that a portion of Social Security income becomes federally taxable when combined income exceeds $25,000 for single taxpayers and $32,000 for married couples filing jointly. The taxable portion is up to 85% of benefits, depending on income and filing status.[1]

In addition, the amount retirees pay in Medicare premiums each year is based on the modified adjusted gross income (MAGI) from *two years earlier*. In other words, the cost retirees pay for Medicare in 2023 is based on the MAGI reported on their 2021 returns.

Taxable, Tax-Deferred, or Tax-free?

Maintaining a mix of taxable, tax-deferred, and tax-free accounts offers flexibility in managing income each year. However, determining when and how to tap each type of account and asset can be tricky. Consider the following points:

Taxable accounts. Income from most dividends and fixed-income investments and gains from the sale of securities held 12 months or less are generally taxed at federal rates as high as 37%. By contrast, qualified dividends and gains from the sale of securities held longer than 12 months are generally taxed at lower capital gains rates, which max out at 20%.

Tax-deferred accounts. Distributions from traditional IRAs, traditional work-sponsored plans, and annuities are also generally subject to federal income tax. On the other hand, company stock held in a qualified work-sponsored plan is typically treated differently. Provided certain rules are followed, a portion of the stock's value is generally taxed at the capital gains rate, no matter when it's sold; however, if the stock is rolled into a traditional IRA, it loses this special tax treatment.[2]

Tax-free accounts. Qualified distributions from Roth accounts and Health Savings Accounts (HSAs) are tax-free and therefore will not affect Social Security taxability and Medicare premiums. Moreover, some types of fixed-income investments offer tax-free income at the federal and/or state levels.[3]

The Impact of RMDs

One income-management strategy retirees often follow is to tap taxable accounts in the earlier years of retirement in order to allow the other accounts to continue benefiting from tax-deferred growth. However, traditional IRAs and workplace plans cannot grow indefinitely. Account holders must begin taking minimum distributions after they reach age 73 (for those who reach age 72 after December 31, 2022). Depending on an account's total value, an RMD could bump an individual or couple into a higher tax bracket. (RMDs are not required from Roth IRAs and, beginning in 2024, work-based plan Roth accounts during the primary account holder's lifetime.)

Don't Forget State Taxes

State taxes are also a factor. Currently, seven states impose no income taxes, while New Hampshire taxes dividend and interest income and Washington taxes the capital gains of high earners. Twelve states tax at least a portion of a retiree's Social Security benefits.

Eye on Washington

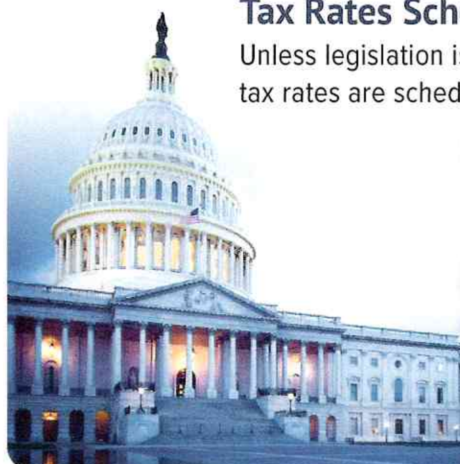
Finally, both current and future retirees will want to monitor congressional actions over the next few years. That's because today's historically low marginal tax rates are scheduled to revert to higher levels in 2026, unless legislation is enacted (see table).

Help Is Available

Putting together a retirement income strategy that strives to manage taxes is a complex task. Investors may want to seek the help of a qualified tax or financial professional before making any final decisions.[4]

Tax Rates Scheduled to Rise

Unless legislation is enacted, most federal marginal income tax rates are scheduled to rise in 2026.



Current rate	2026
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

1) Combined income is the sum of adjusted gross income, tax-exempt interest, and 50% of any Social Security benefits received.

2) Distributions from tax-deferred accounts and annuities prior to age 59½ are subject to a 10% penalty, unless an exception applies.

3) A qualified distribution from a Roth account is one that is made after the account has been held for at least five years and the account holder reaches age 59½, dies, or becomes disabled. A distribution from an HSA is qualified provided it is used to pay for covered medical expenses (see IRS publication 502). Nonqualified distributions will be subject to regular income taxes and, possibly, penalties.

4) There is no guarantee that working with a financial professional will improve investment results.

Trusts — Not Just for Estate Taxes

In the past, trusts were often used to avoid estate taxes, but that purpose has become less important for most people with current high exemption amounts ($12.92 million in 2023, $25.84 million for a married couple). However, some states have estate taxes or inheritance taxes with lower exclusion amounts, and a properly constructed trust can serve many other purposes for families of more modest means.

A trust might help avoid the time-consuming and costly probate process, maintain control of a legacy for your heirs, provide for a dependent with special needs, or make a substantial contribution to your favorite charitable organization.

Legal Control of Assets

A trust is a legal arrangement under which one person or institution controls property given by another person for the benefit of a third party. The person giving the property is referred to as the *trustor* (or *grantor*), the person controlling the property is the *trustee*, and the person for whom the trust operates is the *beneficiary*. With some trusts, you can name yourself as the trustor, the trustee, and the beneficiary.

Although you may be hesitant to give up control of your assets, in some cases it might be worthwhile to choose an independent trustee who would be subject to strict legal requirements in administering the trust.

Testamentary vs. Living Trusts

A **testamentary trust** becomes effective upon your death and is usually established by your last will and testament. It enables you to control the distribution of your estate (often used to name a trustee for assets left to minor children), but it does not avoid probate. You can change or revoke a testamentary trust during your lifetime.

A **living trust** takes effect during your lifetime. When you set up a living trust, you transfer the title of all the assets you wish to place in the trust from you as an individual to the trust. Technically, you no longer own the transferred assets. If you name yourself as trustee, you maintain full control of the assets and can sell or give them away as you see fit. However, this option may negate any estate tax benefits.

Living trusts can be **revocable** or **irrevocable**. A revocable trust can be dissolved or amended at any time while the grantor is still alive. An irrevocable trust, on the other hand, is generally difficult to modify or revoke.

Special-Purpose Trusts

Trusts, whether testamentary or living, can be established for a variety of specific purposes. Here are three of the most common.

Charitable trust — Enables you to provide a charitable organization with a regular income for a set period or a lump sum at the end of the period.

Incentive trust — Makes the transfer of assets to heirs contingent on their meeting goals or expectations, such as attaining higher education or starting a family.

Supplemental or special-needs trust — Can help provide for a disabled child and may ensure that the child qualifies for government assistance programs.

While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of experienced estate planning, legal, and tax professionals before implementing trust strategies.

Comparing Features

Even if you have a trust, you should have a will to control assets not captured in the trust and/or to appoint a guardian for minor children. You might also need a will to establish a testamentary trust.

Features (Applies only to assets included in a will or a trust)	Will	Testamentary trust	Living trust	
			Revocable	Irrevocable
Control distribution of assets	Yes	Yes	Yes	Yes
Appoint guardian for minor-age children	Yes	No	No	No
Avoid probate	No	No	Yes	Yes
Avoid estate taxes	No	No	No	Yes*
Protect assets from lawsuits and creditors	No	Yes*	No	Yes*

*Depends on structure and situation

On the Move Again: International Travel Tips

With the COVID pandemic receding in most areas of the world, Americans are traveling again. U.S. citizens took more than 80 million international trips in 2022, an increase of almost 66% over 2021.[1] If you're planning a foreign vacation, here are some suggestions to help keep your trip on track.

Obtain required documents. A passport (or in some cases a passport card) is required to enter and return from all foreign countries, including Canada and Mexico. Your passport should have at least six months of validity beyond the dates of your trip. U.S. citizens can travel to many foreign countries without obtaining a visa in advance, but be sure to follow the rules for all countries on your itinerary.

Follow vaccination and testing requirements. Although restrictions have eased, some countries still require COVID vaccination and/or a negative COVID test before entry. Even if there are no requirements, you should protect yourself and be aware of the public health situation in any country you visit.

Alert your bank and credit-card company. Many banks and credit-card companies monitor foreign transactions, so it's wise to inform them in advance and ask about fees for international transactions. Carry at least two cards: a debit card that will allow you to withdraw money from foreign ATMs and a chip-enhanced credit card with a PIN set up before you leave. Although the credit card may only require a signature in the United States, it might require a PIN overseas.

Check health insurance and carry your meds. Find out whether your medical insurance will cover you overseas. (Original Medicare does not cover care outside of the United States; some Medigap and Medicare Advantage policies may offer such coverage.) If not, consider purchasing a short-term travel policy. Bring enough prescription medicine, plus extras, in original labeled containers in your carry-on luggage. A note from your doctor listing medications may be helpful.

Pay like a local. Know the exchange rate to convert dollars to local currency, and vice versa. Foreign bank ATMs may offer better exchange rates than a currency exchange, but be aware of fees wherever you exchange money. Merchants, restaurants, and hotels might accept payment or quote prices in U.S. dollars, but you will typically get a better price if you pay in the local currency.

1) National Travel and Tourism Office, 2023

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coverage in 2024. An additional $1,000 can be contributed starting the year you turn 55. Some employers make an annual contribution to employees' HSAs.

Managing Your HSA

If you fund your HSA generously while working, some of those dollars could be left untouched to compound on a tax-deferred basis, perhaps for many years. When the HSA balance reaches a certain threshold, the money can be steered into a paired investment account. If you can afford to pay current medical expenses out of pocket, it will help preserve accumulated HSA assets for use during retirement.

If you incur health expenses that exceed your available HSA funds, you can make a tax-free rollover from your IRA to an HSA once in your lifetime (subject to maximum annual contribution limits). However, you must be enrolled in an HSA-eligible HDHP at the time of the transfer and for 12 months afterward, or the IRS will consider it to be a taxable IRA distribution. Transferring money to an HSA avoids the tax bill and penalty you might face if you withdraw money from a traditional IRA to pay your medical bills.

Although HSA funds cannot be used to pay regular health plan premiums, they can be used for Medicare premiums and qualified long-term care insurance premiums and services during retirement. Once you sign up for Medicare, however, you can no longer contribute to an HSA.

All investing involves risk, including the loss of principal, and there is no guarantee that any investment strategy will be successful.

Ed Slott is a professional speaker and the creator of several public television specials, including "Retire Safe & Secure! with Ed Slott." He is the author of *The Retirement Savings Time Bomb...And How to Defuse It* and many other books about IRA planning.

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