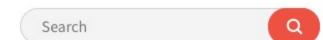
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Consider an HSA This versatile financial tool can help you save thousands in out-

Nearing Retirement? Why You Should

of-pocket health care costs as you get older—even if you're over



As we age, our health care costs will rise. This is a logical conclusion for anyone nearing retirement.

In fact, for someone turning 70, lifetime future medical costs can run into the hundreds of thousands of dollars, according to data published in the National Bureau of Economic Research's

"Bulletin on Aging and Health" in 2018. That same research found that annual outof-pocket medical spending skyrockets from an average of \$5,100 at age 70 to \$29,700 by age 100.

Those numbers sound daunting. However, those who are still at least a couple of years away from retirement can take action now to save on those costs. We're talking anywhere from 10 to 37 percent, depending on your federal tax bracket. Here's how you can put the power of tax-free health care spending to work for you.

#### Supercharge your savings

Created in 2003 as part of a broad Medicare overhaul, health savings accounts have grown in popularity, from more than one million accounts in 2005 to 21.8 million in 2017, according to survey data from America's Health Insurance Plans, or AHIP.

These accounts allow for annual savings up to the IRS limits, which in 2019 are \$3,500 for individuals and \$7,000 for families. If you're age 55 or older, add an additional \$1,000 to those numbers. All money put into an HSA is 100 percent taxdeductible, on both a federal and state level (including Michigan). And, as long as you're withdrawing the money to pay for qualified medical expenses—everything from doctor visits to prescription medication to dental services—those amounts aren't subject to any taxes.

And, there is no age where you're required to start taking distributions, like there are with IRAs," explains Shelly Casella-Dercole, C.P.A., partner at Eder, Casella & Co., an Illinois-based accounting firm with clients in Michigan and across the U.S.

"You can roll the money over from year to year, and let it grow as long as you want.

money by a certain time. The catch? To open and contribute to an HSA, you must meet these qualifications:

What's more: Unlike with flexible spending accounts, you don't have to use the

- You can't be someone else's tax dependent.
- You need to be covered only by a high-deductible health plan.
- · You can't be enrolled in Medicare Part A or Part B.

As of 2019, a high-deductible health plan is officially defined as a plan with a minimum deductible of \$1,350 for individuals or \$2,700 for a family, with a maximum out-of-pocket limit of \$6,750 for individuals or \$13,500 for families.

#### The Medicare workaround

Now, here's where an HSA gets interesting for retirees. Once enrolled in Medicare, you can't contribute to an HSA, but any money you've already put into your HSA remains yours.

That means that if you can avoid dipping deeply into the account on your way to retirement, you can build up a sizable amount of savings. For instance, a 62-yearold who opened an account in 2016 and contributed the maximum through 2018 would have accumulated \$13,200, not including accrued interest. That'll cover a lot of doctor visit copays, among other expenses, in the years to come.

"Also keep in mind this little-known fact about HSAs: The medical expenses don't

need to be incurred in the year you take the distribution," says Casella-Dercole. "You can essentially stockpile the medical costs you pay out of pocket and reimburse yourself for them years later on a tax-free basis when you need the money for retirement."

for copays that he paid out of pocket in 2017 and add it to his income now.

There are a lot of benefits to an HSA for those with retirement in view—but it's not

So, if you use the 62-year-old in the example above, he could take reimbursement

for everyone, Casella-Dercole cautions. "The higher earner you are, the more this strategy makes sense, as you are saving taxes at a high rate," she says. "Someone who pays little to no taxes now, however, would not benefit."

### Your HSA action plan

If you're buying insurance directly, you'll first need to get a high-deductible health plan (HDHP) that's HSA-compliant. If you have health insurance through an employer, you'll need to check with your company's health plan to see if an HDHP is available and switch during the next open enrollment period.

Even if you have a high-deductible health plan through your employer, you don't

have to use the accompanying HSA that's suggested. "If you don't use the (HSA) provider your employer wants you to use, you may not be able to contribute to your HSA pretax through payroll deductions," Casella-Dercole points out. "However, you'll still be able to contribute to it on your own and take the deduction on your tax return, which is the same end result. Also, if your employer contributes anything to your HSA, you'll likely have to do that through an account set up by their (HSA) provider, and then transfer those amounts to your own account afterward."

When shopping for HSAs, look for providers with low to no fees, competitive interest rates, and free debit cards to use for medical expenses—a good place to start is Morningstar's annual rankings. (For reference, current interest rates on HSAs range from 0.01 up to two percent, according to DepositAccounts. To search HSA rates on their site, choose Health Saving Accounts in the Savings Accounts dropdown menu.)

"Many HSA providers also provide some investment options as well, once your account gets over a certain dollar amount, so you can be more aggressive to try to increase your returns," Casella-Dercole adds.

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