PACIFIC RETIREMENT PARTNERS

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The 401(k) Newsletter

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Health Savings Account (HSA) and Retirement Planning

The cost of health care continues to rise and during retirement this will be no different. It is no surprise that healthcare continues to be one of the largest expenses in retirement. When planning for retirement, you cannot avoid thinking about the impact of healthcare on your future financial needs. If you use a qualified high deductible health plan, utilizing a Health Savings Account (HSA) might be a good option.

According to Fidelity Benefits Consulting, a 65-year-old couple who retired in 2017 will need an average of $275,000 (in today's dollars) to cover medical expenses throughout retirement, up from $260,000 in 2016. An increase of medical expenses by $15,000 in one year, demonstrates the need for retirement planning beyond a typical savings account.[1]

Health Savings Account, or HSA, is a savings account for current or future qualifying medical expenses; a high deductible health plan (HDHP) is required to open an HSA. HSAs work by placing pretax dollars towards medical costs, tax deductible contributions, and grows tax deferred (if invested). Withdrawals are tax free for qualified medical expenses. Each year unused funds remain in the account and can be saved for future use. There is no requirement to use funds, your HSA will rollover year after year. Ideally, you would contribute to them every year (if you have a HDHP), use them along the way when needed, and keep the balance growing into retirement, so that you can use them in retirement for medical needs or other expenses.

After age 65, HSA funds can be used for non-medical expenses and taxed as regular income. Withdrawals before age 65 for non-medical expenses and incur a 20% tax penalty. While having HDHP is required to save money to an HSA, it may not be ideal if you have a chronic condition, as high deductible health plans can generate a lot of out-of-pocket payments to reach your deductible.

For 2018, HSA participants can choose to save up to $3,450 for an individual and $6,900 for a family. HSA participants 55 and older can save an extra $1,000 which means $4,450 for an individual and $7,900 for a family. – and these contributions are 100% tax deductible from gross income.[2]

[1] Fidelity https://www.fidelity.com/viewpoints/retirement/retiree-health-costs-rise

[2] HSA Center http://www.hsacenter.com/how-does-an-hsa-work/2018-hsa-contribution-limits/

2018 Contribution Limits

- **$3,450 for an individual**
- **$6,900 for a family**

55 and older save an extra $1,000 a year

- **$4,450 for an individual**
- **$7,900 for a family**

What's Happening @ PRP

Introducing PRP's newest team member!

PRP is happy to announce our newest hire, Chief Diaper Officer (CDO), Leia Fleischmann. Leia joined the PRP family on October 23, 2017, weighing in at 8 lbs. and 21 inches in overall length. She has just over four months of life experience to bring to the table. Her duties include napping, drooling, drinking milk, and of course, filling diapers. Her only request of PRP is that her old man open a 529 college savings plan for her. We are excited to have her as part of the PRP team!