



HSAs: A VIABLE OPTION FOR THOSE NEARING RETIREMENT?

Health care costs are rising for everyone, but older adults may face more challenges than the general population. For those worried about their financial future and ability to retire, the prospect of future medical care is an additional concern. For instance, aging adults tend to face more chronic conditions and medical problems, leading to higher medical and prescription costs.

Health savings accounts (HSAs) are a growing trend and are often promoted as a valuable money-saving option. But older adults may wonder if an HSA is a smart option for them based on their unique medical circumstances. Plus, once you become eligible for Medicare, you are no longer eligible to contribute to an HSA. However, the benefits of an HSA can be substantial for adults nearing retirement age.

An HSA is paired with a high-deductible health plan. This may concern some older adults with chronic medical conditions, as this means more out-of-pocket costs than a traditional health plan with a lower deductible. However, it is important to remember that the HSA provides a valuable savings component that can either be used to pay for out-of-pocket costs tax-free or save money for the future. Here are other advantages of an HSA:

- **Lower premiums** – This means there is more cash to invest in the HSA, and to eventually put toward the deductible (as opposed to higher monthly premiums associated with traditional health plans).
- **Portability** – In case one’s employment situation changes, he or she keeps the HSA and has the benefit of past investments.
- **Employer contributions** – Your employer may also contribute to your HSA each year, boosting your saving ability.
- **Tax-free savings with tax-free interest** – HSAs provide tax-free funds to pay medical bills and funds also accumulate tax-free to save for the future. The best part is, once you turn 65 and are eligible for Medicare, you can use those funds for anything without a penalty, making it a valuable retirement savings vehicle. In fact, HSAs offer more favorable terms than IRAs in terms of saving for retirement health needs.
- **The catch-up contribution** – In addition to the annual limit for HSA contributions, people ages 55 to 65 can contribute an extra \$1,000 per year.

However, it is important to be aware of potential drawbacks. If you have many out-of-pocket medical expenses, you may struggle to use your HSA for retirement savings if you are forced to use the funds for your current bills. In addition, the desire to take advantage of the HSA as a savings vehicle may lead some individuals to forgo medical care or prescription drugs that they need. This is never a good idea, as it can lead to more expensive and serious medical complications down the road.

If you are considering an HSA, examine the benefits and potential risks and be sure to discuss with your family.