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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

"A ship in port is safe, but that's not what ships are built for."

—Adm. Grace Hopper
U.S. Navy Computer Scientist

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CONTROLLING HEALTH CARE COSTS WITH AN HSA

I remember back about a decade ago when health savings accounts were a thing. Then they weren't a thing. Now they are a thing again. If you are maxing out your tax-deductible savings in other accounts [IRA, 401(k), etc.] or if your out-of-pocket medical expenses are taking a bite out of your budget, ask your financial advisor if an HSA might be right for you.

OK, I promise from here on I won't sound like a commercial for arthritis medicine.

As a primer, an HSA allows an individual or a family to make pre-tax or tax-deductible contributions to an account, like an IRA, and make tax-free withdrawals from that account to pay qualified medical expenses, provided you have medical insurance classified as a "high deductible" plan.

I first learned about these accounts more than a decade ago when our business selected a high-deductible medical plan for our employees. Don't hold me to this, but I'm pretty sure the deductible for the plan that year was at least $5,000 for family coverage. That meant each employee had to pay a lot of money out of pocket before insurance started to cover costs.

By opening an HSA, we still had to pay those dollars to meet the deductible, but they ended up being pre-tax dollars. That can make a big difference, depending on your tax bracket.

A couple of years later, the company had a plan that no longer qualified as high deductible, so we were no longer able to contribute to the HSA. Eventually, I spent all the money in the account on various medical expenses and forgot about it.

A report last year from America's Health Insurance Plans (AHIP) stated that over the last decade, HSAs have seen a 400% increase in popularity, with more than 21 million accounts by 2017. That caught my attention and sent me digging to find out why.

It appears to me that one of the major drivers of the surge in HSA accounts is a more lenient definition of a high-deductible plan. In 2019, the deductible can be as low as $1,300 for an individual or $2,600 for a family plan. If your plan meets that criteria, you can contribute up to $3,500 (single) or $7,000 (family) to an HSA, and an extra $1,000 if you are age 55 or older. Whatever you contribute over the year, up to those limits, can be deducted from income on your 2019 taxes. That deduction applies whether you take any money out of the account or not.

So that's how money goes into the account. What about distributions? You can take money out to pay medical expenses for yourself, your spouse, and your dependents, even if they aren't covered under your medical plan, and those withdrawals are not subject to tax. Pretty much anything health related could be a qualified expense, with a few exceptions:

- Cosmetic surgery
- Health club dues
- Illegal treatment
- Maternity clothes
- Sundry items like toothpaste and toiletries
- Medical plan premiums (unless you are receiving unemployment or on COBRA)

So bottom line, a lot more than just office visits, prescriptions and hospital bills can be paid with HSA dollars, including eyeglasses and contact lenses, braces, vasectomies, dentures, and many over-the-counter drugs like allergy medicines, pain relievers, cold medicine, and cough drops. If you have a debit card linked to the account, you can pay at the register and have the money come straight from the account.

The balance of your HSA grows tax-free. Like an IRA, you will have to pay taxes and a penalty on withdrawals (if they aren't qualified medical expenses), unless you are age 65 or older or totally and permanently disabled. (Taxes still apply in those situations.)

When the main account holder dies, the balance of the account either will pass to their spouse and remain an HSA, or will cease to be an HSA and become part of the account holder's taxable estate.

Remember, the HSA option is available even if you already have an IRA or other tax-deferred savings accounts. It can be a useful tool to increase retirement savings or reduce medical costs. Talk with your insurance provider or plan administrator to learn more.

—Steve Tepper

Sources:

"HSAs Have Gotten 400% More Popular in The Last Decade. Insurers Say the Law Hasn't Kept Up," www.advisory.com, April 18, 2018.

"HSA Center Frequently Asked Questions," www.hsacenter.com.

THE RISK OF AVOIDING RISK

It is impossible to separate investing and risk. Whether you choose stocks, bonds, mutual funds, annuities, alternatives like gold and oil, or just a money market account, you run the risk of loss.

Seems like the safest choice, if your greatest concern is safety, would be to squirrel away cash. Unfortunately, aside from the same inflation risk as CDs and bank savings accounts that will make your cash worth less over time, the "stuff it in a mattress" investment method carries its own unique hazard: The Goodwill Catastrophe.

A story recently hit the wires about a woman in Conyers, GA, who packed a bunch of items in a box for donation to Goodwill. Among those items was an innocuous-looking Mickey Mouse coffee mug. When her son returned home and couldn't find the mug, he had multiple reasons to lament the loss of his childhood possession. He had stashed the proceeds from the sale of his car, about $6,500, in the mug.

To date, the mug has not been recovered, having already been sold to the world's luckiest coffee drinker.

As horrifying a scenario as this is, it is not unique or even that unusual. In 2011, an 80-year-old man donated a suit to a Goodwill store in Illinois, forgetting he had sewn $13,000, his life savings, into the lining of the jacket. In an interview, Dana Engelbert, a spokeswoman for the store, said it is surprisingly common for people to donate items with forgotten cash inside. Sometimes people return to the store trying to retrieve those items, and other times good-hearted customers return cash found in wallets, purses, or clothes they purchased there.

But the ultimate money-in-the-mattress disaster has to be this story of, well, money in a mattress: In 2009, an Israeli woman treated her mother to a new bed, disposing of the old one at the curb. When her mother screamed at the switch, she learned mom had stashed about $1 million in the discarded mattress.

By then, the trash had been picked up, and a rigorous search of local dumps and landfills proved fruitless. Her mother said she hid the money in the mattress following "traumatic experiences with banks."

Yeah, I hate those $25 bounced-check fees too. But in retrospect, maybe whatever happened at the bank wasn't quite as traumatic as desperately shoveling through tons of garbage and failing to recover your life savings.

There is no such thing as risk-free investing. But in my experience, few investment strategies carry as high a risk of **complete loss** as not investing at all, stuffing the money away in your clothes or mattress or burying it in a tin in the backyard. Investing in capital markets can be a scary ride at times, to be sure. A dollar invested in U.S. small company stocks in 1929 fell to a value of $0.11 by 1932. **Eleven cents!** That's about as bad a loss as you can get without a total loss, right? But it isn't a total loss, and in one very important way, it isn't **close** to a total loss.

Let's say I, or maybe to be more accurate my grandparents, invested $100 in risky small companies in 1929, while your grandfolks put the same amount in a mattress. Three years later the famed Boston Mattress Thief[1] burgles them, and the bed and money are lost. Your family is left with nothing, while mine has $11. That would make both our families, well, poor.

But another three years down the line, assuming they kept that $11 invested, my grandparents have their $100 back, while yours still have zero. By 1950, the $100 has grown to $1,000. That zero has grown to still zero. $1,000 would grow to $10,000 by 1982, and $100,000 by 2003, just in time to be passed down to their handsome and charming grandson. The zero would be worth zero and then ultimately would have a value of zero, and you're asking me if you can crash on my couch.

History has shown there is no market loss you wouldn't have been able to recover from, no matter how deep, no matter how traumatic. The one thing you can't recover from is a 100% loss. That's not based on a complicated financial formula. It's just math.

—Steve Tepper

[1] Not a real thing.

Sources:

"Self-Described 'Worst Mom in The World' Accidentally Donates Son's Mug with $6,500 Stashed Inside to Goodwill, Katherine Hignett, www.newsweek.com, January 28, 2019.

"Elderly Man Accidentally Gives Life Savings to Goodwill," Arielle Milkman via Good Morning America, www.abcnews.go.com, November 30, 2011.

"Israeli Woman Trashes $1M Mattress," CBC News, June 10, 2009.

"Growth of a Dollar" Chart by Ibbotson et al., 1926–2014.

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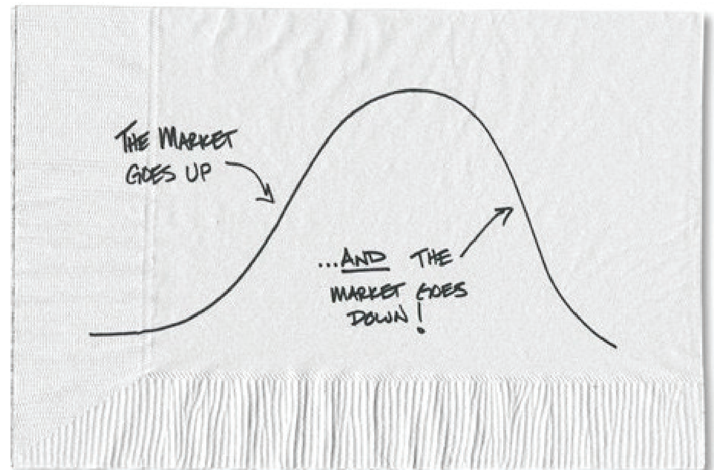
FROM CARL RICHARDS' NAPKIN BLOG



FINAL THOUGHT

"Stocks fell sharply today on predictions of speculation of rumors of negative indicators."

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