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WHAT IF YOU COULD PAY HEALTH CARE COSTS IN RETIREMENT WITH TAX-FREE DOLLARS?



By Greg Koch, Koch Insurance Brokers LLC, Koch Financial Group LLC

As medical expenses continue to increase, planning for them in retirement takes on greater importance. One approach is to shift thinking of the Health Savings Account (HSA) as an account to defray medical expenses annually to an account with pre-tax dollars and tax-free earnings to defray medical expenses years from now in retirement.

Consider this planning strategy to help insulate your lifestyle dollars from medical expenses:

- Fully fund an HSA to the maximum annual contribution allowance, potentially to age 65.
- Use other savings to pay annual health care expenses not covered by health insurance.
- Use the HSA account to defray qualified health expenses during retirement.

Medical expenses in retirement are often overlooked or under estimated by pre-retirees when planning future spending requirements. Estimates costs could run in excess of \$260,000 over time for a couple retiring in 2016, a six percent increase over 2015.

The cost of care, prescription drugs, and Medicare premiums continue to increase. Additionally, from a planning perspective, it should be noted that because of longer life expectancy for women compared to men, woman will pay greater total health care costs than men.

Health Savings Accounts are available to consumers who enroll in a High Deductible Health Plan (HDHP). As the name indicates, these plans are designed such that the enrollee(s) pay a larger deductible than conventional plans, however, in exchange, premiums are lower. High Deductible Health Plans are not for everyone, but if you are reasonably healthy and have sufficient reserves to fund up to the plan maximum out-of-pocket limits, they offer a compelling alternative to traditional health

insurance plans. They are especially advantageous when coupled with a fully-funded HSA. Most people with HSA accounts use them inefficiently, draining the accounts throughout the course of the year as they incur qualified medical expenses. This carries an opportunity cost of foregoing the tax-free growth of the balance year after year and larger tax-free distributions in retirement. Consider your actual income tax rate and think of getting that as a discount when paying medical expenses. Plus, the earnings in the account are never-taxed money when used properly. Compare that to distributions from a traditional IRA which are forever-taxed in retirement.

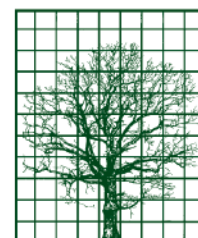
With this approach you create benefits now and in the future:

- Create a current year above-the-line tax deduction year after year. (Reduces Adjusted Gross Income in a manner similar to a qualified IRA deduction). With exceptions, contributions must end on the month you turn age 65 and enroll in Medicare.
- Potentially receive employer contributions to the account which are not included in taxable income of the employee.
- Pay qualified medical expenses with pre-tax contributions and tax-free earnings in retirement.
- When you reach age 65 and are enrolled in Medicare, most Medicare premiums become qualified medical expenses.



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