N5-CH8-22_Pgs81-184 Indexed.qxp_Layout 1 1/21/22 9:52 AM Page 101

HSA triple threat outplays run-of-the-mill retirement accounts

A health savings account (HSA) might be the best retirement account you never knew you had. If you have a high-deductible health insurance plan, you're probably familiar with HSAs. You can fund these accounts to pay for qualified medical expenses like copays, Medicare deductibles, and dental and vision services. What may come as a surprise is that you can also use an HSA like an IRA to fund your retirement.

"In terms of prioritizing where dollars should be saved," says Jeff Levine, chief planning officer for Buckingham Wealth Partners, "you likely would actually prioritize the HSA over the IRA for a few reasons."

Levine is referring to HSAs' threefold tax breaks. You don't have to pay income taxes on your contributions, your earnings grow tax-free, and you don't have to pay taxes when you withdraw, either, if you use the money to pay for medical expenses.

After you turn 65, you can even spend the funds on nonmedical costs without penalty. In this circumstance, you do have to pay tax on the cash, like you would a traditional retirement account, but you'll never face a required minimum distribution. And unlike other health accounts, like a flexible spending account, HSAs are portable and stay with you if you change jobs or stop working.

Want to hit the jackpot with creative IRA investments? Think again. Restrictions ban investing in life insurance and collectibles, borrowing from your IRA, using it as collateral for a loan, and more. Make one of these mistakes and your account will no longer be considered an IRA. Instead your money will be treated as a distribution. That means you'll have to pay income tax on it.

N5-CH8-22_Pgs81-184 Indexed.qxp_Layout 1 1/21/22 9:52 AM Page 102

Because of the versatility and tax-free medical cash, you may want to max out HSA contributions before funding an IRA. In 2022, limits are $3,650 for self-only high-deductible health plan coverage or $7,300 for family coverage. And don't overlook the $1,000 limit increase for those age 55 and up. Since you can't make any contributions after you enroll in Medicare, typically at age 65, every dollar counts.



The mistakes that could wipe out your retirement savings

Rolling money from one retirement account into another doesn't usually raise your tax bill. You're in the clear with these direct rollovers because the money never touches your hands. However, with indirect rollovers, you're in control of the funds. That makes them helpful as a short-term loan, but miss your deposit deadline and things get dicey.

"Moving retirement money incorrectly — either not understanding things like the 60-day rollover rule or the once-per-year rollover rule — those types of things are absolute killers for retirement accounts," says investment expert Jeff Levine, "because if you get it wrong you could effectively lose your entire retirement account."

Deposit the rollover money into the same or different account within 60 days. Otherwise it's considered a withdrawal and subject to income tax and, if you're under 59 1/2, a 10% early withdrawal fee. Make only one indirect rollover every 12 months or you'll be slapped with even more penalties.