Arrow Point Tax Services

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- **IRA to HSA Rollover Strategy –** Benefit; allows account owners who have an IRA to execute a one-time tax-free conversion into an Health Savings Account (HSA) and let those funds compound to pay for medical expenses in the future
  - Introduced through the 2006 Health Opportunity Patient Recovery
  - Allows a one-time rollover from a traditional IRA to a HSA
    - Small rule that if someone has "self-only" coverage at the first day of a month after a rollover, they are allowed to execute a rollover a second time
      - To fully qualify the person must be in the same situation for 12 months, so generally not worth the risk of going without coverage for 12 months
  - Individually allowed, so spouses may each execute this strategy
  - Still allowed to make annual contributions as normal regardless of the rollover
  - Must actively be participating in a High Deductible Health Plan (HDHP) at the time of conversion
    - For 2021, HDHP are defined as
      - Single: $1,400 deductible and max $7,000 out of pocket
      - Family: $2,800 deductible and max $14,000 out of pocket
  - Must maintain coverage under the HDHP for at least 12 months after the rollover occurs
    - If this rule is broken then the rollover is subject to a 10% penalty
  - The rollover amount is limited to the max contribution levels for single and families
    - For 2021, the max contributions are
      - Single: $3,600 with $1,000 catch up greater than 55 or older
      - Families: $7,200 with $1,000 catch up greater than 55 or older
  - Rollover is done via a direct trustee-to-trustee rollover, so the individual never takes custody of the funds
  - This works very well for younger people who plan on letting the HSA grow for years to be utilized in retirement.
    - Ex: Mike is 32 and covered under a HDHP. He has $100,000 in an IRA. He chooses to rollover $7,200 in 2021, exercising his one-time exchange. He now let's these funds compound for thirty years until he retires. The $7,200 is able to grow tax-free similar to an IRA, but is never taxable income if used for medical expenses

- This is a way to reduce Required Minimum Distributions (RMDs) ever so slightly
- For those age 59 ½ to 64 there is another opportunity for planning
    - Distribute the max annual funding of an HSA ($3,600 / $7,200) as a retirement distribution, then contribute those funds to the HSA for the year to receive a dollar-for-dollar deduction on the income shown from the IRA
    - Can do this until age 65 until Medicare
        - Can continue to fund with this strategy past 65 if working and not electing to take Medicare
- HSA funds used for non-medical expenses incurs a 20% penalty prior to age 65 and is taxed as ordinary income
    - After 65 a non-medical withdrawal is subject to ordinary income but no 20% penalty
- https://www.investopedia.com/transfer-ira-money-to-an-hsa-4770819
- https://www.eisneramper.com/ira-has-rollover-0721/