

**Boosting  
Retirement  
Security with HSAs:  
Why Financial Advisors &  
Planners Should Include  
HSAs in Client Retirement  
Strategies**

Roy Ramthun  
February 11, 2021

# HSA Consulting Services

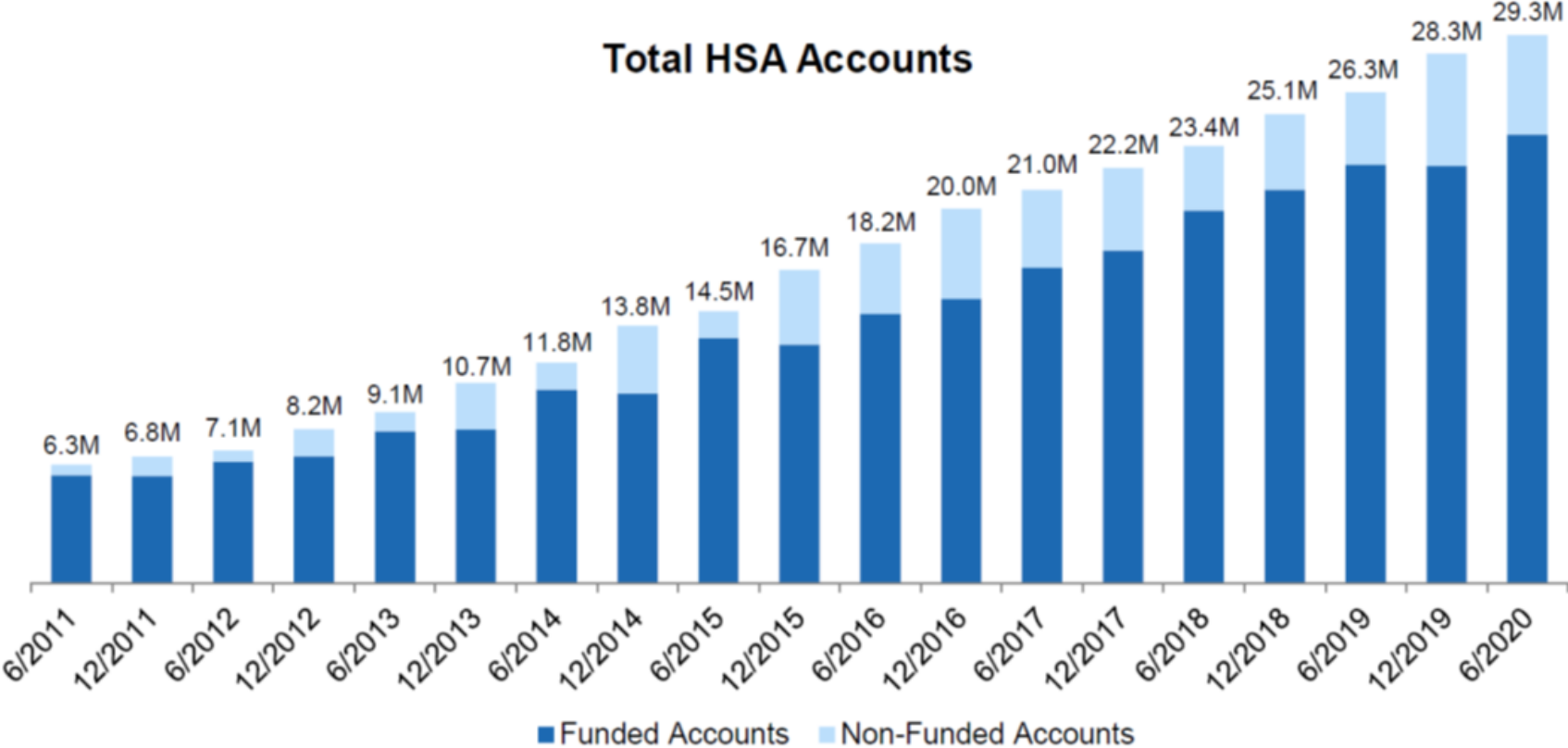
Roy Ramthun – Founder & President, HSA Consulting Services

- 30+ years experience in health care
- Led the U.S. Treasury Department's implementation of HSA program from 2003-2005
- Health care advisor to President Bush from 2005-2006
- Leading consultant, speaker and author in HSA industry
- Consultant to ABA HSA Council

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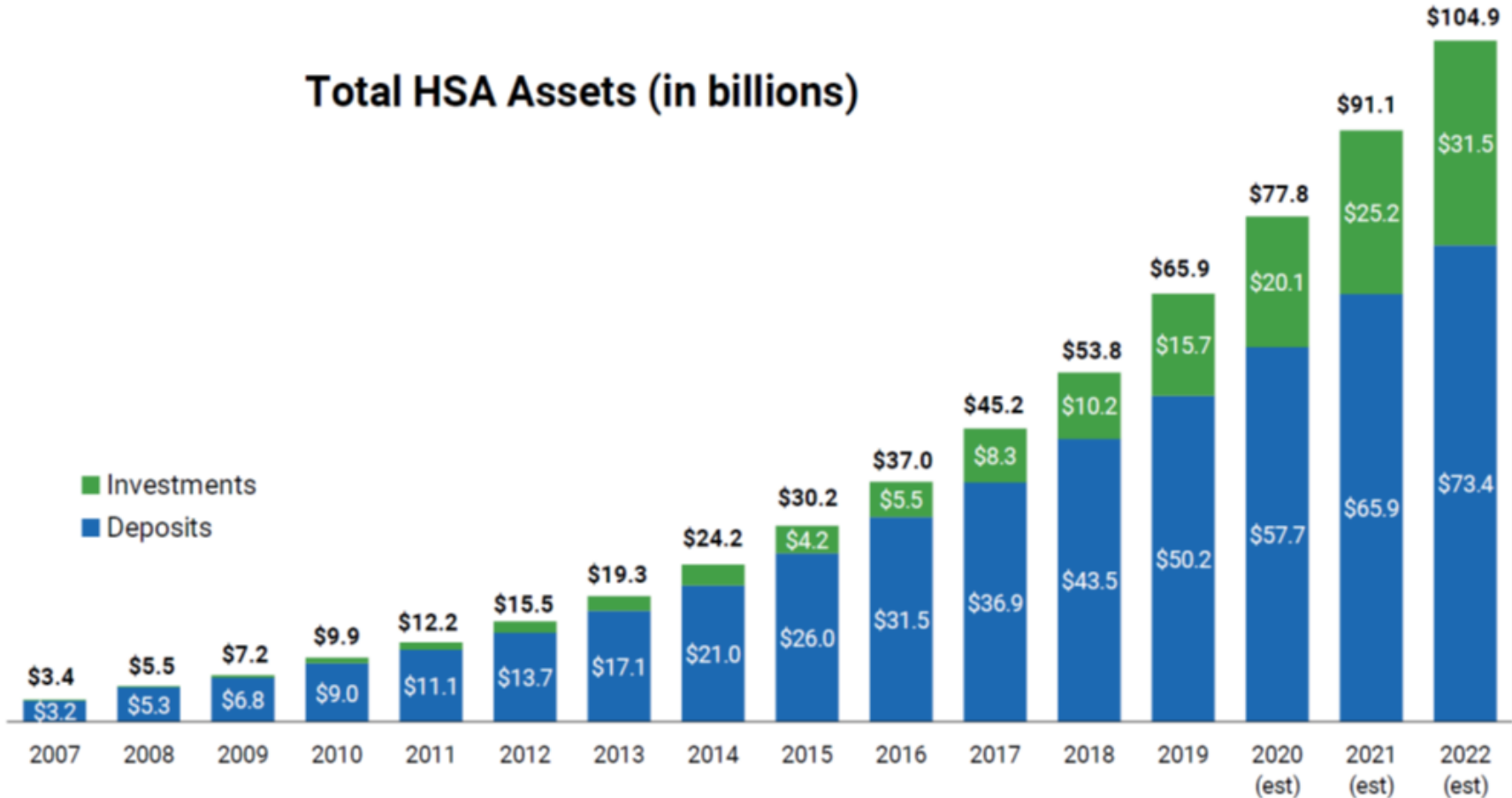
# HSA Trends



Source: Devenir, 2020 Mid-Year HSA Survey

# HSA Trends

**Total HSA Assets (in billions)**



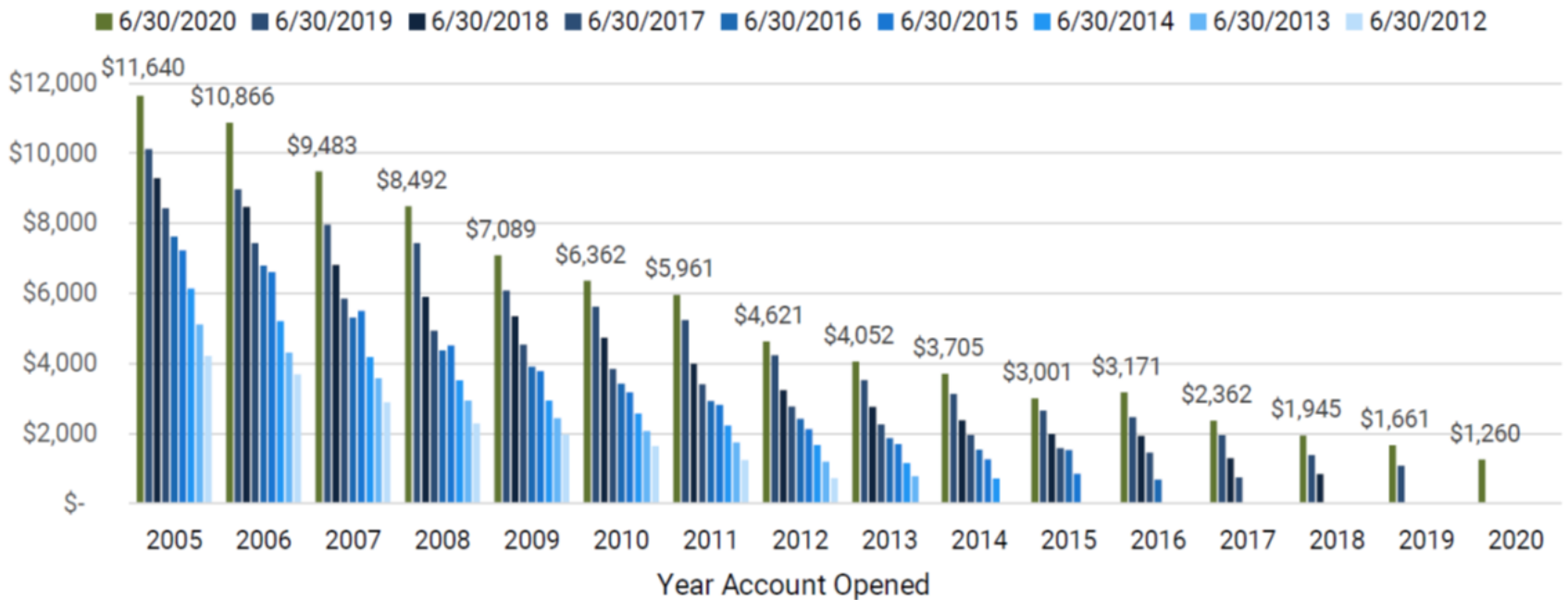
Source: Devenir, 2020 Mid-Year HSA Survey

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# HSA Trends

## Average Balance By Year The Account Opened



Source: Devenir, 2020 Mid-Year HSA Survey

# Leading HSA Providers

- Optum Bank
  - HealthEquity
  - HSA Bank
  - Fidelity
  - UMB Bank
  - Bank of America
  - BenefitWallet
- Payflex
  - Further
  - Discovery Bank
  - HealthSavings Administrators
  - Avidia Bank
  - The HSA Authority

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# Poll Question

■ Health Savings Accounts provide tax savings in which ways?

- A. Income tax deductions for HSA contributions
- B. Tax-free investment income
- C. Tax-free withdrawals for eligible health care expenses
- D. All of the above

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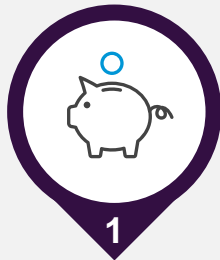
**D. All of the above**





# HSA Tax Advantages

## HSA Offer Triple Tax Advantages



**Contributions** to an HSA are tax deductible and sometimes tax-free



**HSA balances grow** tax-free over the account owner's lifetime



**Withdrawals** from HSAs are tax-free if used for eligible health care expenses

# HSA vs. Other Savings Options

		Money In	Money Out	Payroll Taxes
Retirement	Traditional IRA	Not Taxed	Taxed	Taxed
	Roth IRA	Taxed	Not Taxed	Taxed
	401(k)	Not Taxed	Taxed	Taxed
Health / Retirement	Health Savings Account (HSA)	Not Taxed	Not Taxed* <small>*If used for qualified medical expenses</small>	Not Taxed* <small>*if made by payroll deduction</small>

# Who Can Participate in an HSA?

- Anyone covered by an HSA-qualified “high deductible insurance plan”
- Exceptions:
  - Tax dependents
  - People enrolled in Medicare, Medicaid, Tricare
  - Participants in health FSAs and HRAs
  - Anyone covered by other insurance with no/low deductible

# HSA-Qualified Insurance

- Minimum deductible of at least (for 2021):
  - \$1,400 for self-only coverage
  - \$2,800 for family coverage
- Must limit annual out-of-pocket expenses to no more than (for 2021):
  - \$7,000 for self-only coverage
  - \$14,000 for family coverage
- Lower premiums help fund the HSA
- Free preventive care below the deductible

# HSA Contribution Limits (2021)

- Singles - \$3,600
- Families - \$7,200
- Individuals 55 or older – add \$1,000
- No limitations based on income, earnings, or work status

# HSA vs. Spending Accounts

- Withdrawals not required nor time-sensitive
- No “use it or lose it” rule
- Don’t need to reimburse every expense (or any expense)
- Pay now, pocket tax savings, invest, reimburse later

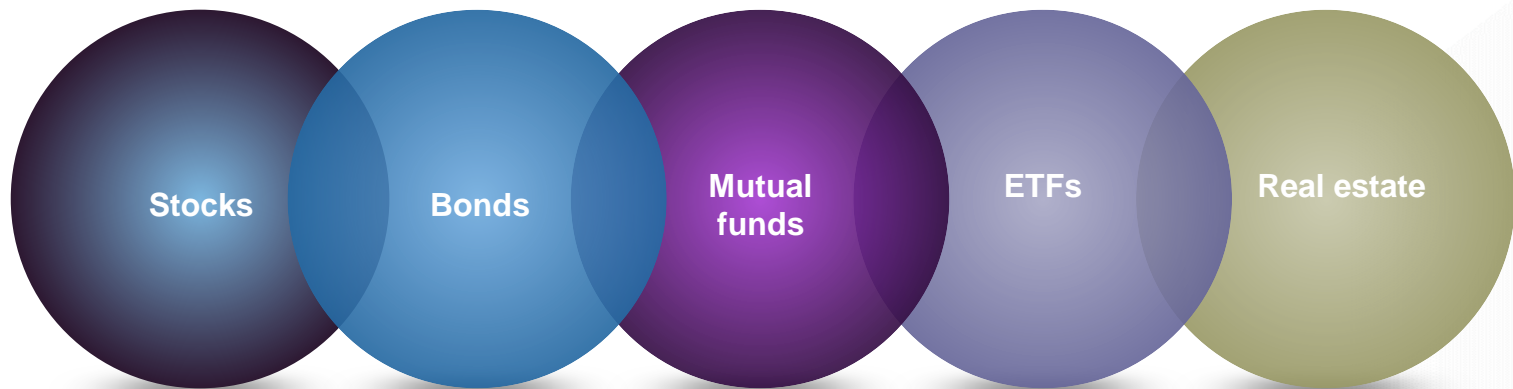
# HSA Advantages

- Triple Tax advantage = tax diversification
- Employer contributions are tax-free (“pre-tax”)
- No expiration – money rolls over and accumulates year after year
- No RMDs (and no taxes)
- At age 65 HSA funds can be used for ANY expense, penalty free (ordinary income tax applies)

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# HSA Investments Look Familiar



HSAs can be invested in market assets just like IRAs





# HSA Investment Limitations

## **HSA funds cannot be invested in the following:**

- Life insurance contracts
  
- Collectibles
  - Works of art
  - Antiques
  - Precious metals (except some coins and bullion)
  - Gems
  - Stamps and coins
  - Alcoholic beverages
  - Other personal property

# HSA Advantages

- Completely portable, just like IRAs
- Funds can be transferred to another HSA at any time (no time or vesting restrictions)
- HSA account holders can choose any trustee or custodian they desire
- No need to use platform selected by employer, even while employed by employer
  - Employee payroll deposits must be directed to employer-selected provider to receive payroll tax benefit

# HSA Advantages

- HSA contributions by eligible persons can continue until Medicare enrollment
- Medicare enrollment can be delayed beyond age 65 if working for a larger firm (20+ employees) that provides HSA-qualified coverage
  - Coverage must be “creditable” to avoid late enrollment penalties in Part B and D
  - Must also delay taking Social Security (linked to Part A)
    - But this will increase Social Security benefit

# Medicare Means-Testing

- Qualified HSA withdrawals not reported as income on IRS Form 1040
  - Non-qualified expenses reported as “Other Income”
- Modified Adjusted Gross Income (MAGI)
  - [AGI + Tax-exempt interest] used to determine Medicare Parts B and D surcharges
  - Tiered brackets above \$85K/\$170K (Single/MFJ)
  - Can increase Part B Premiums >200%

# HSAs Cover Retirement Health Care Costs

- HSAs can be used tax-free to pay:
  - Medicare premiums (including premium surcharges for higher income beneficiaries)
  - Medicare Advantage premiums (Medigap premiums are excluded)
  - Out-of-pocket expenses (copays, deductibles, etc.)
  - Dental & vision expenses
  - Hearing aids
  - LTC insurance premiums
  - Many LTC expenses
  - Any of these expenses incurred by your spouse and legal dependents

# HSA Tax Penalty Disappears at Age 65

- HSA accounts can pay other expenses, penalty-free, once the account holder turns 65 years old
- Similar to IRA and 401(k), account holder simply pays ordinary income tax on amounts not withdrawn for qualified medical expenses
- Payroll tax benefit received at time of HSA deposit not repaid
- Can continue to withdraw for qualified medical expenses tax free

# Tax-Free HSA Transfer to Spouse

- HSA transfers to spouse beneficiary at death of account owner, retaining character of HSA (i.e., tax-free withdrawal for medical expenses)
- For heirs other than spouse, HSA becomes IRD asset
- HSA funds not forfeited

## Poll Question

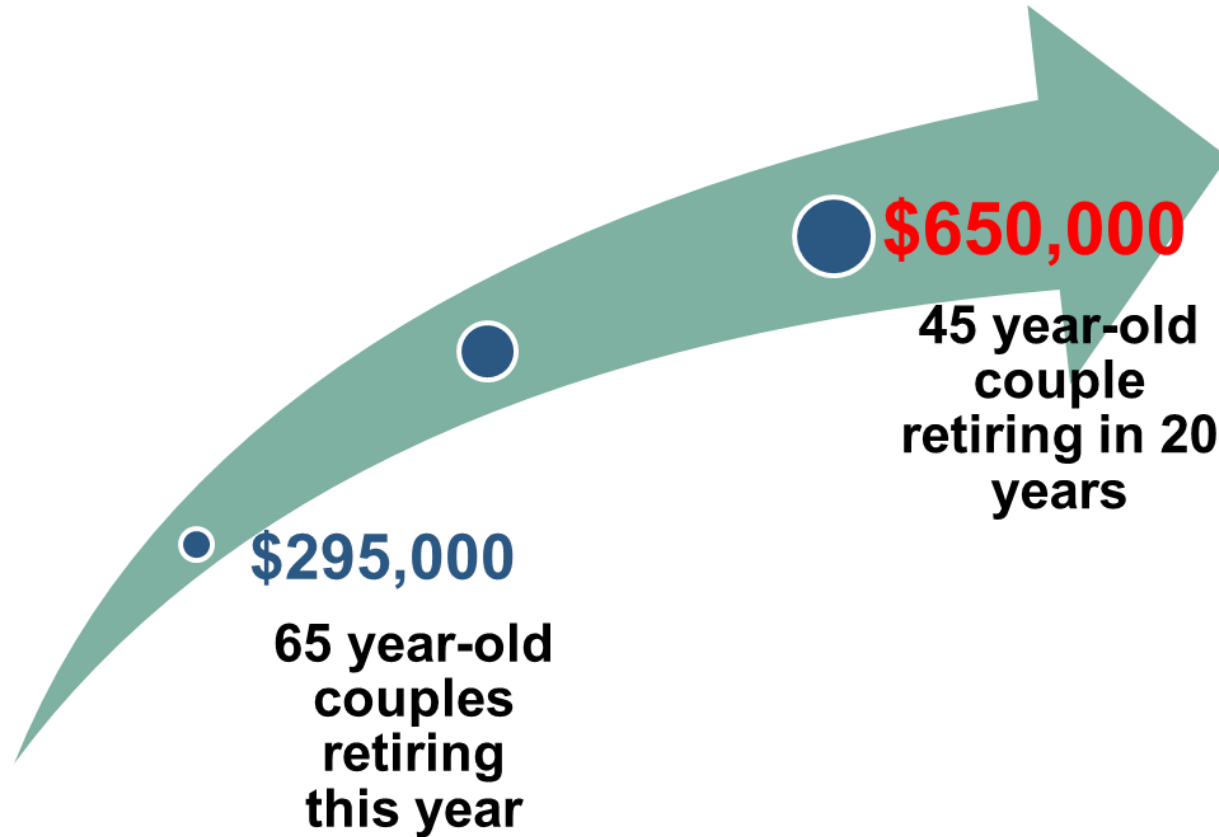
- What kind of an account is a Health Savings Account?
  - A. A regular checking account
  - B. A regular savings account
  - C. A trust or custodial account like an IRA
  - D. A new type of IRA for health care



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# Health Care Costs in Retirement



# Health Care Costs in Retirement

- EBRI estimates \$325,000
  - \$270,000 needed to have a 90% chance of being able to cover medical expenses
  - \$168,000 provides only 50% chance of being sufficient
- Boston University researchers say 2/3 of seniors spend more than \$375/month (\$4,500 annually) just on premiums, copayments, coinsurance, and deductibles
  - 31% spend more than \$1,000/month
- Another analysis by HealthView puts the total need at well over \$600,000!

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# Health Care Costs in Retirement

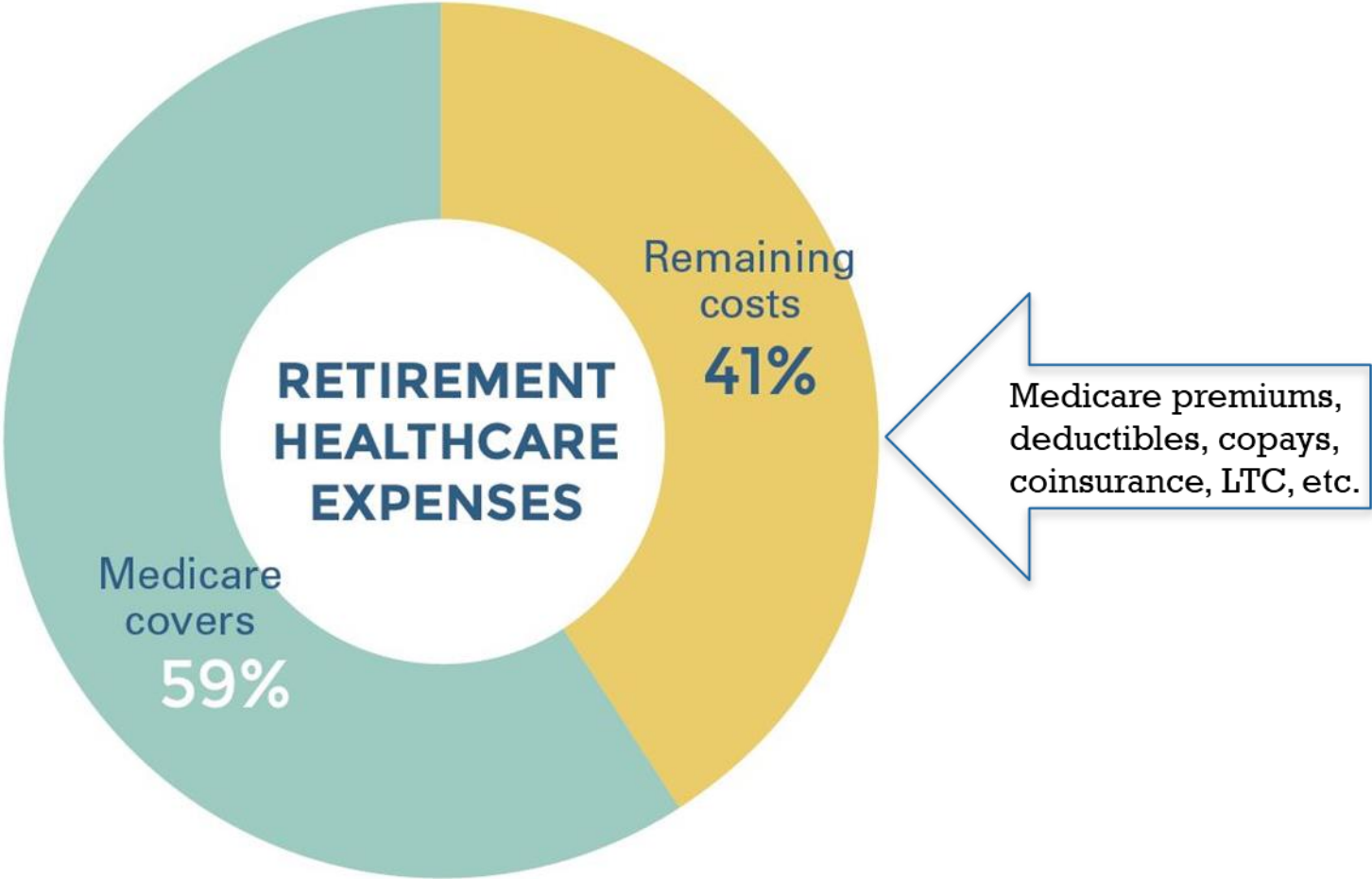
- Health care inflation > regular inflation
- Life expectancies growing(at least before COVID)
- Federal health agency predicts that someone turning 65 today has a 70% chance of needing long-term care at some point
  - 20% of today's 65-year-olds will need long-term care for 5 years+
- Genworth says long-term care costs can range from:
  - \$1,600/month for adult day healthcare
  - \$8,800/month for a private room in a nursing home

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# Health Care Costs in Retirement

- You never have to worry about over-funding your HSA
- If you don't use the money on Medicare premiums and copays, you might need it for long-term care
- And if you are among the lucky 30% who won't need long-term care, you can also use your HSA money for living expenses

# Medicare Misconception



# Medicare Isn't Free

- Many seniors are shocked to learn that Medicare isn't at all free
- Other likely expenses include:
  - Monthly premiums for Part B coverage
  - Monthly premiums for Part D coverage
  - Annual Part B deductibles
  - Hospital stay deductibles
  - Coinsurance for medical services and hospital or skilled nursing care
  - Copays for medication
  - Premiums for supplemental insurance

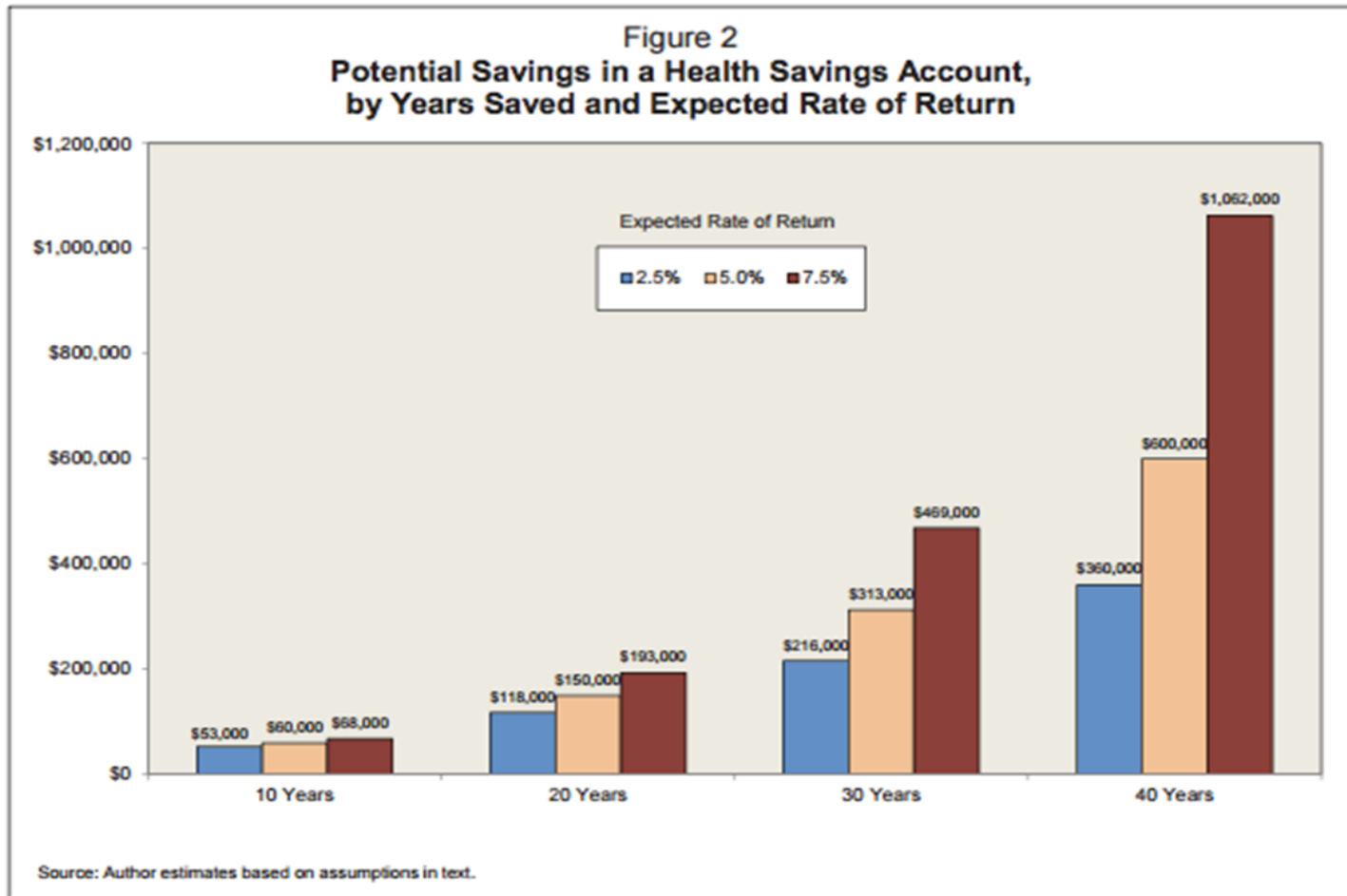
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# What Medicare Doesn't Cover

- Dental care
- Vision exams & eyeglasses
- Hearing aids
- Most long-term care

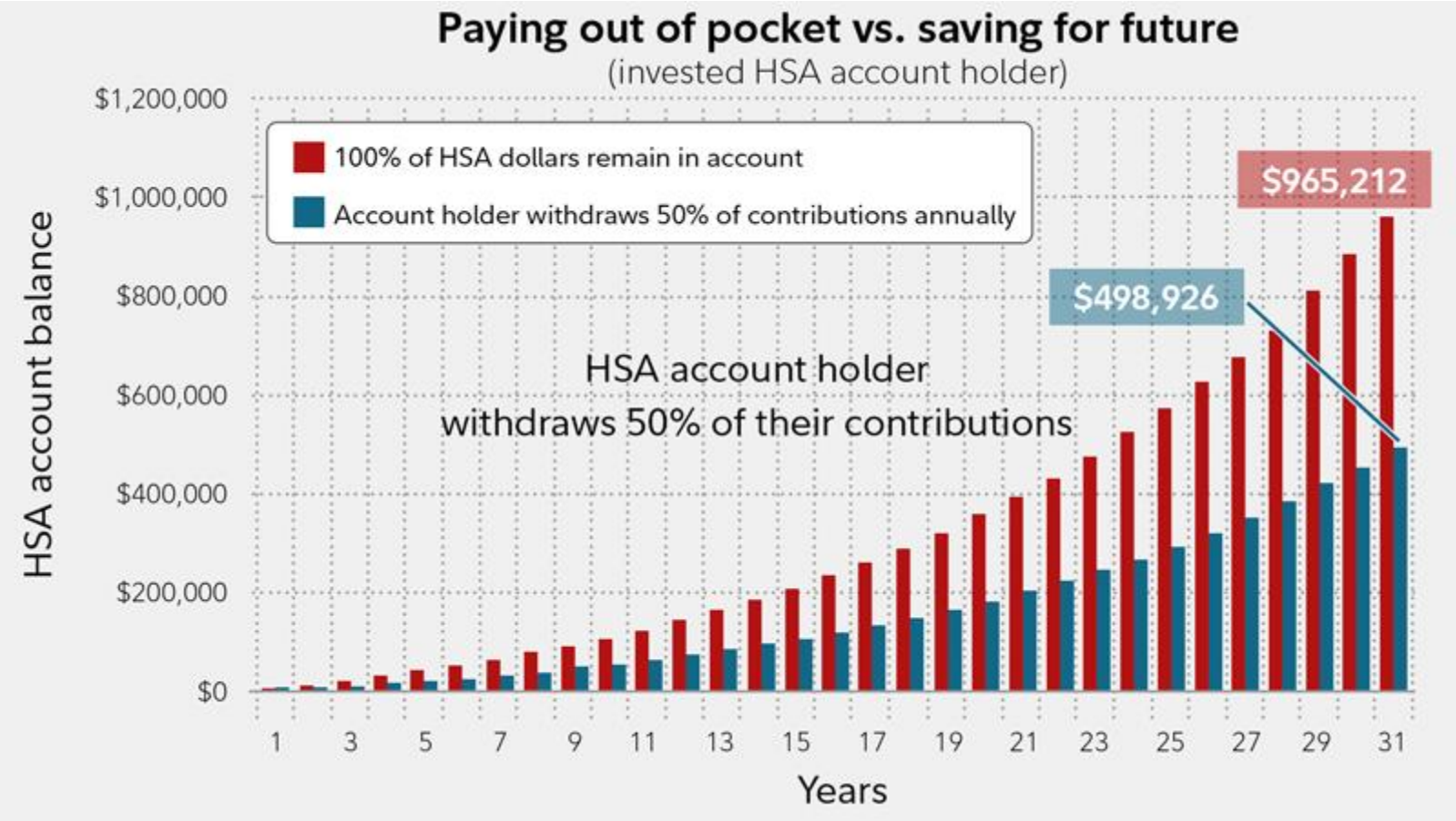


# Potential HSA Accumulations Over Time



EBRI - [https://www.ebri.org/pdf/notespdf/EBRI\\_Notes\\_07\\_July-14\\_HSAs.pdf](https://www.ebri.org/pdf/notespdf/EBRI_Notes_07_July-14_HSAs.pdf)

# Pay Expenses Now vs. Later



# Poll Question

- It is possible for an individual to contribute to their Health Savings Account in their 70's.
  - A. No, it is not possible because everyone must enroll in Medicare when they turn 65.
  - B. Yes, it is possible but only certain people can do it, and they must delay taking Social Security as well.
  - C. No, because as soon as they start taking Social Security, they will be automatically enrolled in Medicare.
  - D. Yes, everyone can do it if they delay taking Social Security until their full retirement age.

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# Poll Question

■ It is possible for an individual to contribute to their Health Savings Account in their 70's.

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C. No, because as soon as they start taking Social Security, they will be automatically enrolled in Medicare.

D. Yes, everyone can do it if they delay taking Social Security until their full retirement age.

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# HSA and Retirement Planning Opportunity

- Health Savings Accounts are not a substitute for traditional retirement plans
- HSAs are complementary
- A well-crafted retirement plan should include active consideration of placing some assets in the one account (an HSA) that offers all the benefits of a traditional or Roth account without the drawbacks of either.

# HSA and Retirement Planning Opportunity

- Using an HSA to save for retirement medical expenses is a better strategy than using just retirement accounts
- Incorporate health care insurance plan selection and savings decisions into broader financial planning
  - Grow client retirement balances
  - Implement more tax efficient strategies
  - Assist with allocation decisions
  - Adding value to the relationship

# Invest Wisely

- Use an investment strategy similar to other retirement assets
- Consider clients' entire portfolio (including retirement assets) so that overall diversification strategy and risk profile are sensible

# HSA Savings Strategies

- Short Term vs. Long Term allocations
  - No firm guidance on how much to allocate between short term vs. long term HSA savings
  - Advisors, can see larger asset picture
  - Individuals and families should consider keeping annual deductible in HSA checking account



# HSA Savings Strategies

- Next investment dollar – ordering of retirement allocations
  - Given tax-benefits, many recommend investing into HSA after taking advantage of employer 401(k) match, but before investing into personal IRA and incremental 401(k)
- HSA provider selection
  - Account holders can shop around to find the best investment options and account pricing

# How to Maximize an HSA

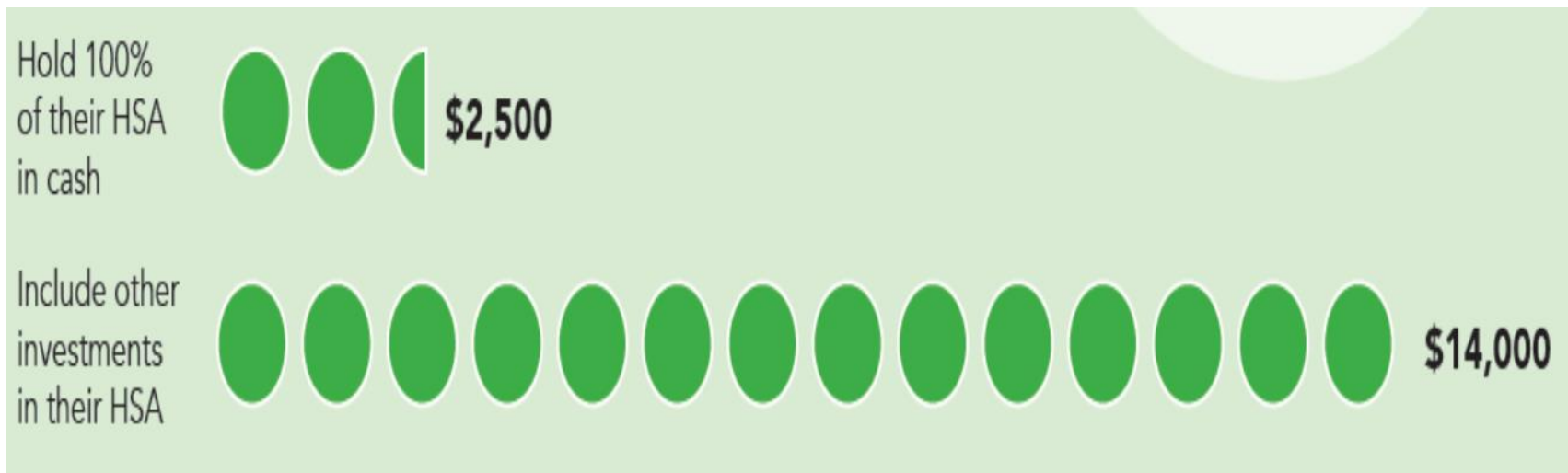
- **Contribute every year you can**
  - Draw employer matching \$
- **Contribute the maximum every year**
  - Don't forget catch-up contributions at 55+
- **Invest now, reimburse later**
  - EBRI says just 7% of HSAs hold assets besides cash

# Could HSA Contributions Crowd Out 401(k) Contributions?

- Research by Fidelity and others suggests the answer is “No”
- New analysis by EBRI suggests the answer may be “Yes”

# Advisor Opportunity: More HSA Education Needed

## Average HSA Balance Among Those Who . . .



Source: Fidelity, 2017

# HSA and 401(k)s: Saving Complements

- EE's saving in HSA not cutting back on 401(k) contributions
- Savings rate for EE's with both HSA and 401(k) had higher savings rates overall than 401(k)-only savers
- Nearly 90% of HSA participants maintained or increased their 401(k) savings after HSA enrollment

Source: Fidelity, 2017

# Alternative View: EBRI

- Key Findings:
  - 56% of workers reduced their 401(k) contributions when an HSA was introduced
  - As income increased, the percentage of participants who reduced their contributions increased
  - A higher rate of employer contributions to employee HSAs was associated with a reduction in 401(k) contributions

[https://www.ebri.org/health/publications/issue-briefs/content/two-s-a-crowd-do-hsa-contributions-crowd-out-401\(k\)-contributions](https://www.ebri.org/health/publications/issue-briefs/content/two-s-a-crowd-do-hsa-contributions-crowd-out-401(k)-contributions)

# Alternative View: EBRI

- Overall reductions were modest:
  - \$315 for those contributing more than \$4,350 to their HSA
  - \$8 among those contributing \$1,000 or less
  - 1:10 had a decrease of more than \$5,127 in 401(k) contributions
  - 1:10 had a \$1,143 increase in 401(k) contributions

[https://www.ebri.org/health/publications/issue-briefs/content/two-s-a-crowd-do-hsa-contributions-crowd-out-401\(k\)-contributions](https://www.ebri.org/health/publications/issue-briefs/content/two-s-a-crowd-do-hsa-contributions-crowd-out-401(k)-contributions)

# Alternative View: EBRI

- Possible explanations:
  - Some workers might not have enough money to fund both an HSA and 401(k), especially if cash flow is needed for current health expenses
  - Unclear why higher income workers would reduce 401(k) contributions
- Key takeaway – an integrated HSA/401(k) plan always makes the best sense

[https://www.ebri.org/health/publications/issue-briefs/content/two-s-a-crowd-do-hsa-contributions-crowd-out-401\(k\)-contributions](https://www.ebri.org/health/publications/issue-briefs/content/two-s-a-crowd-do-hsa-contributions-crowd-out-401(k)-contributions)



# Key Takeaways

- HSAs are here to stay, and may be improved and/or expanded
- Engagement opportunity to incorporate investment and tax advantages
- Shifting landscape requires education on retirement health costs and HSAs



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Questions?