

# Leveraging Health Savings Accounts for Retirement Planning

FINANCIAL EXPERTS  
NETWORK

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# 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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# What Is an HSA?

A tax-advantaged trust or custodial account used to pay for qualified medical expenses in conjunction with an HSA-qualified plan



Owned by an individual and established under the individual's Social Security Number



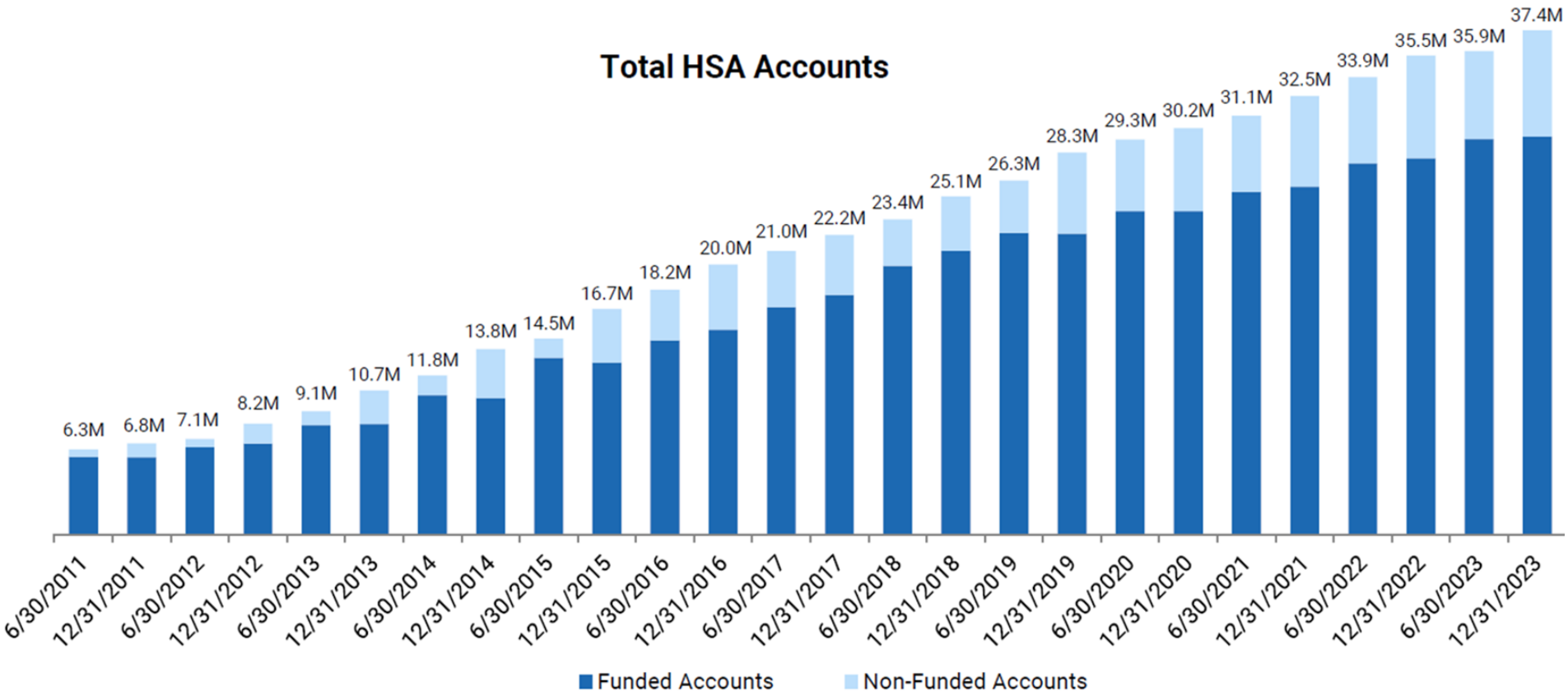
Typically, an HSA is in the form of a checking or savings account used to pay medical expenses

# HSA Characteristics



<sup>1</sup> Except California & New Jersey

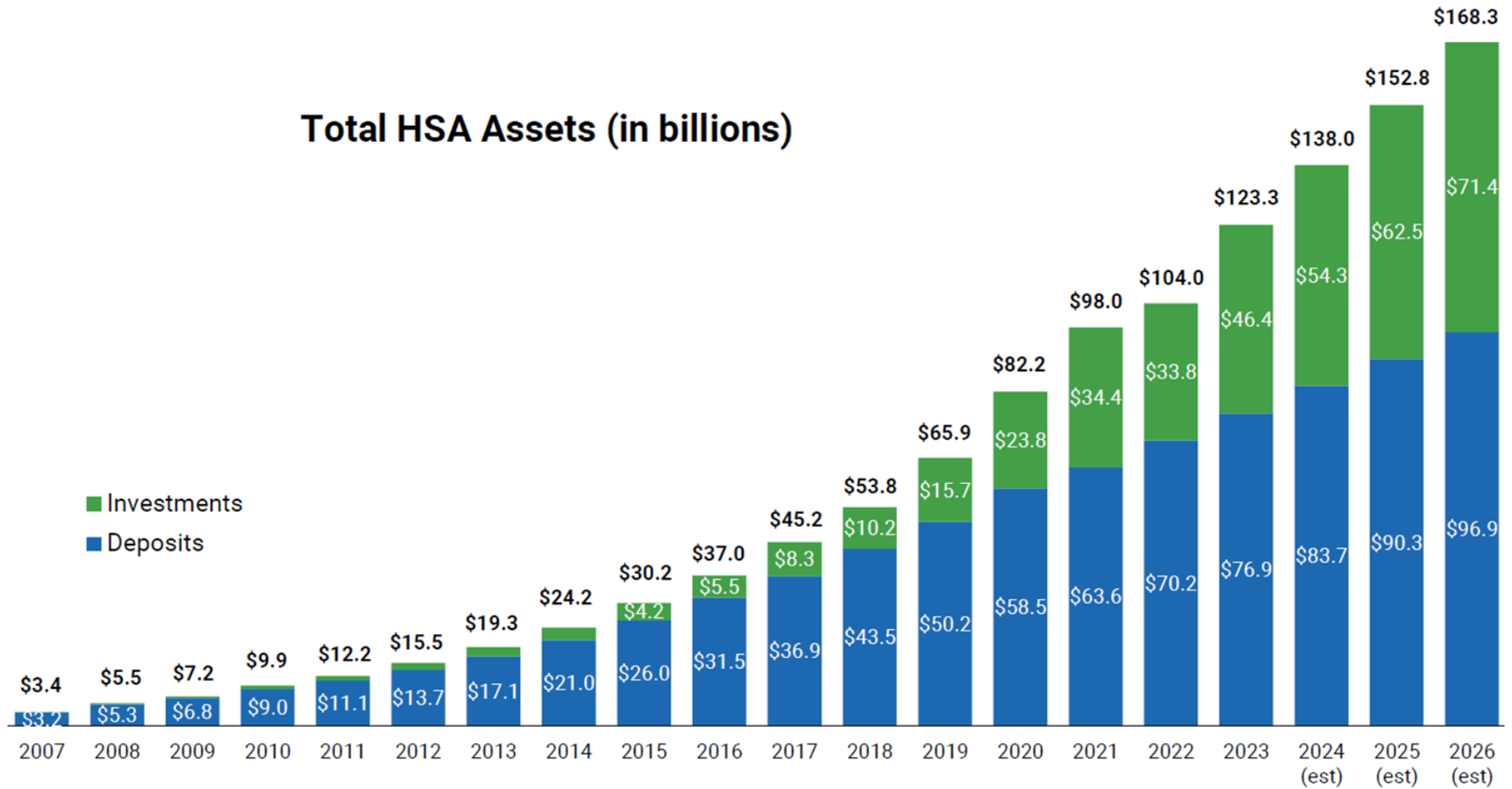
# HSA Trends



Source: Devenir 2023 Year-End Report

# HSA Trends

Total HSA Assets (in billions)



Source: Devenir 2023 Year-End Report

# Sources of HSA Contributions



## 2023 Employer Contributions

26% of all HSA dollars contributed to an account came from an employer.

The average employer contribution was \$929 (for those making contributions).



## 2023 Employee Contributions

64% of all HSA dollars contributed to an account came from an employee.

The average employee contribution was \$2,269 (for those making contributions).



## 2023 Individual Contributions

9% of all HSA dollars contributed to an account came from an individual account not associated with an employer.

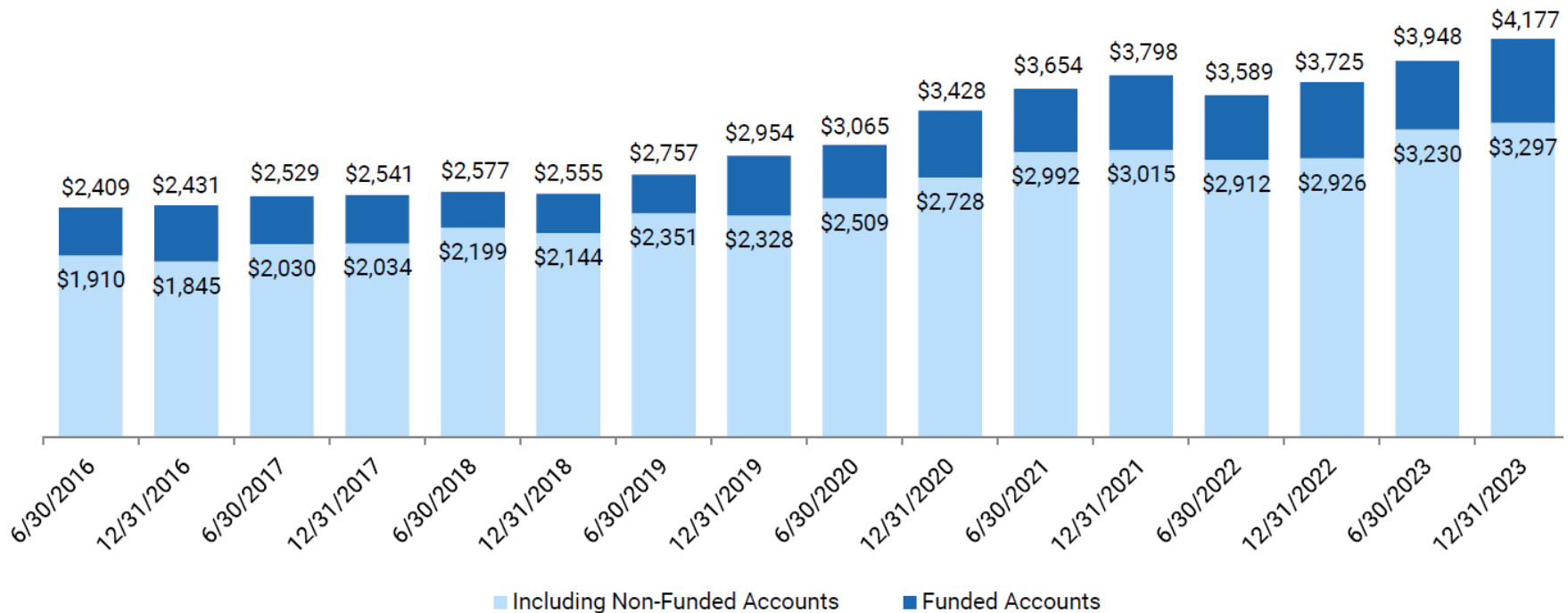
The average individual contribution was \$2,368 (for those making contributions).

The remaining contributions in 2023 came from IRA rollovers & other sources.

*Source: Devenir 2023 Year-End Report*

# Average Balances Are Still Low

Average Account Balance

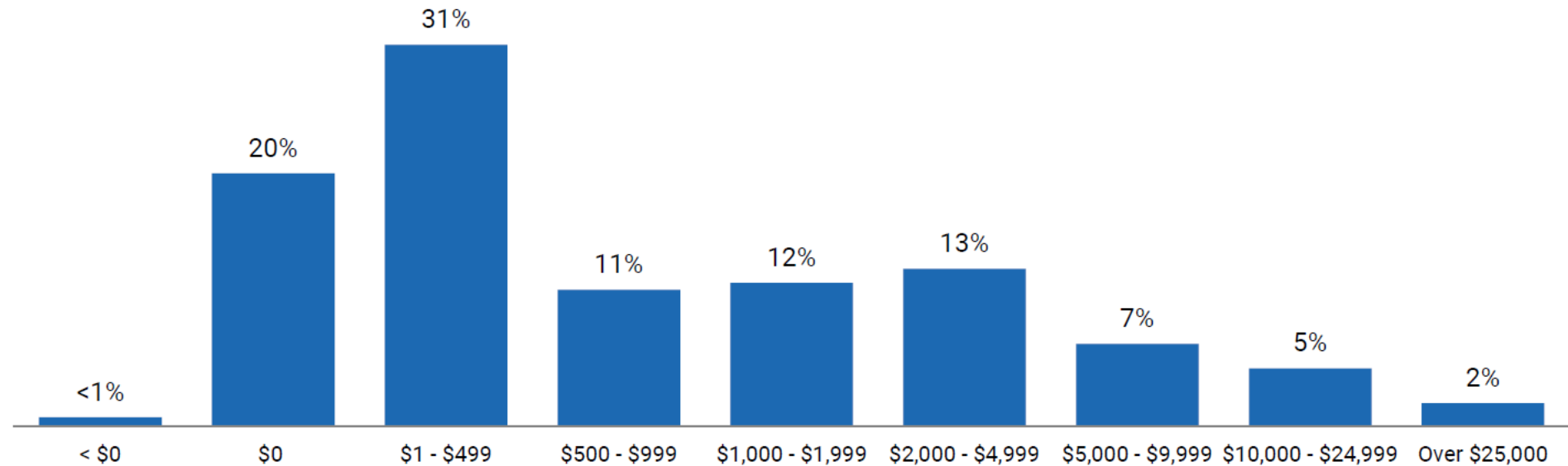


Source: Devenir 2023 Year-End Report



# Average Balances Can Be Deceiving

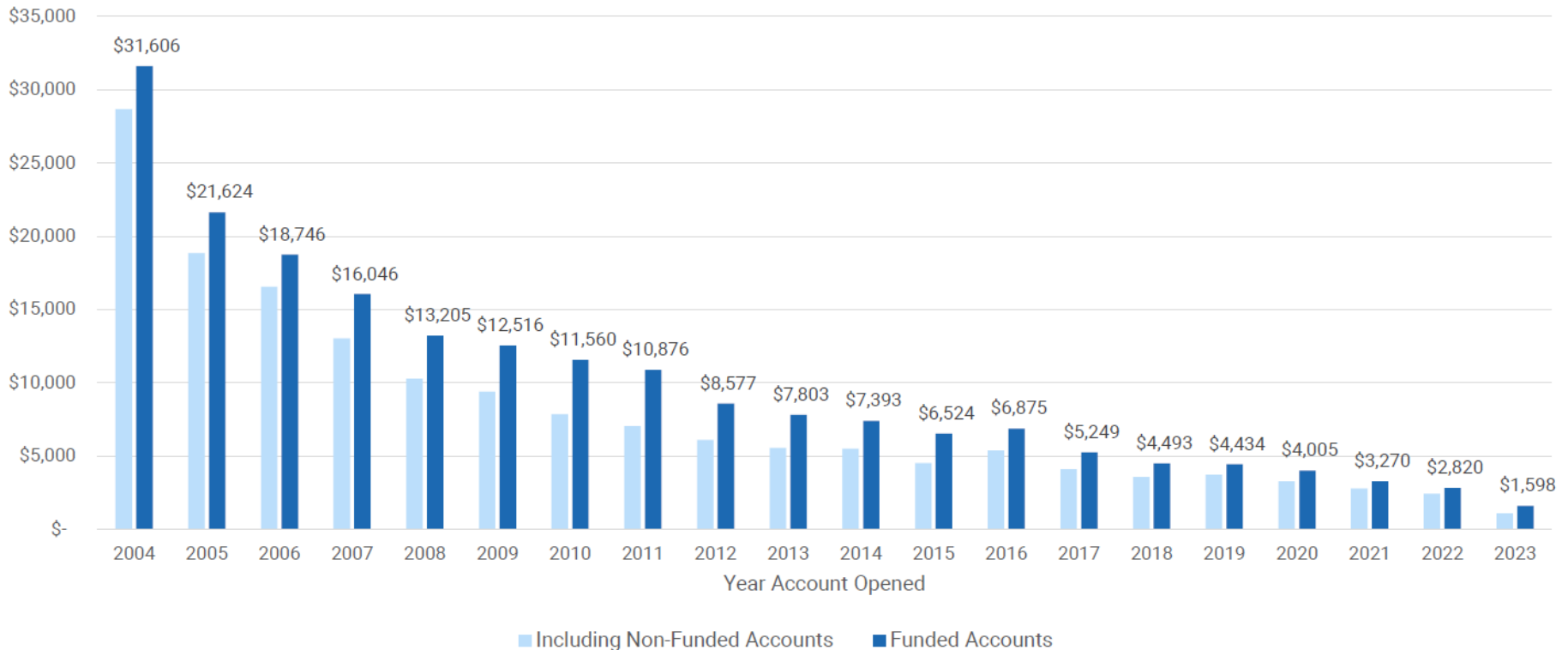
**Health Savings Account Balance Distribution**



*Source: Devenir 2023 Year-End Report*

# HSA Balances Improve with Age

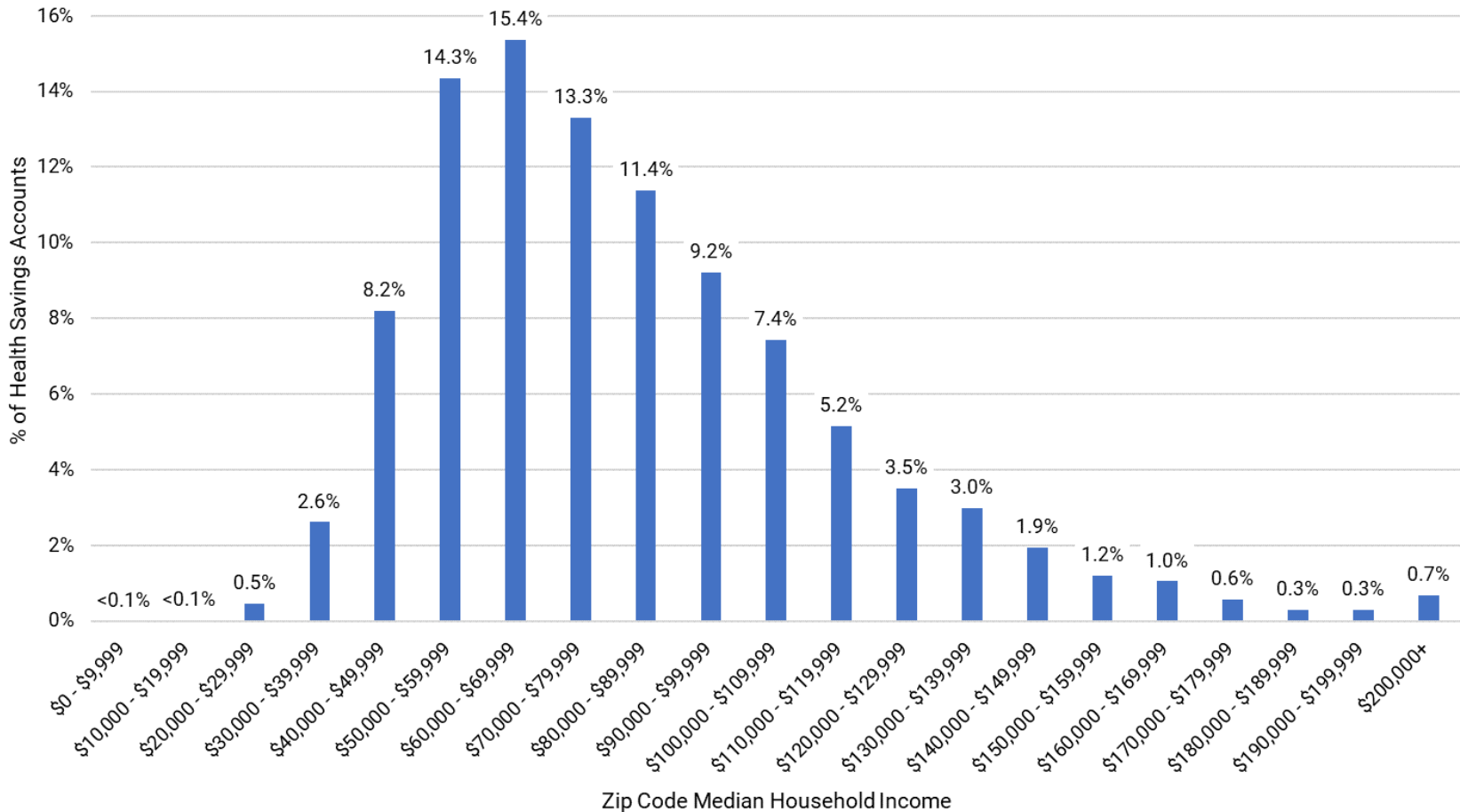
**Average Balance by Year the Account Opened**



*Source: Devenir 2023 Year-End Report*

# HSA Owners Are Solidly “Middle Class”

Distribution of Median Household Income for Health Savings Accountholders



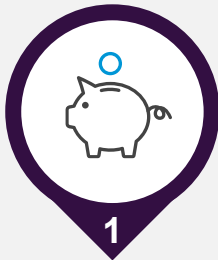
Source: Devenir 2023 Demographic Report

# Leading HSA Providers

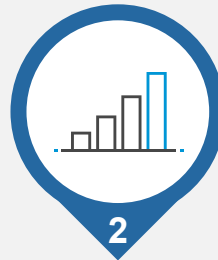
- Optum Financial
- HealthEquity
- HSA Bank
- Fidelity
- UMB Bank
- Bank of America

# HSA Tax Advantages

## HSAs Offer Triple Tax Advantages



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

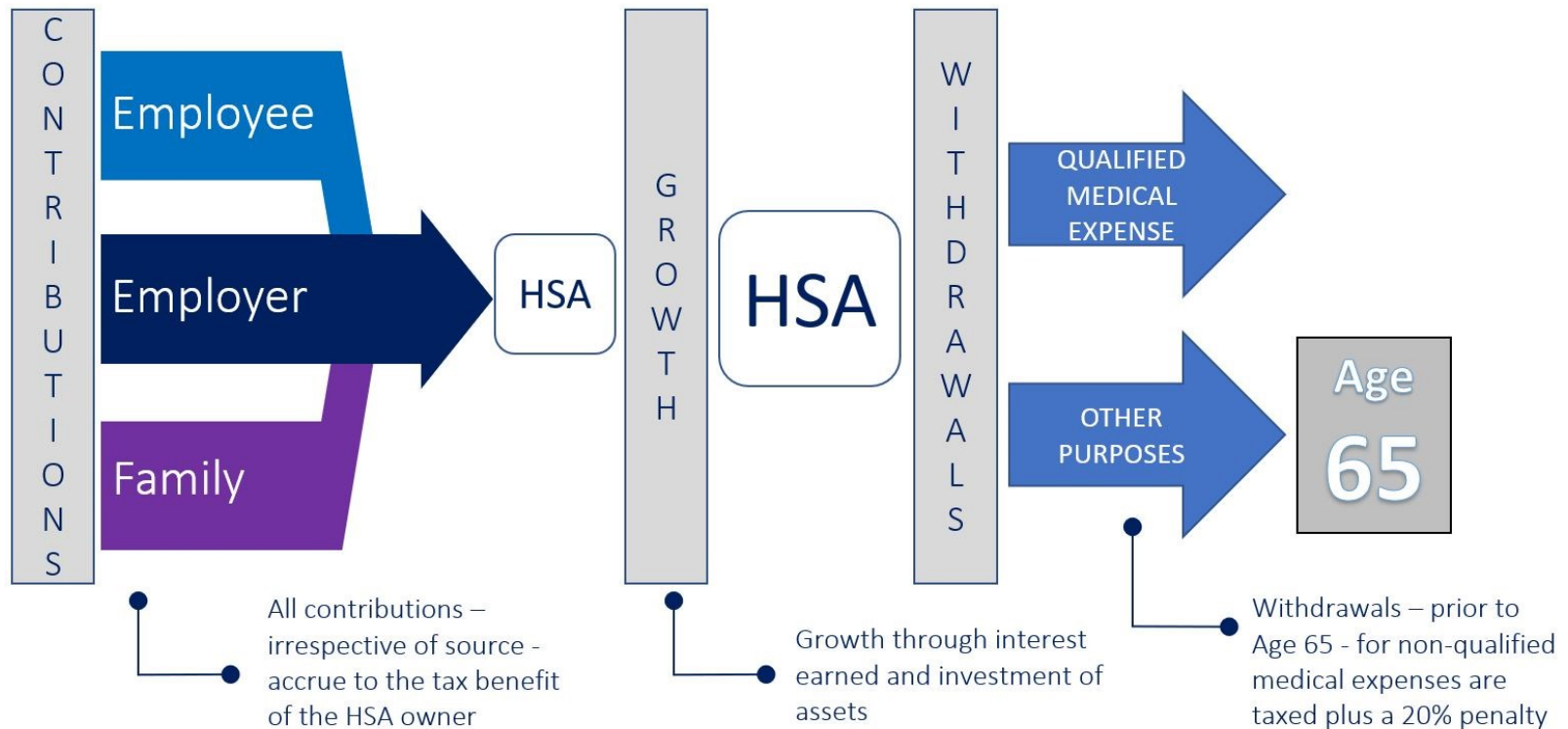


**HSA balances grow** tax-free over the account owner's lifetime



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

# HSA Tax Advantages



# HSA Tax Advantages

- 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)

# 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>



# 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 vs. FSA vs. HRA

Feature	HSAs	FSAs	HRAs
<b>Eligibility</b>	Enrolled in a High Deductible Health Plan (HDHP); no other disqualifying coverage	Available through employer-sponsored plans; no HDHP required	Funded and offered by employers; no specific health plan required
<b>Ownership</b>	Individual	Employer	Employer
<b>Contributions</b>	Individual, Employer, or others on behalf of the individual	Primarily employee pre-tax contributions; employer can contribute	Employer only
<b>Contribution Limits (2024)</b>	Individuals: \$4,150 Families: \$8,300 \$1,000 catch-up for 55+	\$3,200 per year per employee for health care FSAs	No set limits; employer-defined
<b>Rollover</b>	Unused funds roll over year to year	Use it or lose it; up to \$640 (2024) rollover or 2-1/2 month grace period (not both)	Employer-defined rollover rules
<b>Qualified Expenses</b>	IRS-qualified medical expenses; non-qualified expenses allowed (taxed)	IRS-qualified medical expenses only	IRS-qualified medical expenses, may be limited by employer
<b>Investment Options</b>	Yes, same options as IRAs	No	No

# Who Can Participate in an HSA?

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

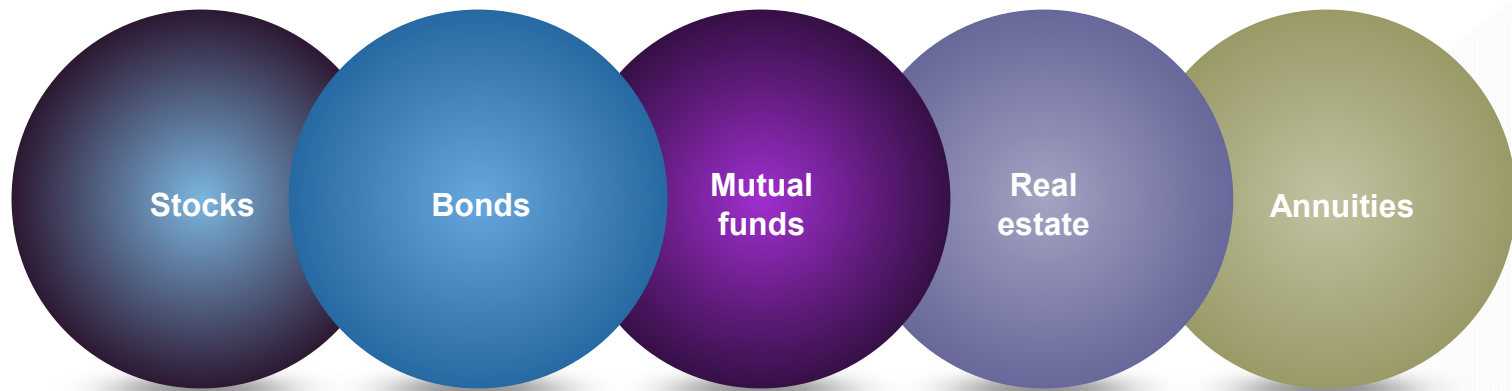
# HSA-Qualified Health Insurance

- Minimum deductible of at least (for 2024):
  - \$1,600 for self-only coverage
  - \$3,200 for family coverage
- Must limit annual out-of-pocket expenses to no more than (for 2024):
  - \$8,050 for self-only coverage
  - \$16,100 for family coverage
- Lower premiums help fund the HSA
- Free preventive care below the deductible

# HSA Contribution Limits (2024)

- Singles - \$4,150
- Families - \$8,300
- Individuals 55 or older – add \$1,000
- No limitations based on income, earnings, or work status

# 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 Investment Limitations

Trustees and custodians can:



Set minimum  
balance thresholds  
before funds can be  
invested



Decide which types  
of investments they  
offer (or none at all)



Charge fees for  
access to  
investments



# 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

# Employer Participation in HSAs



**Employers may contribute to employees' HSAs**



**Employers can make deposits in any frequency they want (e.g., bi-weekly, monthly, or in one lump-sum)**

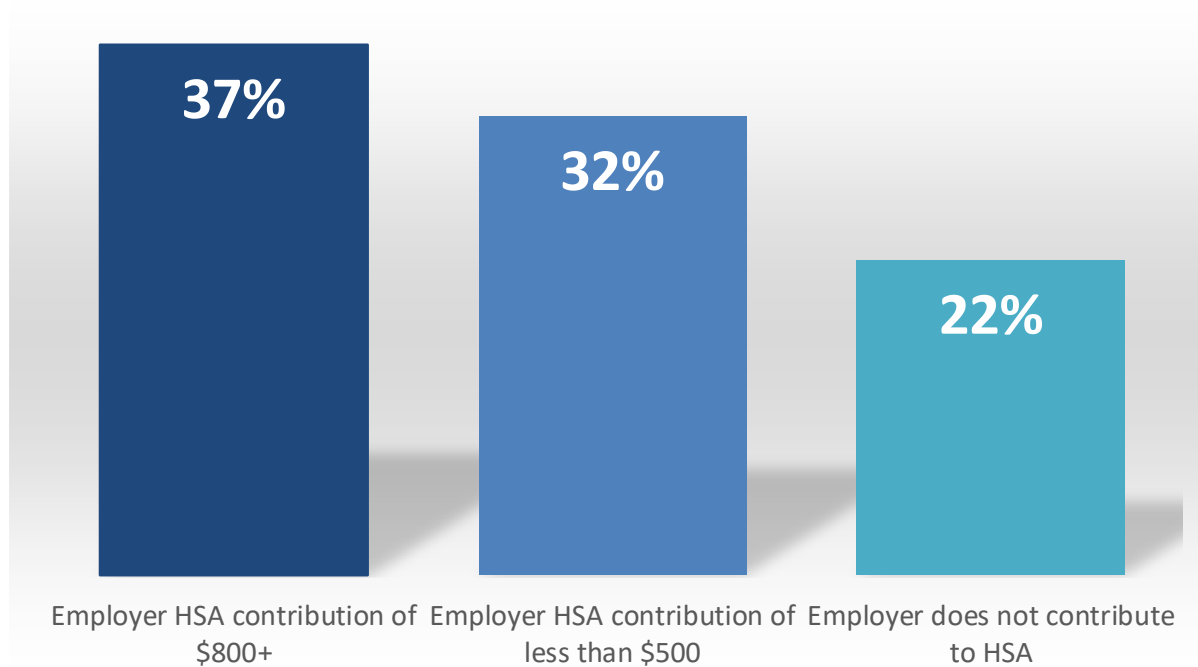


**Employers can base contributions on employees' participation in health assessments, wellness programs, or disease management programs**



**Employer deposits belong to the employee right after they are made**

# Importance of Employer Contributions



<sup>1</sup> Mercer's National Survey of Employer-Sponsored Health Plans  
Large employers (500+ employees) offering HSA-based HSA-qualified plan

# HSA & Medicare

- 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 \$103K/\$206K (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

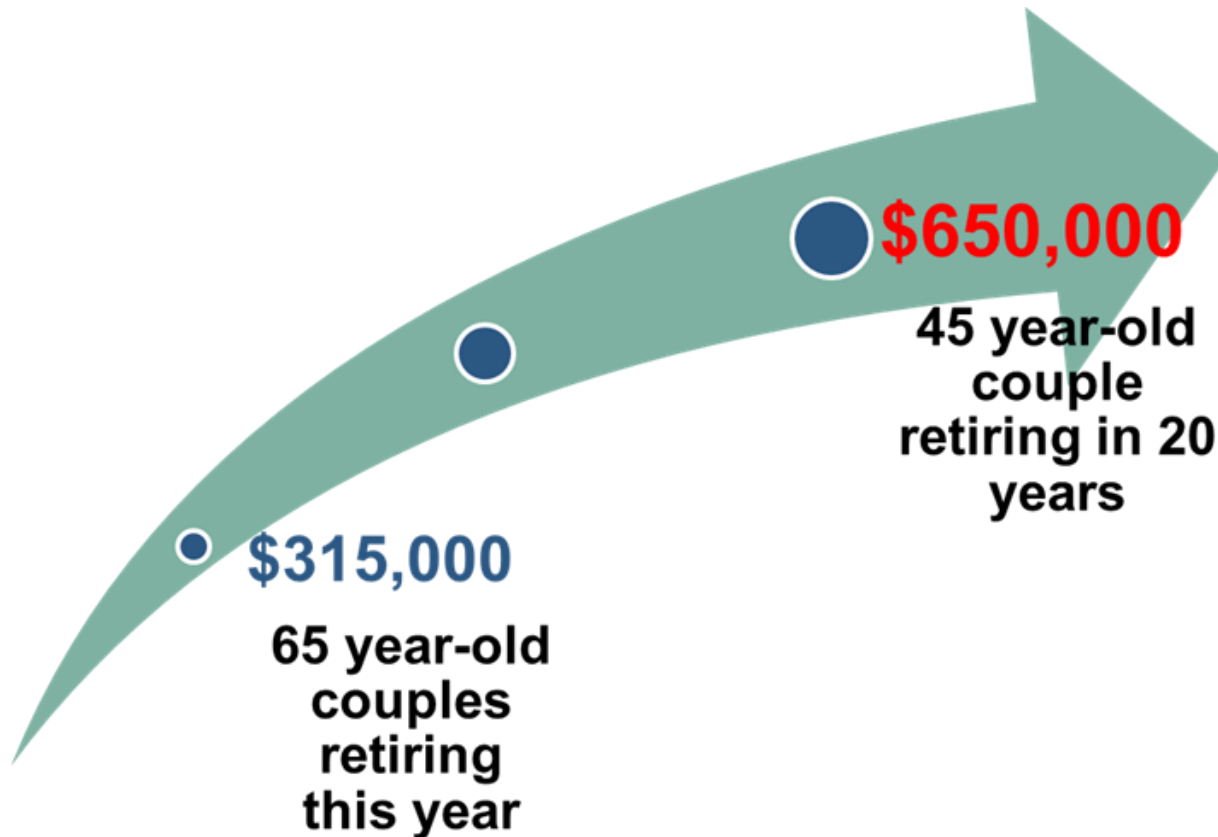
- HSA accounts can pay other expenses, penalty-free, once the account holder turns 65 years old
- Similar to IRA and 401(k), account holder simply pays ordinary income tax on amounts not withdrawn for qualified medical expenses
- Payroll tax benefit received at time of HSA deposit not repaid
- Can continue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



# Health Care Costs in Retirement



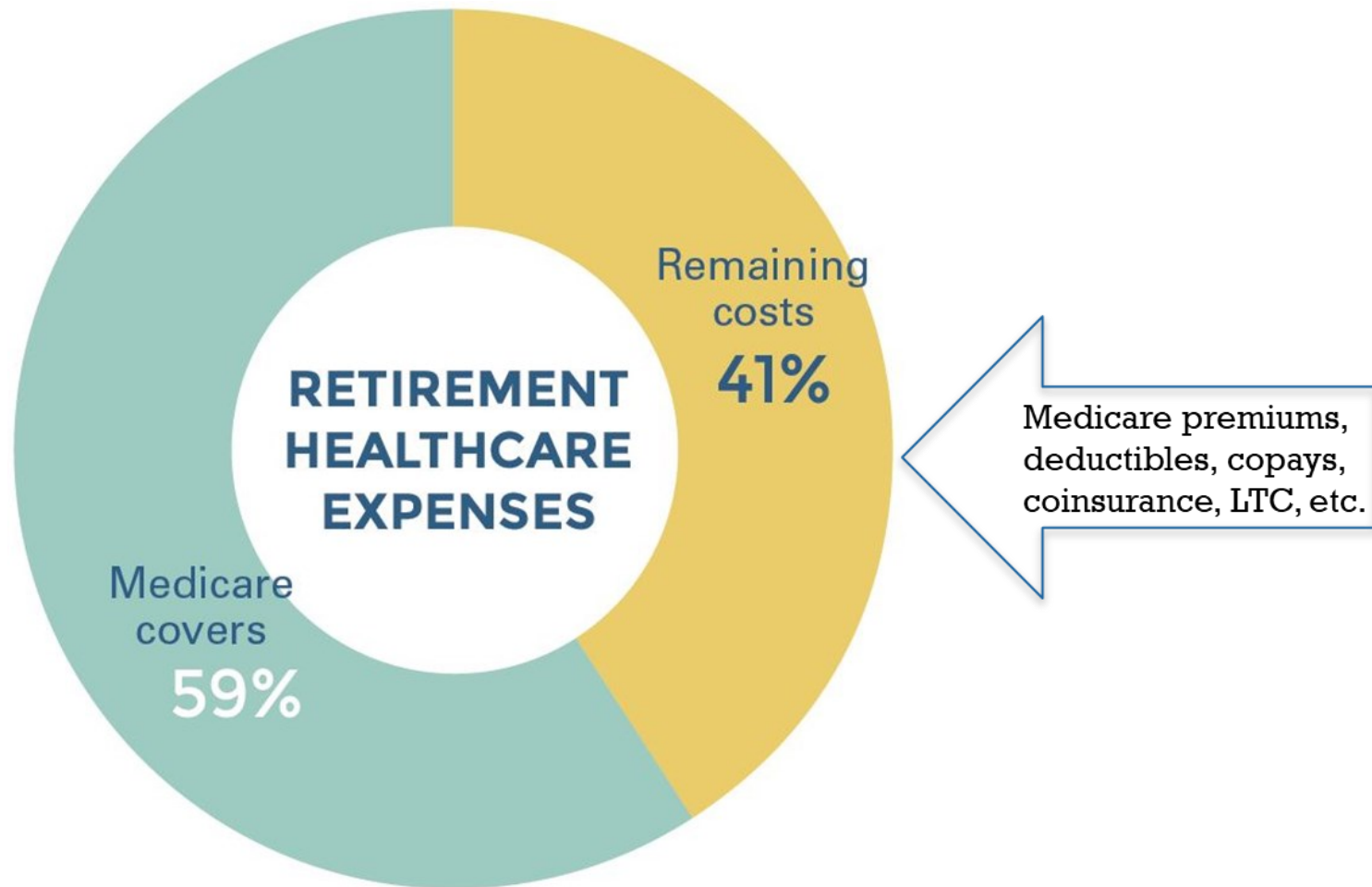
# Health Care Costs in Retirement

- 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

# 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



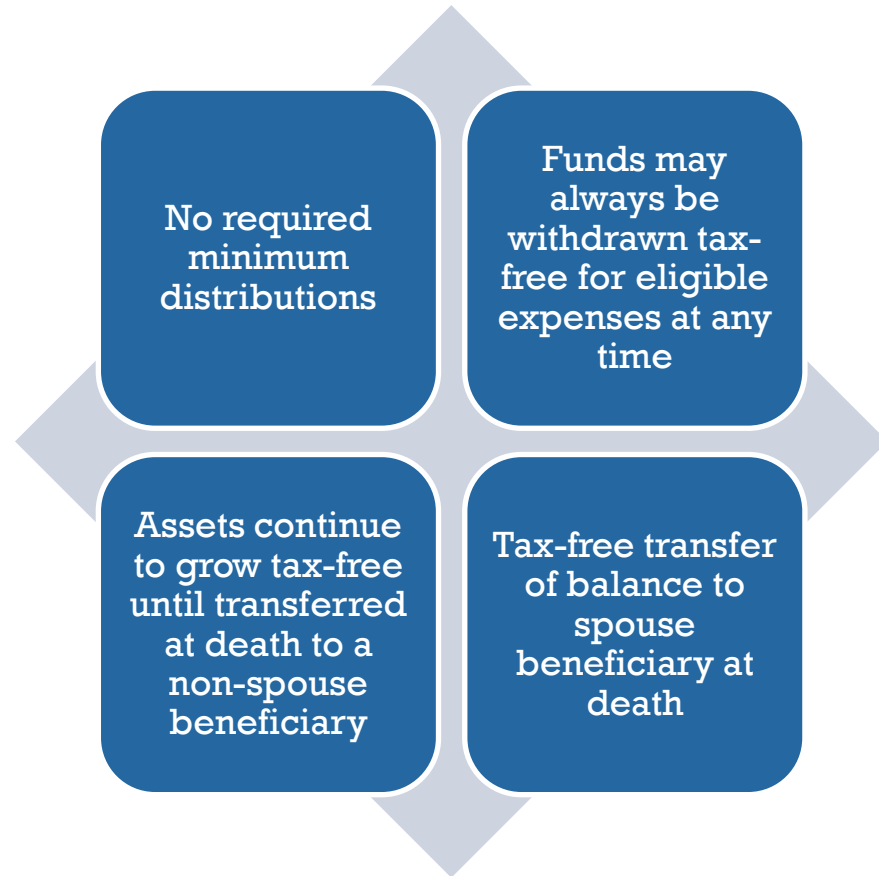
# Medicare Isn't Free

- 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

# What Medicare Doesn't Cover

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

# How HSAs Differ from Other Retirement Plans



# HSAs Enhance Retirement Savings Options

HSAs are like a 401(k) or IRA on steroids but with more flexibility and fewer rules—especially for tax-free distributions—making them complementary savings tools.

	401(k) / IRA	HSA
Money grows tax-deferred	•	•
Contributions are tax-deductible (if eligible)	•	•
Penalty tax applies to withdrawals that don't follow IRS rules	<b>10% tax</b> to age 59 ½	<b>20% tax</b> to age 65
Use tax-free money at any age to pay for qualified medical expenses		•
Before age 65, funds to pay for long-term care insurance, COBRA premiums and health insurance premiums while receiving unemployment	401(k) and IRA at 59 ½ subject to income tax	•
After age 65, use funds to pay for health insurance premiums (except MediGap)	Available subject to income tax	•
No required minimum distributions or means testing		•



# HSA 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 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

- Recommend using 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

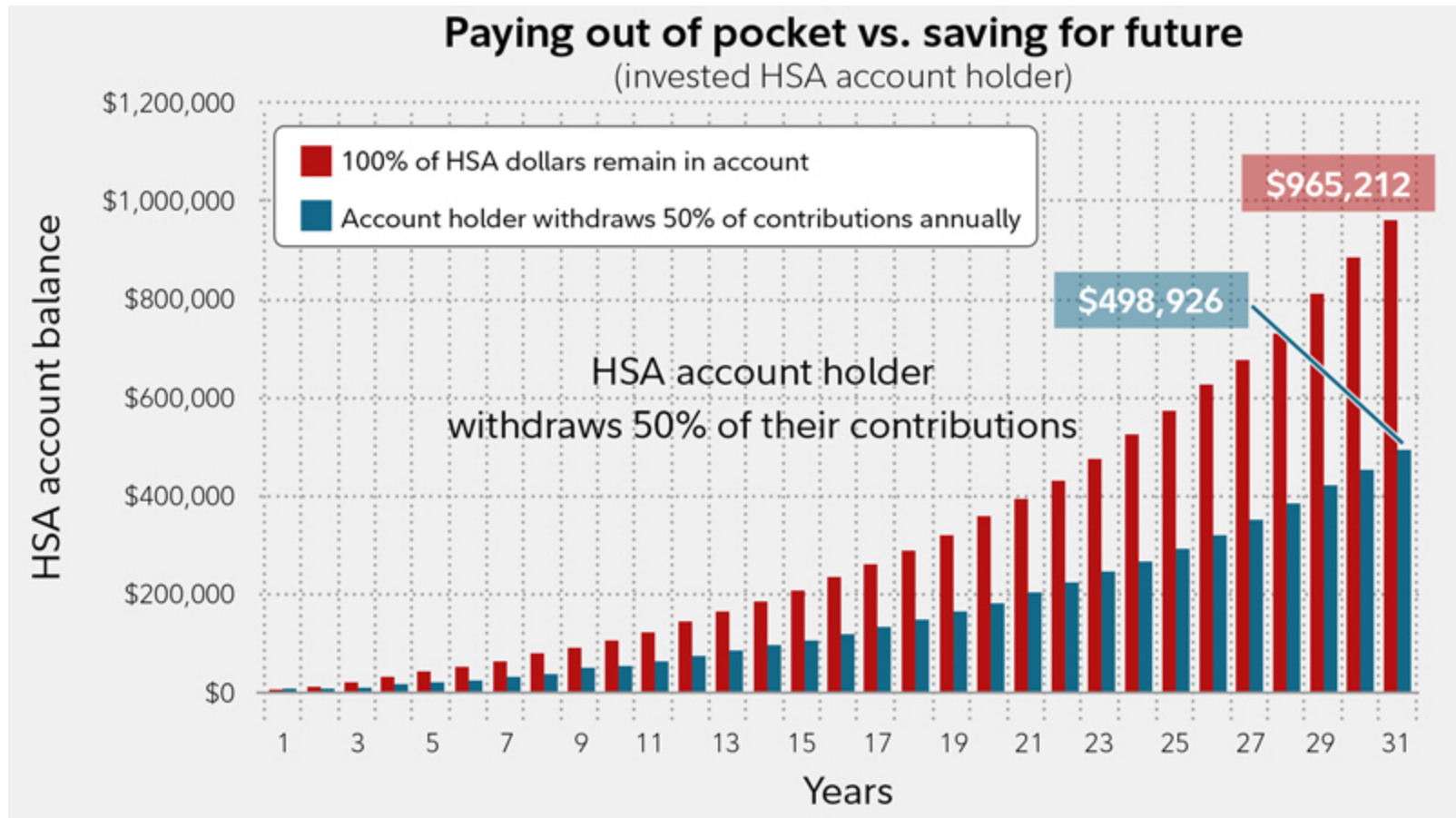
# HSA Savings Strategies

- Next investment dollar – ordering of retirement allocations
  - Given tax-benefits, many recommend investing into HSA after taking advantage of employer 401(k) match before investing more in their 401(k) or an IRA
- 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

# Paying Expenses Now vs. Later



# 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





# Contact Info

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Questions?