HealthEquity®

THE NEW NEST EGG

Why your Health Savings Account (HSA) is the ultimate retirement savings vehicle

Connecting Health and Wealth

The retirement savings gap is connected to rising healthcare costs. That's why more employers are offering HSA-qualified health plans for their people. This paper explains why HSAs are the ultimate retirement savings vehicle and how employers can help their people use them to maximum effect.

Inside, you'll discover:

1. Trends in retirement savings
2. The HSA triple-tax advantage
3. How to optimize a retirement savings strategy
4. Why employer matching can make an impact
5. How to help your people invest their HSA dollars

THE RETIREMENT SAVINGS GAP IS GROWING–AND IT'S BIGGER THAN YOU THINK

Projections by the World Economic Forum suggest that the US retirement savings gap could reach $137 trillion by 2050.[1] A similar study by the WEF found that most retirees will outlive their savings by a decade.[2] Meanwhile an independent study commissioned by the Federal Reserve found that 1 in 4 Americans have zero retirement savings.[3]

Women especially continue to fall behind. Gender pay disparity is translating into a deeper retirement savings gap for women.[4] In addition, the National Institute on Retirement Security found that more than two thirds of millennials have nothing saved for retirement either.[5] Swelling student loan debt, combined with two generation-defining crises have made it difficult for millennials to get ahead.

Study after study confirms the same thing. Americans are simply not prepared for retirement—and more than ever they will rely on social security as their only source of retirement income.

At the same time, healthcare costs are rising with no end in sight. According to recent estimates, the average couple will need between $301,000[6] and $390,000[7] to cover out of pocket medical expenses in retirement.[8] These estimates include cost related to Medicare premiums and deductibles. The reality is that healthy couples will need to absorb even more costs, as longer life expectancy translates into higher long-term costs.

THE RETIREMENT SAVINGS GAP IS TIED TO RISING HEALTHCARE COSTS

$137 TRILLION

retirement savings gap by 2050

1 in 4 have

ZERO

saved for retirement

$300,000

is the estimated minimum a couple will need for retirement

[1] http://www3.weforum.org/docs/WEF_White_Paper_We_Will_Live_to_100.pdf
[2] https://www.weforum.org/agenda/2019/06/retirees-will-outlive-their-savings-by-a-decade/
[3] https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf
[4] https://www.forbes.com/sites/davidkudla/2019/12/20/advice-to-women-on-bridging-the-retirement-savings-gap/#4cb2ea7e1180
[5] https://www.nirsonline.org/wp-content/uploads/2018/02/Millennials-Report-1.pdf
[6] Based on median prescription drug expenses. Source: Employee Benefit Research Institute 2019 https://www.ebri.org/content/savings-medicare-beneficiaries-need-for-health-expenses-in-2019
[7] https://www.cnbc.com/2019/07/18/retiring-this-year-how-much-youll-need-for-health-care-costs.html
[8] These estimates include costs for, Medicare Parts B and D, Dental, Vision, Hearing, Routine Exams, Surgery, Long-term end-of-life care.

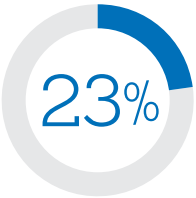
CONNECTED PROBLEMS REQUIRE CONNECTED SOLUTIONS

Given the challenges we face, more employers than ever are offering HSA-qualified health plans.

HSA-qualified health plans enable people to gain more choice and control over their healthcare. These plans also bring lower premiums while inspiring people to become savvier healthcare consumers. In turn, this helps lower overall costs for both employees and employers.

of large employers offered an HSA-qualified health plan last year[9]

increase in HSA plan adoption year over year[10]



rise in HSA assets in just the past year[10]

HSAs in the United States[10]

HSAs are particularly advantageous because they create opportunity to maximize long-term savings and offer unmatched flexibility in retirement. The next several sections explain how HSAs can empower your people to start closing the retirement savings gap.

[9] Society of Human Resource Management, "High-deductible plans more common, but so are choices," 2018 https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/high-deductible-plans-more-common-but-so-are-choices.aspx

[10] 2019 Year-end Devenir HSA Market Survey, March 2020 https://www.devenir.com/research/2019-year-end-devenir-hsa-research-report/

HSAs ENJOY A TRIPLE-TAX ADVANTAGE[11]

Unlock powerful tax savings you simply can't find anywhere else.

1. Pre-tax contributions
2. Tax-free earnings
3. Tax-free distribution[12]

Tax-free contributions apply to federal income taxes as well as FICA payroll taxes. When members make tax-free HSA contributions, they save on average 30 percent of their income.[13] Importantly, 401(k) contributions are still subject to FICA taxes. FICA taxes are approximately 7.65% on each dollar, so contributions to an HSA go further than contributions to a 401(k).

In addition, HSA earnings (whether from interest or investments) are not taxed either. Members can contribute to their HSA up to the age of 65, after which time Medicare disallows HSA contributions because it's not considered a high-deductible health plan.

Because of this triple-tax advantage, HSAs deliver maximum flexibility in retirement. HSA members age 65 and older can use their HSA for any expense, not just qualified medical expenses. But if the money is not used for qualified medical expenses, then it's taxed as ordinary income—just like a 401(k). However, unlike a 401(k), an HSA is not subject to minimum required distributions. And HSA distributions are never taxed if the money is used for qualified medical expenses.

The table below contrasts HSAs and 401(k) accounts.

	Health Savings Account	401(k) retirement account
Contributions	✔ Tax free	FICA tax
Earnings	✔ Tax free	✔ Tax free
Withdrawals for qualified medical expenses	✔ Tax free	Taxed as ordinary income
Withdrawals for regular expenses	Taxed as ordinary income	Taxed as ordinary income
Minimum required distributions (RMD)	No	Yes

[11] HSAs are never taxed at a federal income tax level when used appropriately for qualified medical expenses. Also, most states recognize HSA funds as tax deductible with very few exceptions. Please consult a tax advisor regarding your state's specific rules.

[12] For qualified medical expenses. It is the members' responsibility to ensure eligibility requirements as well as if they are eligible for the expenses submitted.

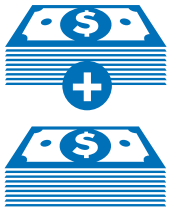
[13] This is a rough estimate only based on US median income.

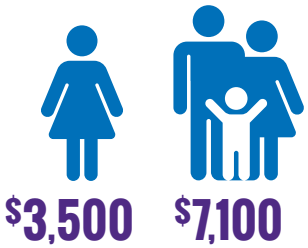
OPTIMIZE YOUR RETIREMENT HEALTHCARE SAVINGS STRATEGY

To maximize flexibility in retirement, consider using an HSA in conjunction with a tax-advantaged retirement account. Using a 401(k) or an IRA exclusively is not ideal because a significant portion of retirement spending will likely be for healthcare. An HSA enables participants to pay for qualified medical expenses in retirement—in many instances, tax-free.[14] In most cases, an effective contribution strategy will follow these steps.

1 MAX OUT THE EMPLOYER 401(K) MATCH

Commonly, employers match fifty cents on the dollar up to six percent of employee income. Other match plans go dollar for dollar up to three percent. Regardless of the approach, an employer 401(k) match represents real income that should be captured if available.





2 CONTRIBUTE THE HSA MAX

The HSA contribution limits for 2020 are $3,550 for individuals and $7,100 for families. In most cases, it may benefit a member to maximize contributions to their HSA before maxing out their 401(k). FICA savings alone often justify prioritizing the HSA.

3 MAX THE 401(k)

After maxing HSA contributions, then contribute additional money to a 401(k). The 401(k) is a powerful tax-advantaged account that enables people to enjoy pre-tax contributions.

There are some people, however, for whom this strategy may not be ideal. Consider that HSA dollars cover myriad over-the-counter medicines, including cough syrup, pain relievers and even menstrual care products. If inclined to regularly use the HSA for such routine purchases, then a different long-term savings strategy should be considered. You can't save for retirement if you're regularly dipping into your HSA for routine spending. For some people, the 401(k) early distribution penalty serves to create the necessary savings discipline.

[14] After age 65, if you withdraw funds for any purpose other than qualified medical expenses, you will be subject to income taxes. Funds withdrawn for qualified medical expenses will remain tax-free.

HSA PLAN DESIGN: CONSIDER A FLEXIBLE MATCH

Not everyone has the flexibility to contribute to both their 401(k) and their HSA. Given the rising costs of things like housing and student loan repayment, some people simply need as much take-home pay as they can muster. In these cases, people may be forced to choose between grabbing the employer 401(k) match and contributing to their HSA. In such instances, it makes sense to maintain an HSA balance that is high enough to cover the annual health plan deductible. That way, if a medical issue arises, they won't need to go too far out of pocket.

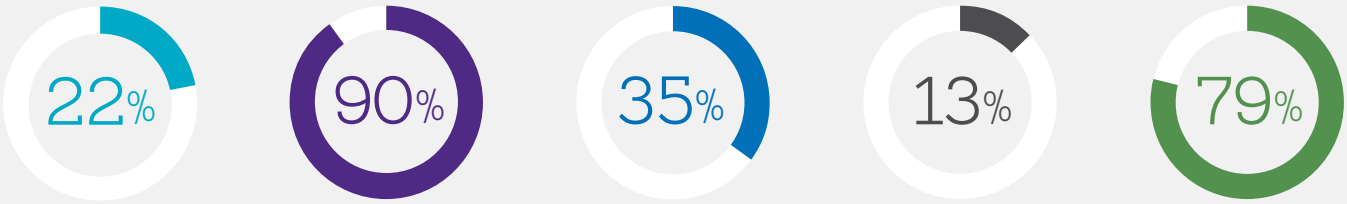
Some organizations, however, offer what's called a **flexible match plan**. A flexible match plan empowers people to choose which accounts earn the employer match. For example, employees can contribute to their 401(k) but request the employer match be contributed their HSA—or vice versa. The advantage of this approach is that lower-income or financially constrained employees can build their balances across different account types. They don't have to choose between making 401(k) contributions and HSA contributions. It's the best of both worlds.

Employer matching is almost universal in 401(k) programs because it incentivizes participation. Yet it's rarely seen in HSAs, as most employers opt for a seed. That may be an oversight. Employers looking to help their people effectively manage long-term health savings should consider an HSA-qualified health plan that includes an employer match—just like their 401(k).

Using anonymized HealthEquity client data, we compared HSAs that use an employer match (29 organizations) to a control group that uses a seed-only approach (45 organizations). Our findings are below.

Although not right for every business, it's clear that the employer match is a powerful tool that helps incentivize HSA adoption and use, while helping to lower overall cost.

Employer match (vs seed only)



22% more employees contribute

90% see higher levels of employee participation

35% higher average employee contributions

13% greater employer cost savings*

79% had lower employer contributions

*Cost savings are estimates only. Actual results may vary.

HSA AS INVESTMENT GROWTH ENGINE[15]

HSAs are an especially effective retirement savings tool because you can invest just like a 401(k). Unfortunately, not everyone invests their HSA.

According to EBRI,[16] fewer than 20 percent view HSAs as an investment vehicle. And only 7 percent invest their HSA dollars into stocks, bonds and funds. We've found that several factors keep people from investing their HSA dollars.

Misunderstanding

Some mistakenly believe HSAs carry hidden tax penalties if they withdraw invested HSA funds before age 65. They believe investments carry different rules than HSA funds that aren't invested. Others are worried they'll incur very high fees.

Inexperience

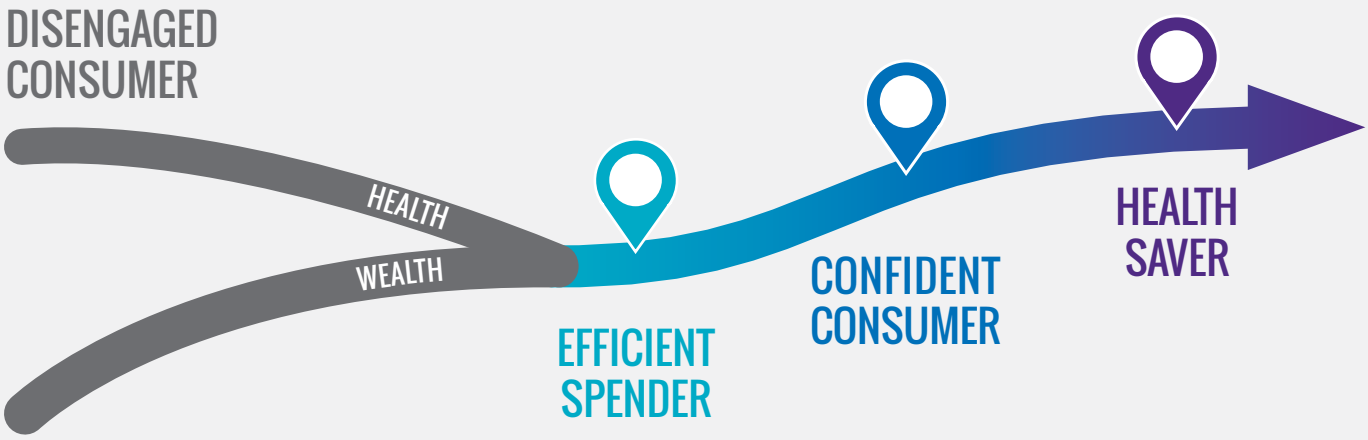
Many don't know how to select investments or balance their portfolio. That's why plan sponsors say educating employees about HSAs is top concern.[17] Members not only need to understand how HSAs work, but the need to learn how to use them to full effect.

Difficulty

The reality is that investing can be time consuming and complicated. Often, platform navigation is confusing. And it's hard to access research and make comparisons.

At HealthEquity, we're laser-focused on helping members overcome all three hurdles. It starts with education. We've built a comprehensive learning site that includes 15-minute quick-hit webinars, as well as calculators, videos, articles, how-to guides and more. Year round, our Engage360™ communications packages use insights from the behavioral sciences to enable members on the journey from disengaged consumer to empowered health saver.

Empowering the journey from disengaged consumer to empowered health saver



[15] Investments are subject to risk, including the possible loss of the principal invested, and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. Investing through the HealthEquity investment platform is subject to the terms and conditions of the Health Savings Account Custodial Agreement and any applicable investment supplement. Investing may not be suitable for everyone and before making any investments, review the fund's prospectus

[16] EBRI, A Possible Disconnect Between Perception and Utilization of HSAs, Jan 2019 https://www.ebri.org/docs/default-source/fast-facts/ff-321-cehcs-24jan19.pdf?sfvrsn=7cc3e2f_7

[17] PSCA 2019 Survey: https://www.benefitspro.com/2019/06/06/hsa-education-top-concern-of-plan-sponsors/

To help novice investors overcome their inexperience, **HealthEquity Advisors LLC**[18] offers a powerful robo advice tool called Advisor.

Advisor offers two configurations, enabling members to adjust their level of control. First is the **GPS** option, which is a recommendation engine that suggests investment options based on age, account balance, income and more. This option gives members the opportunity to ultimately select their own investments based on targeted advice. The **AutoPilot** option, by contrast, is a fully automated advisory tool that uses intelligent technologies to manage member portfolios. Member inputs create a risk profile, then **AutoPilot** will automatically rebalance portfolios based on member-specific factors. In this respect, **AutoPilot** empowers even the most inexperienced members to invest with confidence.

ADVISOR™

powered by: HealthEquity ADVISORS, LLC

GPS

Tap into algorithm-based guidance and recommendations

GPS recommends investment options based on age, investment objectives, investment experience and more. This option gives members the opportunity to ultimately select their own investments based on targeted advice.

AUTOPILOT

Let intelligent technologies manage your entire portfolio

Member inputs create a risk profile, then **AutoPilot** will automatically rebalance member portfolios based on specified factors. **AutoPilot** empowers even the most inexperienced members to invest confidently.

The **HealthEquity Investment Desktop** brings it all together. Using on-screen guides and step-by-step tutorials, we make it easier than ever for members to find information, conduct research and select investments with confidence.

Anchored by our lineup of 23 Vanguard funds, including six target date funds, members have more and better options to find the perfect retirement savings mix for their goals.

[18] Investments are subject to risk, including the possible loss of the principal invested and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. HealthEquity, Inc. does not provide investment advice. HealthEquity Advisors, LLC™, a wholly owned subsidiary of HealthEquity, Inc. SEC-registered investment adviser, provides web-based investment advice to HSA holders that subscribe for its services (minimum thresholds and additional fees apply). Registration does not imply endorsement by any state or agency and does not imply a level of skill, education, or training. Investing may not be suitable for everyone and before making any investments, review the fund's prospectus.

HealthEquity

MAKE THE MOST OF YOUR HSA

HSA-qualified health plans empower employees, while helping employers better manage overall healthcare costs. But not all HSAs are built the same. How you implement and manage your HSA can make a huge difference for your people.

HealthEquity brings together innovative technology and remarkable service to deliver a next-generation HSA experience. Building on 20+ years of industry leadership, we know what it takes to design and implement a winning HSA.

Help your people build the ultimate retirement nest egg.

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ONE PARTNER. TOTAL SOLUTION.

Only HealthEquity delivers the integrated solutions you need to simplify benefits and truly impact people's lives.

HSA | FSA | HRA | Commuter | COBRA | Wellbeing