



# Health savings accounts

The powerful financial tool that  
can help you save now and for the  
future

Content updated September 2024 and subject to change



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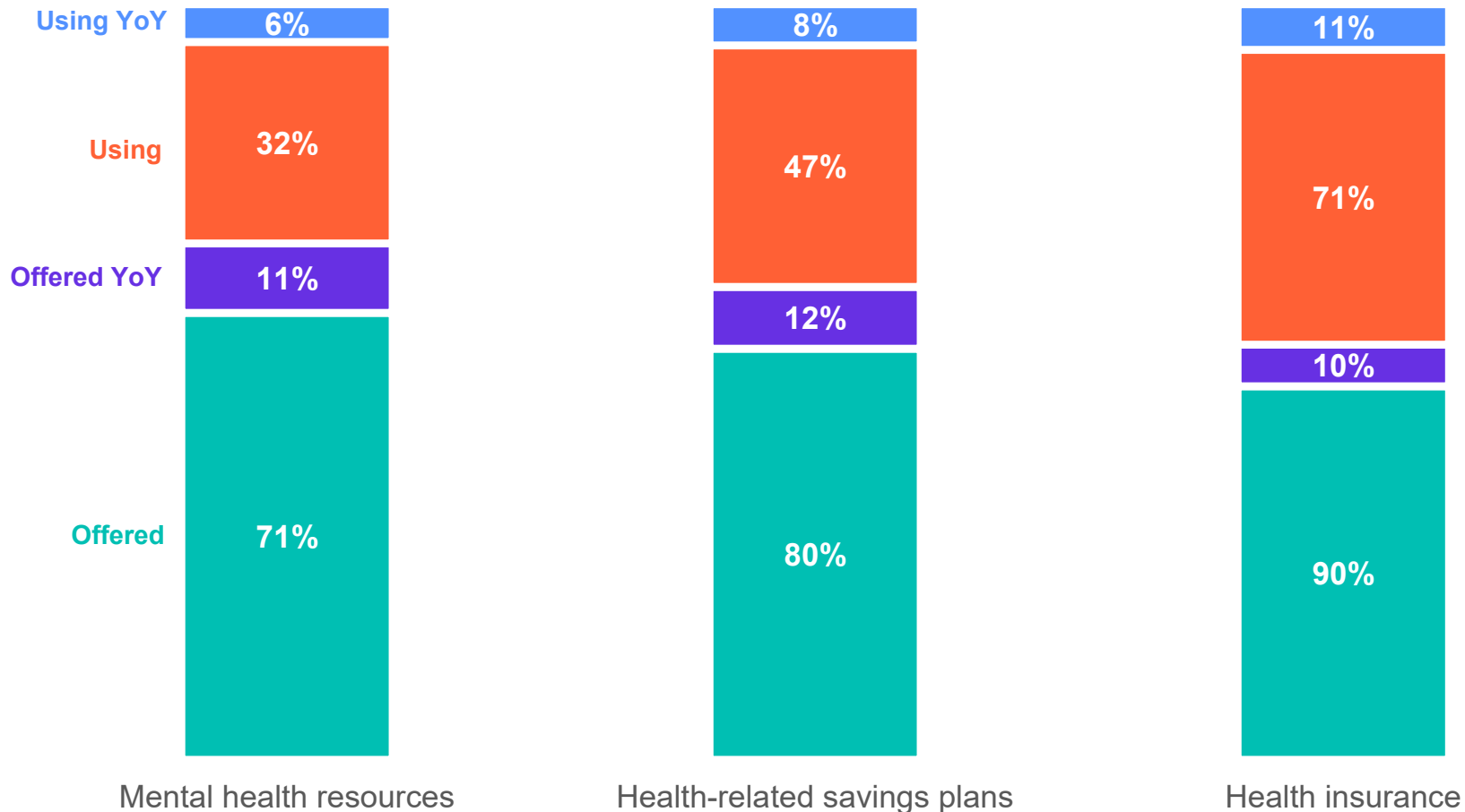
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# Amid growing concerns, employers and workers are increasingly focused on maximizing health benefits

## Availability of health-related benefits



Source: Voice of the American Worker 2024 study. Please see back disclosures for information about the study.

Q301+Q301b: How would you describe your access and use, if any, of the following benefits through your company? (n=2,001 total) | 1=employer-sponsored

## Three types of retirement expenses



**ESSENTIAL**



**LIFESTYLE**



**HEALTHCARE**

Healthcare planning, or lack thereof, can directly impact your chance of success in retirement.

## Today's discussion

- Healthcare costs
- Health Savings Account basics
- Case studies
- Review
- Questions

# Healthcare costs

# Healthcare costs keep increasing



## Cost Projections for a 65-Year-Old Couple for Medicare Parts B and D, Supplemental Insurance, Dental Insurance and Out-of-Pockets (in Future Dollars)<sup>1</sup>

Baseline Health Cost Projections				Two-Year Inflation Increase	
Healthy, Married Couple Age	Social Security Benefits for Life	Lifetime Retirement Health Costs*	Index	Lifetime Retirement Health Costs	Index
65	\$968,054	\$597,389	62%	\$683,306	71%
55	\$1,173,340	\$933,928	80%	\$1,094,640	93%
45	\$1,153,489	\$1,543,718	134%	\$1,803,526	156%

In each scenario, a healthy couple retires at age 65; health costs and Social Security benefits are shown as national averages.

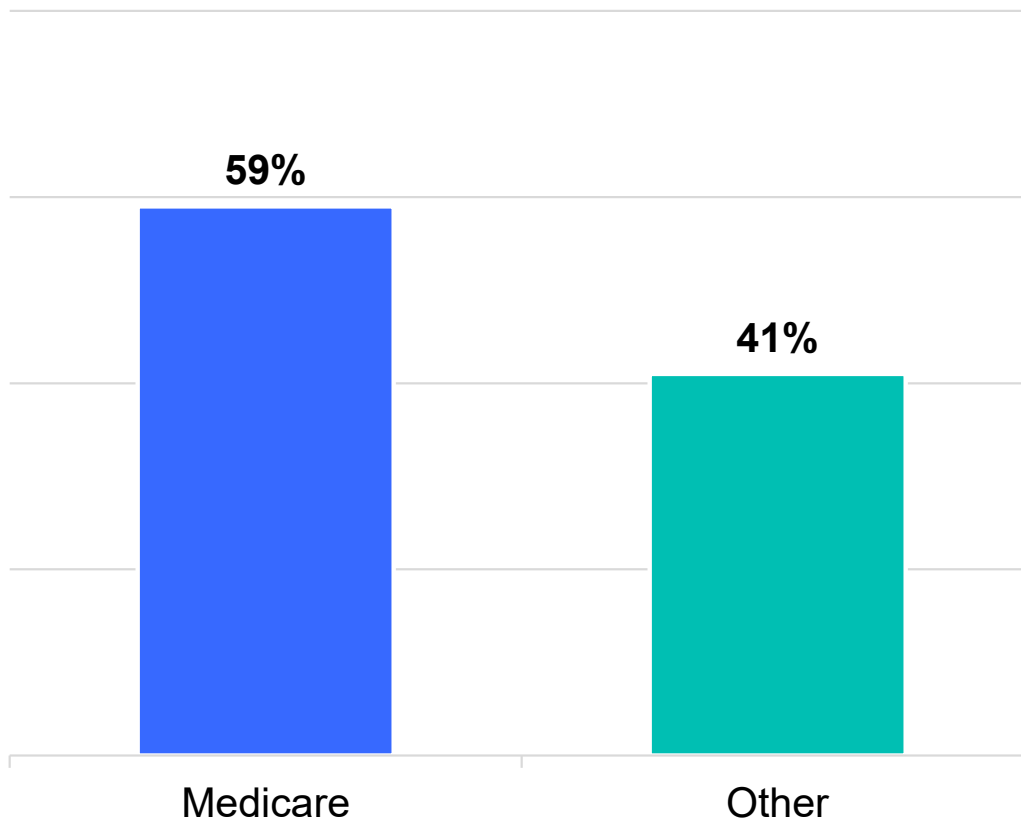
1. Projections are based on data from HealthView Services' 2024 Retirement Health Care Cost Data Report. These estimates assume that health care inflation rates will exceed general inflation. For a healthy, married couple aged 65 in 2024, lifetime healthcare costs—including premiums and out-of-pocket expenses—are projected to be \$968,054. Approximately 62% of Social Security benefits will be needed to cover these expenses. Due to inflation adjustments, health care costs are expected to rise to \$597,389, with Social Security covering 71% of these costs. For couples aged 55 and 45, projected lifetime health care costs and the percentage of Social Security benefits required will increase significantly due to longer life expectancies and the compounding effects of inflation over time.

\*The Lifetime Retirement Index shows the projected inflation-adjusted health costs and Social Security benefits for a healthy, married couple. It reflects how these costs, as a percentage of total retirement expenses, are expected to increase over time due to inflation. For example, a couple aged 65 may see health costs at 62% of their retirement expenses, while for a couple aged 45, this rises to 134%.

# Medicare won't cover all your medical expenses in retirement

**Source of Payment for Incurred Health Care Expenses, Noninstitutionalized Population of Medicare Beneficiaries, Ages 65 and Older**

Employee Benefit Research Institute (EBRI), 2024



**Other includes:**

- Private Insurance: 18%
- Out-of-pocket: 13%
- Medicaid: 5%
- Veterans affairs: 3%
- Other: 1%
- Tricare: 1%

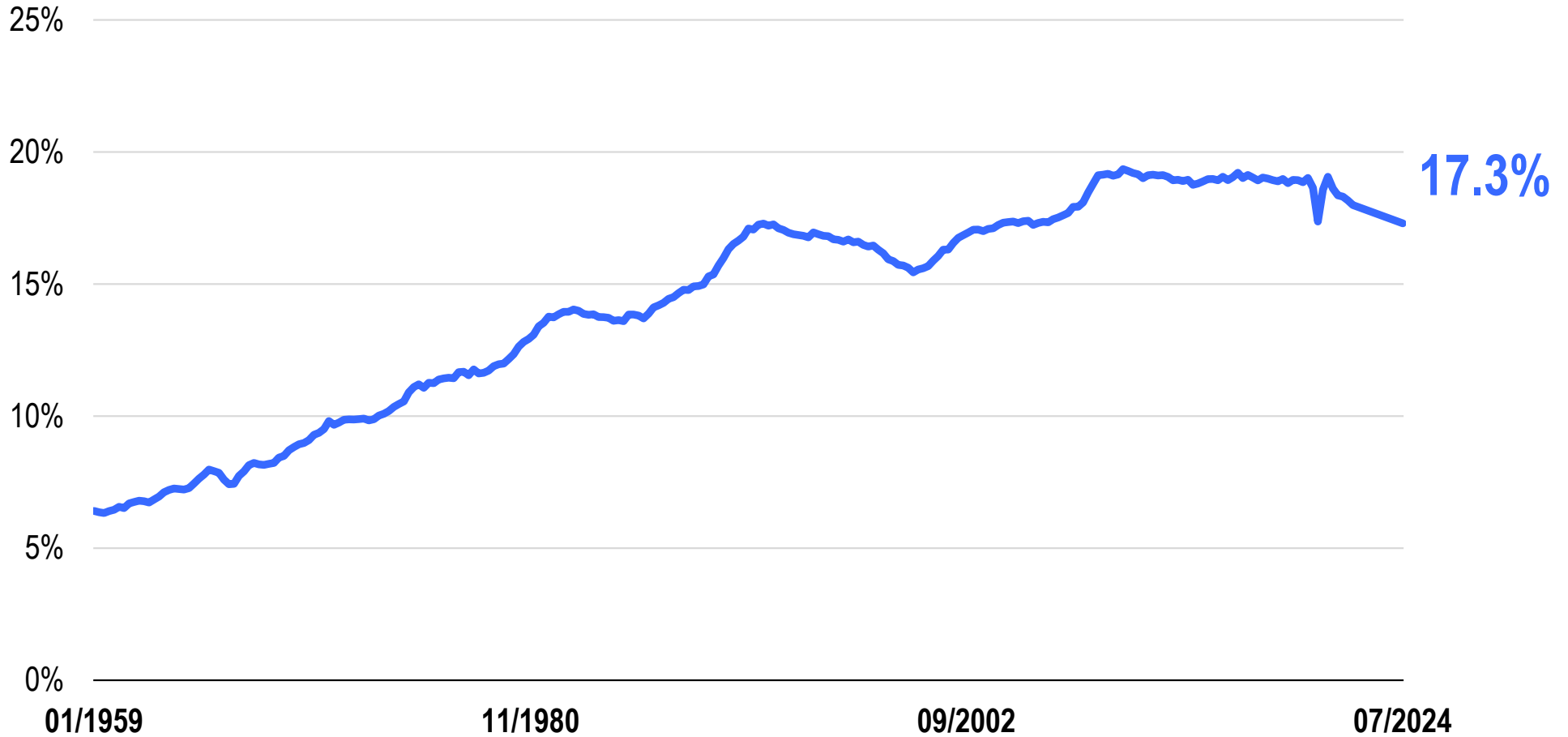
Source: Estimates are based on data from the Medicare Current Beneficiary Survey (MCBS) and 2024 projections, according to the Centers for Medicare & Medicaid Services. Medicare covers 55-60% of healthcare expenses, out-of-pocket expenses account for 12-15%, Medicaid covers 10-12%, Medicare Advantage plans cover 5-7%, private insurance covers 15-18%, and other sources, such as VA benefits, cover 2-3%. For more details, please visit: <https://www.cms.gov/research-statistics-data-and-systems/research/mcbs>.



# No slowdown in healthcare inflation

## U.S. healthcare as a percentage of personal expenditures

January 1959–July 2024



Source: Federal Reserve Economic Data. Data on U.S. healthcare as a percentage of personal expenditures from January 1959 to July 2024 is sourced from the Federal Reserve Economic Data (FRED) maintained by the Federal Reserve Bank of St. Louis. For more details, please visit: <https://fred.stlouisfed.org>.

# **Health Savings Account basics**

### What is a Health Savings Account?

A savings account used in conjunction with a High Deductible Health Plan that allows users to save money tax-free to pay for qualified medical expenses.

### What is a High Deductible Health Plan?

A health insurance plan with a lower premium and a higher minimum deductible than a traditional health plan.

### What exactly is a minimum deductible?

In a health insurance plan, the **minimum deductible** is the out of pocket amount that you must pay for healthcare costs before your insurance coverage kicks in.

## How high is “high”?



4 oz chicken breast

35g



½ cup soy beans

11g



1 hard boiled egg

6g

“High” Deductible Health Plan = **HSA-Eligible Health Plan**

# Who is eligible for an HSA?

Anyone who is:

- ☒ Covered by an HSA-qualified health plan
- ☒ Not a dependent on another's tax return
- ☒ Not covered by any other health insurance plan
- ☒ Not enrolled in Medicare during the tax year<sup>1</sup>

1. Enrollment in Medicare disqualifies individuals from contributing to an HSA. Those who have not enrolled in Medicare that year remain eligible to make HSA contributions, provided they meet the other criteria.

# HSA characteristics



Source: Access Point HSA. Used with permission.

1. Tax benefits are conditioned on meeting certain requirements. Tax benefits and treatment of contributions and withdrawals may vary by state. Consult a tax professional concerning the tax laws for your state.



## How does it work?



### Get started

- Premiums are typically less than traditional health plans
- Money saved can be put into an HSA

### Contribute

- With pre-tax payroll deductions or transfer
- Many employers offer a contribution match

### Maximize savings

- HSA balance rolls over from year to year
- Investments can be used for growth potential

### Easy to use

- Debit card or checks linked to your balance
- Pay for qualified medical expenses

## What are “qualified medical expenses”?

### Examples:

- ☒ Doctor visits
- ☒ Diagnostic tests and lab fees
- ☒ Prescription medication
- ☒ Eye and dental exams
- ☒ Psychiatric care

## HSA Withdrawals for Qualified Medical Expenses **TAX FREE**

HSA Withdrawals: Non-Qualified  
Medical Expenses  
**ORDINARY TAX + 20% Penalty**

**65**

HSA Withdrawals: Non-Qualified  
Medical Expenses  
**ORDINARY TAX**

**Withdrawals from an HSA for qualified medical expenses are always on a TAX FREE basis. If someone chooses to withdraw funds from their HSA for a non-qualified medical expense (prior to turning age 65), they will pay ordinary taxes plus a 20% penalty on the amount withdrawn. At age 65, the 20% penalty for non-qualified withdrawals is no longer in place.**

Source: Access Point HSA. Used with permission, as of September 2024.

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# Contribution limits

	2024	2023
<b>HSA contribution limit</b> (employer + employee)	<b>Self-only:</b> \$4,150 <b>Family:</b> \$8,300	<b>Self-only:</b> \$3,850 <b>Family:</b> \$7,750
<b>HSA catch-up contributions</b> (age 55 or older)	<b>\$1,000</b>	<b>\$1,000</b>
<b>HDHP minimum deductibles</b>	<b>Self-only:</b> \$1,500 <b>Family:</b> \$3,000	<b>Self-only:</b> \$1,600 <b>Family:</b> \$3,200
<b>HDHP maximum out-of-pocket amounts</b> (deductibles, co-payments and other amounts, but not premiums)	<b>Self-only:</b> \$7,500 <b>Family:</b> \$15,000	<b>Self-only:</b> \$8,050 <b>Family:</b> \$16,100

# How is an HSA different from an FSA or HRA?

	Health Savings Account (HSA)	Flexible Spending Account (FSA)	Health Reimbursement Account (HRA)
Who can contribute?	Employee, Employer, Other	Employee, Employer (payroll deferral)	Employer
How much can you contribute each year to an HSA? (2024 Contribution Limits)	\$4,150 / \$8,300 (+\$1,950 catch up)	\$3,200	Varies by plan
Who owns the account?	Employee	Employer	Employer
Can you invest?	Yes, tax free	No	No
Can you rollover the funds or is it "use it or lose it" account?	Yes, no limits (Time or Funds)	Varies by plan – some plans may offer grace periods or limited carryover (up to \$610 for healthcare FSAs)	Varies by plan

*Note: Tax benefits for these programs are conditioned on meeting certain requirements. Tax benefits and treatment of contribution and withdrawals vary by state. Consult a tax professional concerning the laws for your state.*

# HSA tax advantages



1

Contributions are not subject to **income tax**



2

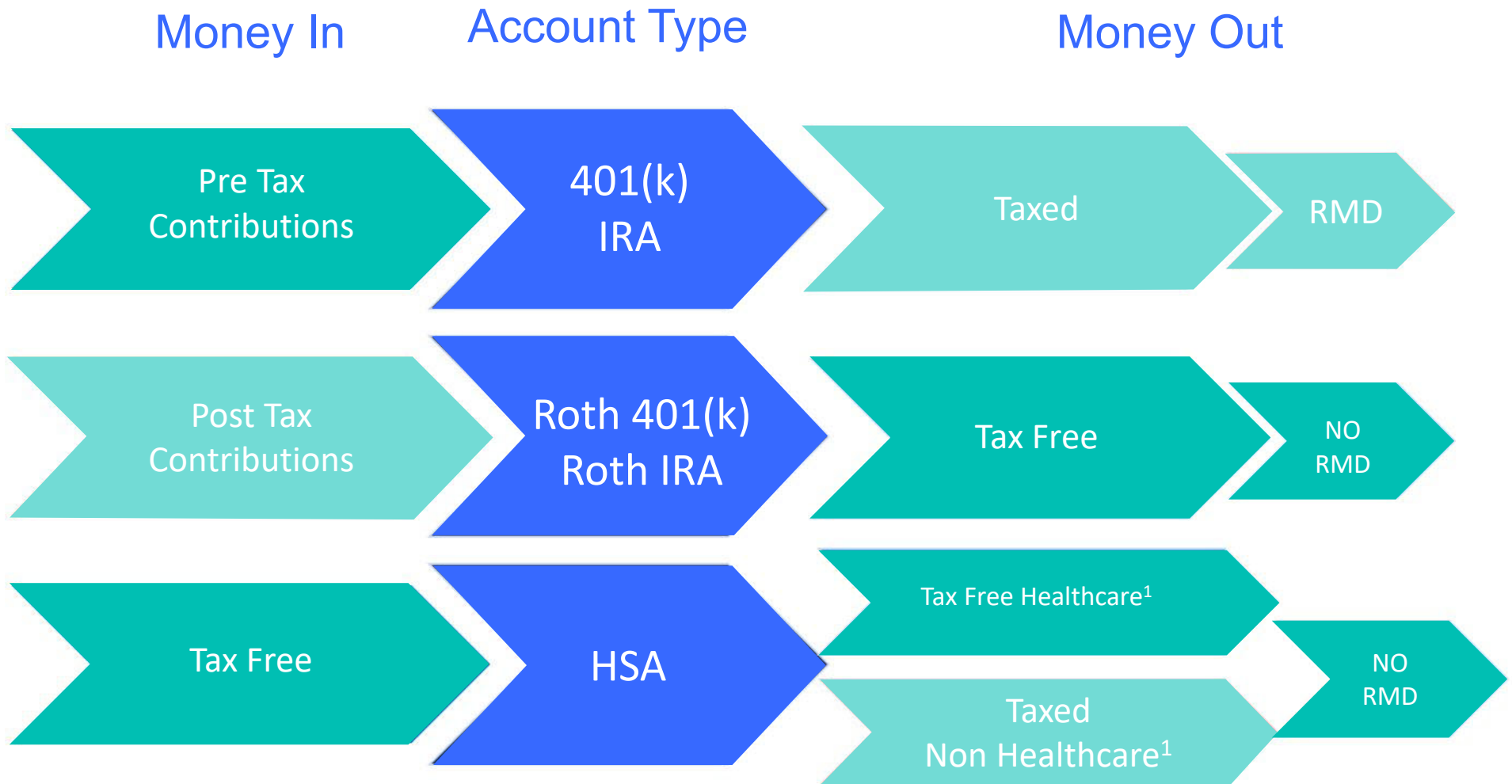
Earnings and interest grow **tax-free**



3

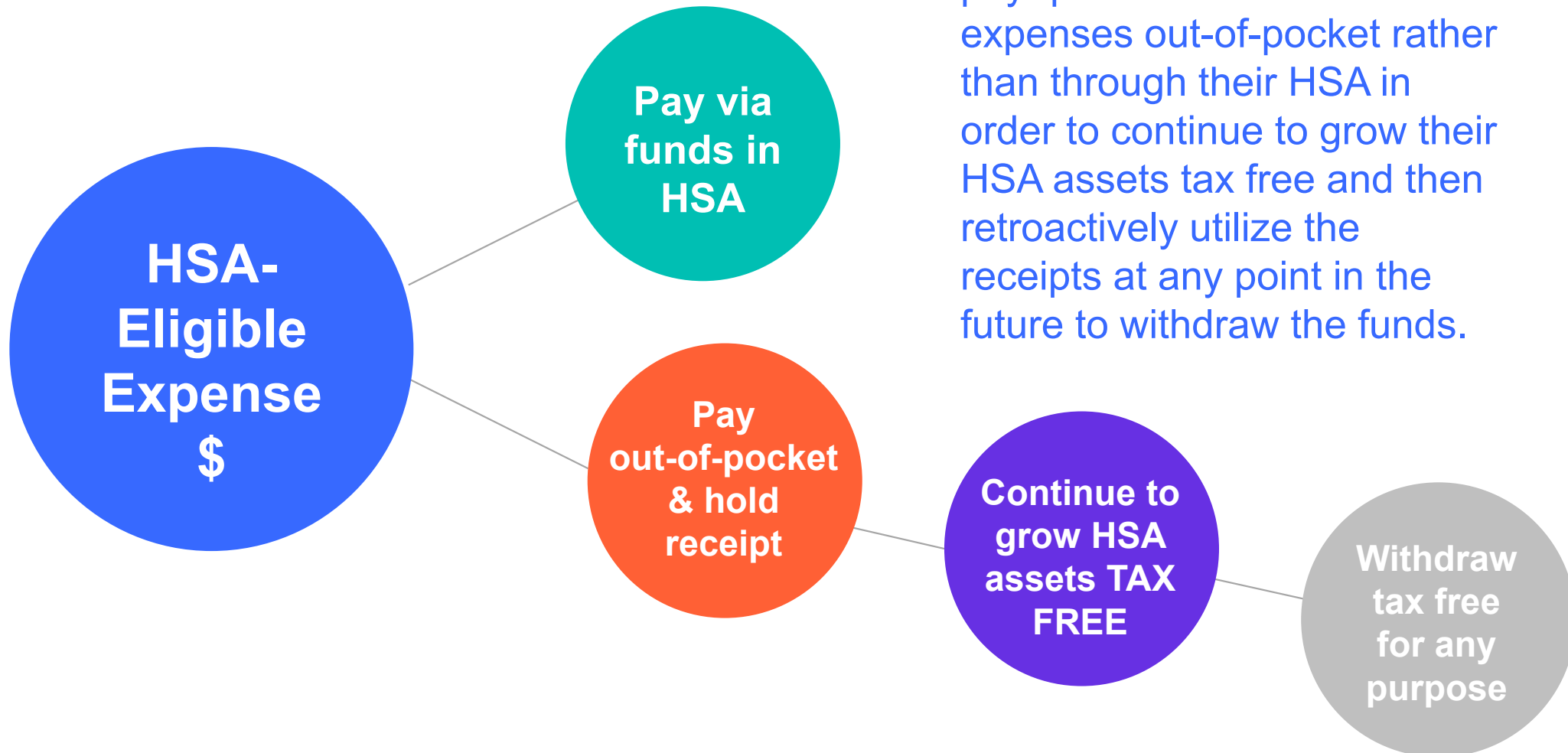
Withdrawals are **tax-free** if used to pay for qualified medical expenses

# Tax treatment comparison of HSAs



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## HSA strategy: retroactive use of receipts

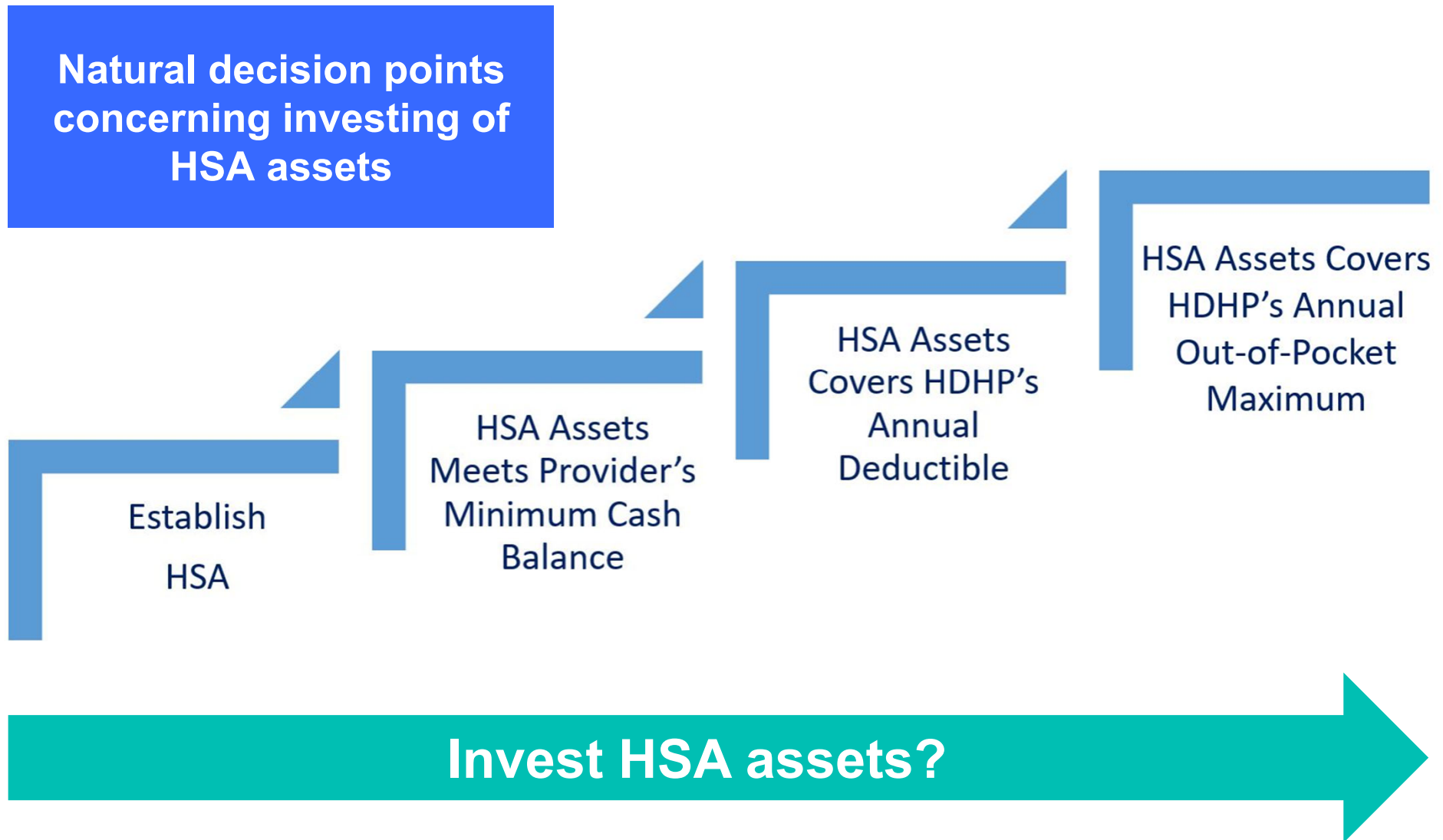


Source: Access Point HSA. Used with permission

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# Investing HSA assets



# Case studies

# Will and Melissa, tax-efficient retirees



## Hypothetical Illustration



### Will and Melissa

Age	Occupation
<b>Both 65</b>	<b>Retired</b>

Hypothetical healthcare costs for Will and Melissa over their lifetime

**\$262,500**

Utilizing a 401(k) at their 25% tax bracket, how much would they need to withdraw to cover their health care costs?

**\$350,000**

Potential savings if they take tax-free withdrawals from an HSA

**\$87,500**

Assumes distribution was taken after age 59½ and not assessed an early withdrawal penalty. Actual returns will vary. Varying tax rates and actual investments may include fees, charges and other expenses that would affect an investment's return.

Example is for illustrative purposes only and results are not representative of any specific investment program, strategy or vehicle.

## Alan & Linda—and their adult child, Brad



### Parent's HSA Contribution

- Alan and Linda (both age 53) are married and have a 23-year-old son, Brad.
- All three are covered under a family HDHP that is provided through Linda's employer.
- Brad is not a dependent on his parent's tax return.



### Brad's HSA Contribution



Source: Access Point HSA. Used with permission, as of September 2024.

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**Bobby the super-  
healthy bachelor**



# Bobby the super-healthy bachelor

## Hypothetical Illustration



### Bobby

Age      Career

**28**      **Web Developer**

Marital status

**Single**

Target Retirement Age

**66**

### BACKGROUND

- Health nut who maintains a strict diet and workout regime
- Prides himself on not missing a day of work in five years
- Dreams to trek the Himalayas and swim the English channel before he retires
- Plans on spending the rest of his life as a bachelor

**Example is for illustrative purposes only and results are not representative of any specific investment program, strategy or vehicle.** For this example we assume the salary at age 28 is \$80,000 and grows 3% each year, maximum contribution limits for the HSA account grows by 2% each year, maximum contributions are made to the HSA account, 55+ HSA catch-up contributions are made and remain static at \$1,000, 10% of salary is contributed to 401(k) with a 100% employer match for the first 6% of salary, HSA and 401(k) accounts earn 6% per year, and account balances at age 66 include contributions for that year. Actual returns will vary.

# Bobby the super-healthy bachelor

## Hypothetical Illustration



### Bobby

Age      Career

**28**      **Web Developer**

Marital status

**Single**

Target Retirement Age

**66**

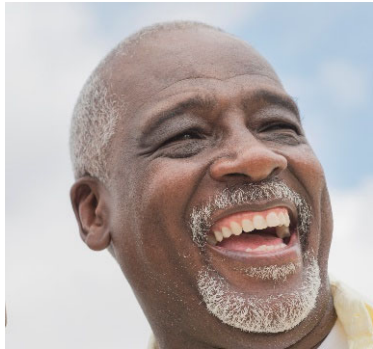
### ASSUMPTIONS

- From age 28–66, Bobby contributes the max allowed to his HSA each year
- He also contributes 10% of his salary to his 401(k)
- His employer matches his 401(k) contributions 100% up to 6% of his salary
- He invests his HSA & 401(k) in diversified portfolios that earn 6% per year
- He never has a major medical expense that causes him to take a dime out of his HSA

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# Bobby the super-healthy bachelor

## Hypothetical Illustration



### Bobby

Age      Career  
**66**      **Retired**

Marital status  
**Single**

HSA balance  
**\$697,125**

401(k) balance  
**\$2,956,232**

### RESULTS

- Bobby can retire with plenty of money to fund an adventurous retirement
- His HSA balance makes it unlikely that he will have to dip into his 401(k) to cover medical expenses

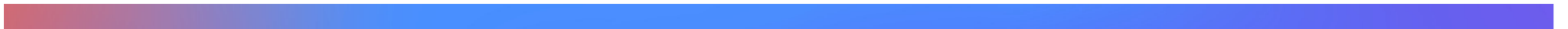
### Lesson

If you are healthy and can afford it, an HSA can super charge your retirement savings.

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# **Bobby falls in love**



# Bobby falls in love

## Hypothetical Illustration



### Bobby

Age      Career

**36**      **Web Developer**

Marital status

**Married**

Target Retirement Age

**66**

**How does Rachel's health insurance plan affect Bobby's ability to keep his HDHP and contribute to his HSA?**

**No impact.** Provided Bobby is not eligible for any coverage under Rachel's plan, he can keep his HDHP and contribute to his HSA.

### BACKGROUND

- At the age of 36, Bobby runs into a lawyer named Rachel while training for his second marathon
- In that moment Bobby realizes his life has changed forever. The two are married six weeks later
- Rachel is one of the top attorneys at her firm
- She has great health insurance and has no plans to give that up

**4 years later...twins!  
and Bobby gets  
the boot**



# Bobby gets the boot

## Hypothetical Illustration



### Bobby

Age      Career

**40**      **Entrepreneur**

Marital status

**Married**

Target Retirement Age

**66**

### What does Bobby need to do with his HSA?

**Nothing.** He can leave his money in the account. Should someone in his immediate family incur a big medical bill, Bobby can take tax-free withdrawals from the HSA to pay for it. Otherwise, it continues to grow tax-free.

### BACKGROUND

- When the twins are born, Rachel adds them as dependents on her health insurance
- Just before his 40th birthday Bobby's company is sold
- The new owner hands all the top executives pink slips
- Bobby starts an online coaching service for athletes
- Rachel adds Bobby to her health insurance

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# Bobby gets the boot

## Hypothetical Illustration



### Bobby

Age      Career

**40**      **Entrepreneur**

Marital status

**Married**

Target Retirement Age

**66**

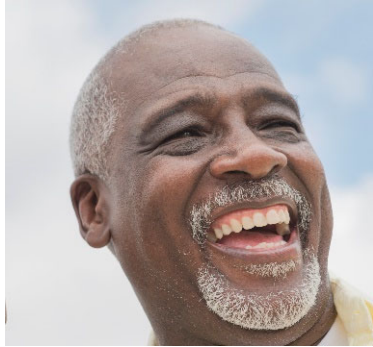
### ASSUMPTIONS

- From age 28–40, Bobby contributed the max allowed to his HSA each year
- He also contributed 10% of his salary to his 401(k) each year
- His employer matched his 401(k) contributions 100% up to 6% of his salary
- He invested his HSA & 401(k) in diversified portfolios that earned 6% per year
- He never had a major medical expense that causes him to take a dime out of his HSA

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# Bobby gets the boot

## Hypothetical Illustration



### Bobby

Age      Career  
**66**      **Retired**

Marital status  
**Married**

HSA balance  
**\$323,243**

401(k) balance  
**\$1,279,008**

### RESULTS

- By the time he retires, Bobby has significant balances in both plans even though he didn't make any contributions from age 40 and on

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# Review

# 10 things you should know about HSAs



## 1 | Tax efficiency

HSAs are the first triple tax-free retirement investment vehicle. That means contributions are pre-tax or tax deductible, no tax on earnings or interest, and withdrawals for qualified medical expenses are tax-free.<sup>1</sup>

## 2 | Contributions before taxes

While your 401(k) payroll contributions are subject to Social Security and Medicare taxes (FICA), contributions to your HSA are not.<sup>1</sup>

## 3 | Family coverage

If needed, HSAs can be used to pay for qualified medical expenses of a spouse or child even if they are covered under another medical plan.

## 4 | Keep it rolling

The money you don't use can roll over year after year. It is a common misconception for HSAs to get lumped in with Flexible Spending Account (FSA) plans.

## 5 | Required Minimum Distributions (RMD)

Beginning in 2023, the SECURE 2.0 Act updated the RMD age to 73.<sup>2</sup>

## 6 | Keep a paper trail

You can use your HSA to repay yourself for any past qualified medical expenses with after-tax money as long as you keep your receipts.

## 7 | Employer contributions

Employers can offer a contribution, within the annual limit, to help offset higher deductibles.

## 8 | Start saving faster

Some providers offer immediate investing capabilities on the first dollar to help accumulate health savings faster.

## 9 | Penalties

Distributions before age 65 that are used for nonqualified medical expenses are subject to income tax and additional 20% penalty tax. After age 65, you can take distributions for non-qualified medical expenses penalty-free, but they will be taxed as income.<sup>1, 3</sup>

## 10 | No income limits

There aren't any income limit restrictions, minimums, or phase-outs like the ones associated with a Roth IRA.

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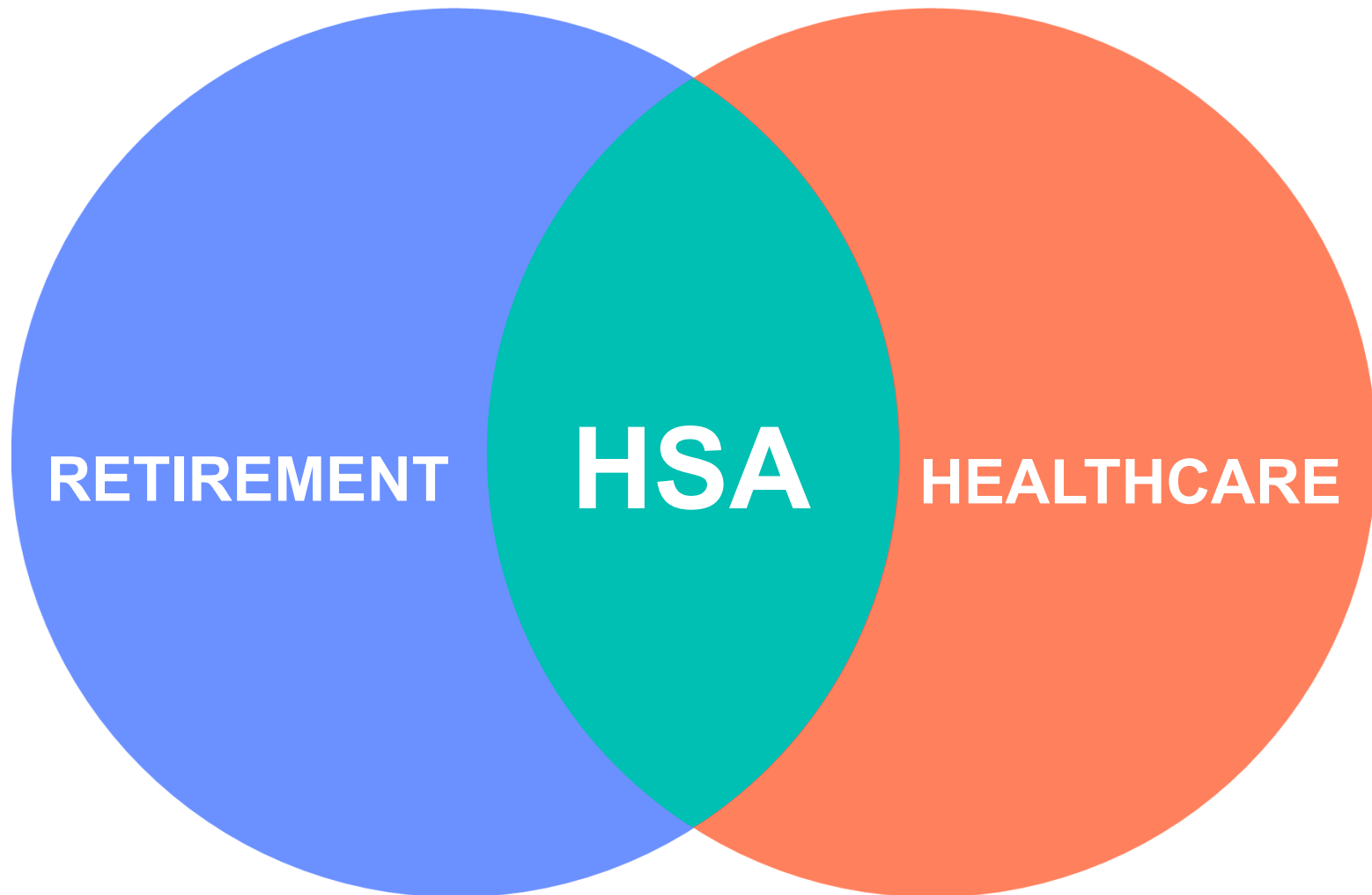
2. Source: IRS Revenue Procedure 2023-23, please visit the IRS website at [IRS.gov](https://www.irs.gov) for more information. Consult your tax advisor about your RMD if you turned 72 in 2022.

3. Source: IRS Publication 969. <https://www.irs.gov/pub/irs-pdf/p969.pdf>



- Mental accounting – 3 types of expenses in retirement
- Healthcare costs are rising and living longer is expensive
- A powerful tax-free tool to save for healthcare costs now and for your future

**A new way forward**



Questions?

**All financial decisions and investments involve risks, including possible loss of principal.**

The hypothetical scenarios are estimates, based on certain simple assumptions, and designed to provide only a general understanding of HSAs. They do not reflect any management fees, transaction costs or expenses. There is no guarantee that estimates or any level of return will be achieved. Actual results may be significantly different from that shown here.

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