Trending
Renewed focus on the tax-advantaged savings and investing potential of HSAs is driving new consideration of how these accounts can be used as an additional source of retirement income to help cover health care costs.

Managing rising health care costs
As health care costs continue to rise, it is becoming more common for employers to pair high-deductible health plans (HDHPs) with health savings accounts (HSAs). This strategy can help companies address two important goals: Contain the cost of their company-sponsored health plan with lower premiums, while providing a tax-advantaged option for plan participants to prepare for health care expenses.

This win-win opportunity for employers and employees is in fact what’s likely driving the continued popularity and growth of HSAs today.

However, there is a growing realization that HSAs are not being recognized for their full potential. While employees are familiar with using HSAs to pay for current medical expenses, there is still work to be done to educate employees on the HSA’s ability to be used for health care costs in retirement. This paper highlights important information employees should know about HSAs and the valuable role they could play in their financial futures.

Why it matters

| $296,000 | $2,764 | 1 in 4 Americans have skipped treatment because of the cost.4 |
| Estimate of what a couple would need to cover medical expenses during retirement2 | Average HSA balance3 | 45% fear bankruptcy in the event of a health emergency.4 |

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HSA and 401(k): A powerful prescription for retirement readiness

The HSA offers employees a powerful way to help build retirement savings alongside their 401(k). Similar to a 401(k), money left in an HSA could benefit from compound interest — with tax-free growth potential — to help cover eligible medical expenses in retirement when dollars are needed to pay for health care expenses. In addition, employees have the opportunity to build their HSA accounts in the years leading to retirement by maximizing contributions, letting account balances carry forward year to year and directing the investment of HSA contributions if the plan allows.

HSAs and 401(k)s are two tax-advantaged benefits that can work better together. Employees can use the funds in their HSAs to pay for eligible out-of-pocket health care expenses on a tax-free basis — preserving 401(k) assets for other retirement income needs.

Recent trends indicate that when participants contribute to both an HSA and a 401(k), they tend to contribute more to their 401(k) than those who contribute to a 401(k) alone.5

| 8.9% | Average 401(k) contribution rate for participants who contribute to 401(k) and an additional 2.9% to their HSA6 |
| 6.8% | Average 401(k) contribution rate for participants who contribute only to a 401(k)5 |

Shifting the mindset: Spenders vs savers

Many employees still use their HSAs as a short-term spending account versus a long-term savings strategy. According to Devenir, an industry-recognized resource for health account research and trends, 64% of health savings account holders are defined as spenders, with a balance of less than $1,000.6

In one study, 75% of employees said they see their HSA as a way to pay for health care expenses "this year," suggesting that they may not be aware that funds can be carried over. And 54% of employees were not aware that they could invest their HSA funds if the plan made investments available.7 In fact, Devenir reports only 16% of assets in HSA accounts nationwide are invested.6

However, there are some emerging indicators that savers are gaining ground. Two-thirds of account holders had positive net contributions in 2017, meaning annual contributions were higher than annual distributions, and 95% of HSAs ended the year with funds in their accounts for future expenses.3

In addition, HSA providers who offer investment options are expanding the quality and choice of investments within the HSA to help employees think about HSAs as long-term investment vehicles in a similar way as they would their 401(k). According to a report recently released by Morningstar, the quality of investments across HSA plans remains strong and has improved since last year.8

Going forward, policies being considered in Washington may help contribute to the usefulness of HSAs as a saving vehicle. While no legislation has yet been successful, Congress has been focused on expanding and simplifying HSAs as we have seen several legislative proposals begin to garner support over the past year. In 2018, the House of Representatives considered more than 10 bills that would expand HSA and other health savings vehicles, consolidating them into three combined pieces of legislation they passed in July 2018. Proposed legislative changes to HSAs included: permit HSA use for over the counter medications, increase annual HSA contribution limits, allow for spousal catch-up contributions and create more generous Flexible Spending Account (FSA) carry forwards and possible rollovers into HSAs. It remains to be seen if the Senate will pick up this legislation in 2019.

5 important facts about HSAs

1. After age 65, employees can use the funds in their HSAs for any purpose — not just health care — without penalty, but subject to ordinary income tax. If the funds are used for eligible health care, they remain taxed advantaged.
2. There is no requirement to begin withdrawing money from an HSA at age 70½ like with an IRA or 401(k) assuming you are no longer working, so dollars in the account can continue to accumulate tax free.
3. Spouses can inherit the balance in an HSA tax-free, as long as the spouse is designated as a beneficiary. The spouse can maintain the HSA in their own name and access the funds.
4. HSA distributions can pay for Medicare premiums for Part B, a Medicare Advantage plan (Part C), a prescription drug plan (Part D), as well as paying for long-term care insurance. This money can also be used for Medicare expenses such as copayments and deductibles (depending on the Medicare Supplement).
5. Congress is considering new policies to expand HSAs, which could help make this tool even more useful as a longer-term saving vehicle going forward.
Considerations for employers

While HSAs have fast become a vital part of employers’ commitment to financial wellness and their efforts to help employees prepare for retirement, there is still work to be done to unlock the full potential of this important savings tool. Employers can play a key role in helping employees understand the value of funding their HSAs as well as the potential advantages of carrying forward tax-advantaged savings and investing HSA balances as permitted to build their account balances.

The following are a few tips to help employers educate their employees on how to make the most of their HSAs:

• Emphasize guidance and modeling tools available to help employees make more cost-informed decisions. In particular, employees need rational, realistic estimates of how much they will need for health care expenses in retirement.

• Tailor communications to different age groups, preferences and priorities. Some employees may prefer to read communication on their phones or tablets; others may prefer print materials mailed to their homes. Many may prefer face-to-face opportunities to ask questions. Employees are more likely to engage when a combination of digital and personal assistance is offered.

• Keep education ongoing. Your health benefit specialists can help you plan a calendar of communication tactics and suggest ideas on how to educate different generations of employees to help boost adoption.

How we can help

At Bank of America, we continue to believe an HSA is a critical component of financial wellness and we are investing heavily in our Health Benefit Solutions business. Our focus on innovation, like new online tools and apps, is helping make managing health care costs easier and more intuitive for employees.

Bank of America was ranked by Morningstar as one of the top providers of HSAs as investing vehicles\(^8\), which we consider especially important given the prominent role HSAs play in helping employees prioritize saving for their futures.

Talk to us

Contact us to learn more about our Health Benefit Solutions and for insights on ways to educate your employees.

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"When you think about expenses in retirement, health care is a wild card, and people are concerned about it. What we try to do is bring ideas like longevity and its health-expense implications to the table. With HSAs, folks are still trying to understand what they are and what they’re not. This is a topic that needs to be incorporated into the overall employee education about finances and retirement.”

Lorna Sabbia
Head of Retirement and Personal Wealth Solutions

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1 For more information on HDHPs and HSA eligibility, go to https://www.irs.gov/publications/p969.
2 Employee Benefits Research Institute, October 2018. A 65-year-old couple, both with median drug expenses would need $296,000 to have a 90% chance of having enough money to cover health care expenses (excluding long-term care) in retirement. Savings Needed for Medigap Premiums, Medicare Part B Premiums, Medicare Part D Premiums and Out-of-Pocket Drug Expenses for Retirement at age 65 in 2018.
3 Employee Benefit Research Institute (EBRI) HSA Database, October 2018.
8 2018 Health Savings Account Landscape, Morningstar Manager Research, November 12, 2018.

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