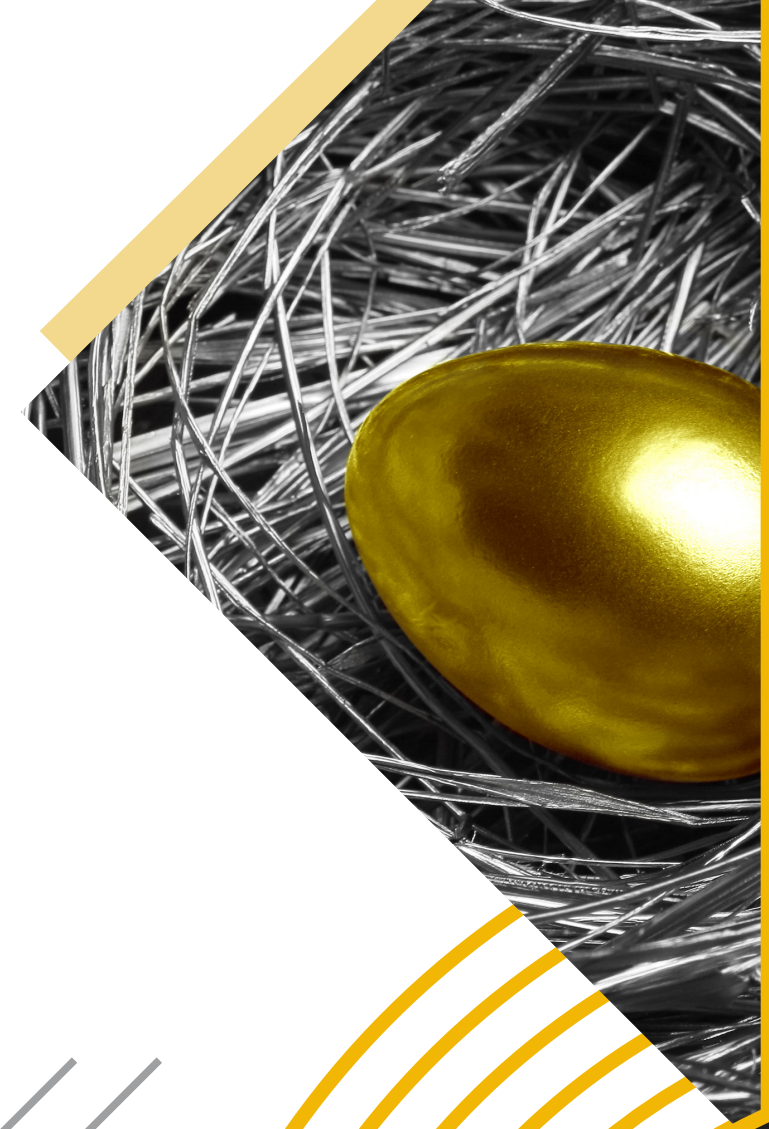
HSAs (AKA Health Savings Accounts) in Retirement:

Your Guide to Coaching Cost Savings for Health Care in Retirement

An eBook for HR professionals, benefits brokers, and registered investment advisors



Connect Your Care

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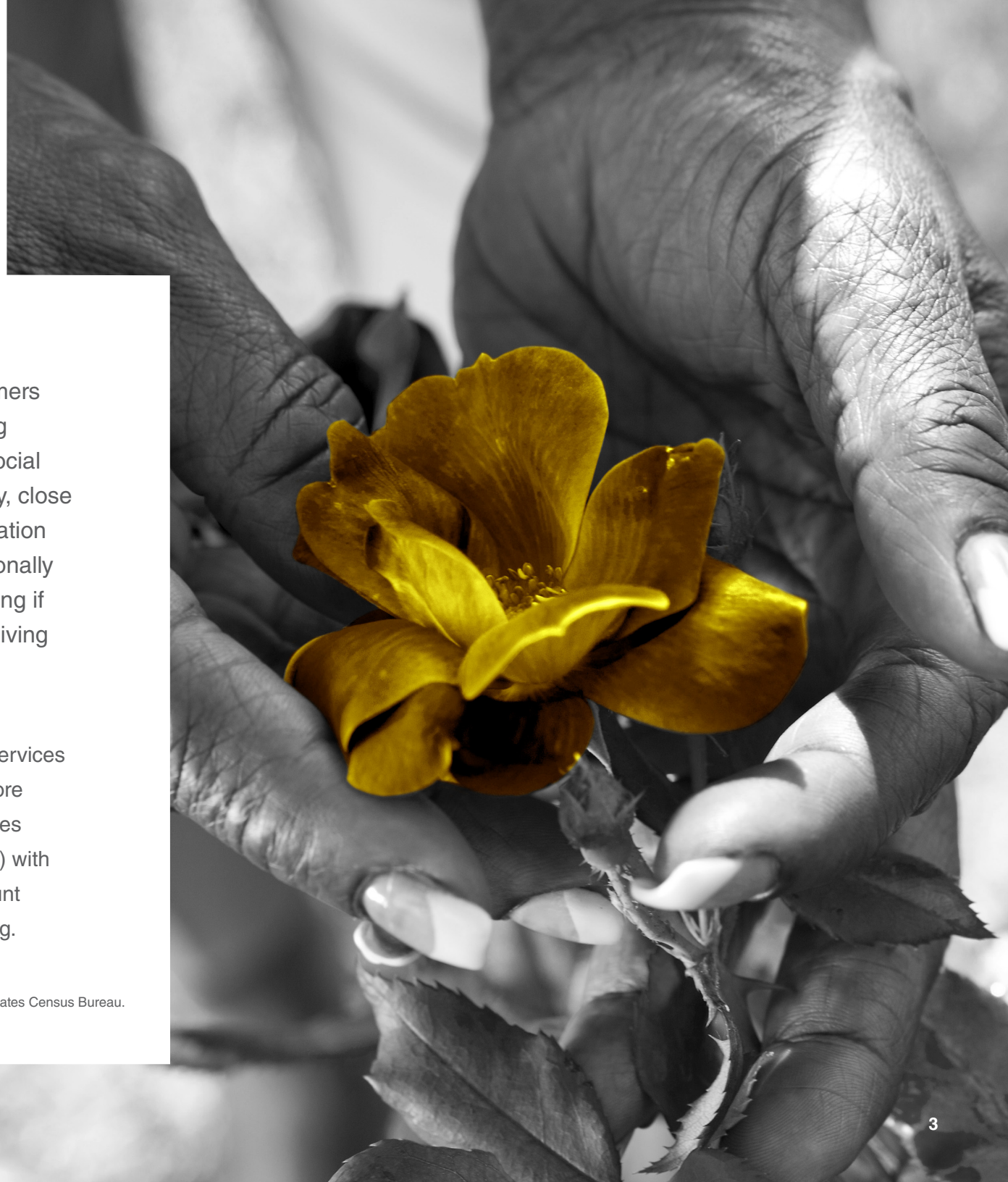
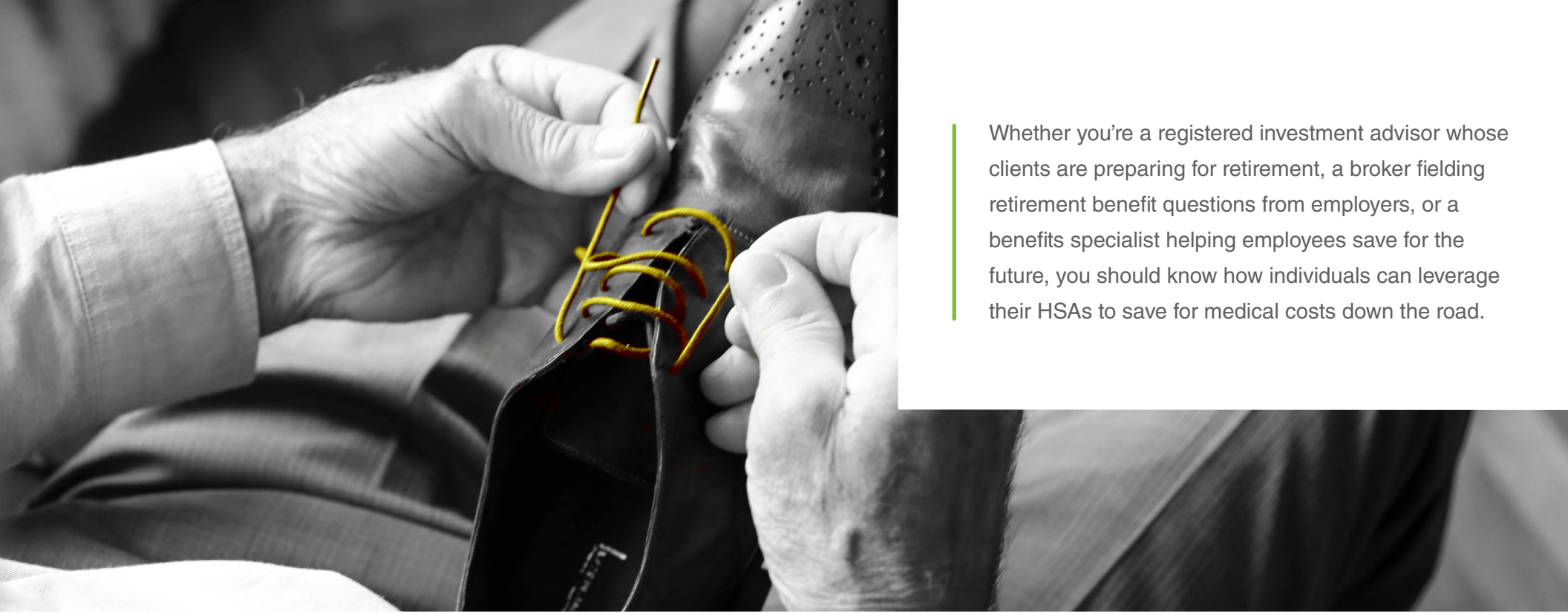
Intro

There are about 77 million baby boomers in the United States who are nearing retirement age and can start receiving Social Security and Medicare benefits. Each day, close to 10,000 people representing this generation turn 65,[1] the age when people are traditionally expected to retire, and many are wondering if they have enough savings to cover their living costs—including health care.

> Meanwhile, the price of health care services in the U.S. continues to rise, while more companies are offering their employees high deductible health plans (HDHPs) with benefits like the health savings account (HSA) to offset out-of-pocket spending.

[1] The Baby Boom Cohort in the United States: 2012 to 2060. United States Census Bureau.





Whether you're a registered investment advisor whose clients are preparing for retirement, a broker fielding retirement benefit questions from employers, or a benefits specialist helping employees save for the future, you should know how individuals can leverage their HSAs to save for medical costs down the road.

In this 'HSA in Retirement' guide, you'll get a crash course on coaching clients and employees to:

- Use an Individual Retirement Account (IRA) and an HSA to maximize retirement savings
- Navigate the nuances of Medicare, Social Security, and HSAs
- Pay for long-term care with HSA savings

Ready to become an expert HSA and retirement advisor?

Let's get started!

Health care costs are on the rise, but many older Americans aren't prepared when it comes to paying for medical costs in retirement:

40% of Americans aren't setting aside funds for future health care costs.[2]

A healthy 65-year-old couple will likely need nearly $400,000 to cover health care costs in retirement.[3]

[2] 40% of Americans Don't Save for This Important Expense. The Motley Fool.

[3] 2018 Retirement Health Care Costs Report. Health View Services.

TOPIC 1

Building a Retirement Savings Strategy with IRAs and HSAs

An HSA in conjunction with an IRA folds into a well-rounded retirement strategy. Here's how you can advise your clients or employees on IRAs and HSAs.

Refresher: IRA Options

Traditional IRAs

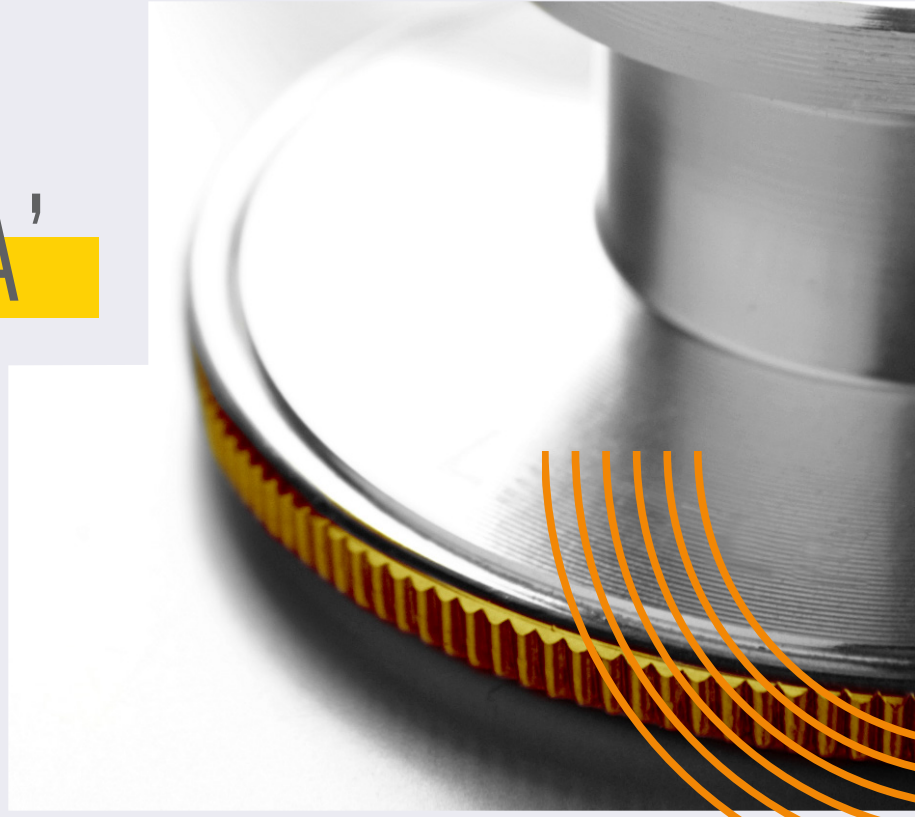
IRAs were designed in the 1970s to allow employees to make contributions to a portable retirement account, outside of their employer.* With this IRA option—known as a Traditional IRA—employee contributions are tax-deductible for both federal and state taxes in the year a person makes the contribution. When that money is withdrawn in retirement, those contributions are taxed at the standard income tax rate.

Roth IRAs

In 1997, the Roth IRA was introduced, allowing employees to pay taxes on the front end when they contribute to the account. The earnings and withdrawals are generally tax free when an employee is older than age 59 and a half, or they've had a Roth IRA for at least 5 years. But it's important to remember that, if an employee opens an account after age 59 and a half, they will have to wait at least 5 years before they can withdrawal their funds without receiving a penalty.

*For contributions to a traditional IRA, the amount an employee can deduct may be limited if the employee or their spouse is covered by a retirement plan and the employee's income exceeds certain levels. IRS.gov.

HSA: The 'Medical IRA'



HSAs were born in 2003 as part of the Medicare Prescription Drug, Improvement, and Modernization Act. HSAs are tied to HDHPs and allow employees to set aside money before taxes to pay for qualifying medical expenses at any time. Similar to an IRA or 401(k), an HSA also allows people to save money for future expenses. These account contributions roll over year after year and offer employees the opportunity to invest their earnings.

The Rollover: Where IRAs and HSAs Meet

In 2006, the Health Opportunity Patient Empowerment Act was passed to allow individuals to make a one-time, penalty-free rollover from their IRA to their HSA. This allows the individual to fill up their HSA to pay for medical care tax free.

By rolling over IRA savings, employees can amass more funds in their HSA account, up to the allowable limit, which is advantageous when you consider how much a healthy retiree will typically spend on medical costs (see page 4).

For clients or employees who are nearing retirement, but are not yet there, you can encourage them to remember the power of an HSA, as they will get the most value from tax-free dollars for health care spending down the line.

Remember, the HSA is the only account in the IRS tax code that truly offers triple-tax savings:

1. *Contributions are tax free, reducing the money a person owes on federal income taxes.*
2. *Funds can be invested, and any interest earned on those investments is tax free.*
3. *Funds can be withdrawn tax free to pay for qualified medical expenses.*

Things to keep in mind:

- Both IRAs and HSAs have contribution limits that are set by the IRS each year.
- If the individual does roll over the max HSA limit for the year from their IRA, that's all they can contribute to their HSA for that year.
- The maximum amount a person can roll over from the IRA to the HSA must align with the HSA contribution limits for that year.

TOPIC 2

Navigating Medicare, Social Security, and Health Savings Accounts

The nuances around Social Security, Medicare, and HSAs are tricky, to say the least. This guide can help you field common questions on this complex topic.

A Quick Overview of Social Security and Medicare:

Starting at age 61 years and 9 months, a person can apply for retirement benefits, known as Social Security.

Those who are already age 62 may be able to start collecting those benefits within the month they apply.

When a person does sign up for Social Security benefits, it automatically triggers Medicare Parts A and B when they turn 65.

Medicare Part A

Medicare Part A covers hospital care and typically doesn't require a monthly premium since most people pay into it while they worked (if they worked 10 years or more).

Medicare Part B

Medicare Part B is considered "medical insurance" and covers doctor's visits, and typically has a monthly premium.

Keep in mind:

It's possible for a person to opt out of receiving Part B, even if they're enrolled in Social Security or Part A.

Where HSAs Come In

Here's where it starts to get tricky: Individuals do not actually have to be retired to collect Social Security and Medicare Parts A and B. They can be covered by an employer health care plan and still receive Medicare if they choose. However, if a person has an HSA with their employer, the IRS says they cannot contribute to it if they are enrolled in any part of Medicare.

This is where the questions really start to roll in:

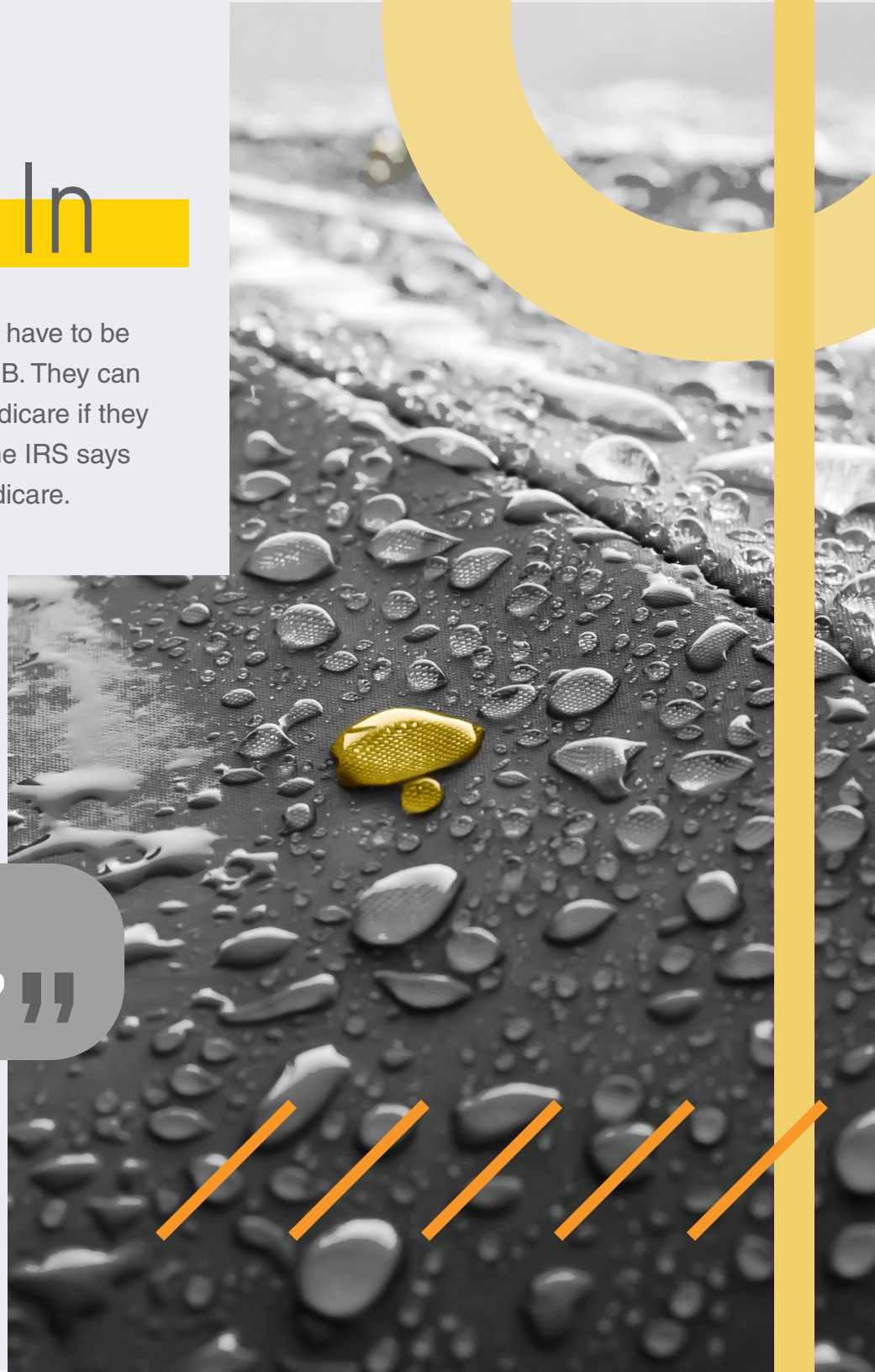
> "Is there a way for me to keep my HSA after age 65?"

> "Can I collect Social Security without collecting Medicare Part A?"

In short, it's complicated.

So how do you field questions from clients and employees about Medicare, Social Security, and their HSA?

We've got you covered on the next page.



To Keep an HSA After 65

Scenario 1

For those nearing retirement who have NOT signed up for Social Security OR Medicare:

If an employee decides they want to keep contributing to their HSA before they become eligible for Social Security and Medicare, they probably don't need to do anything (depending on their age).

In many cases, they could simply hold off on applying for both types of benefits until they no longer want to contribute to an HSA (or until they lose their employer-based health care).

But keep in mind:
Delaying enrollment in Medicare may result in a lifetime Medicare premium penalty, unless the individual is covered by their employer or their spouse's health insurance plan.

Scenario 2

For those who HAVE applied for or already receive Social Security:

This person cannot contribute to their HSA, because signing up for Social Security automatically enrolls them in Medicare Part A.

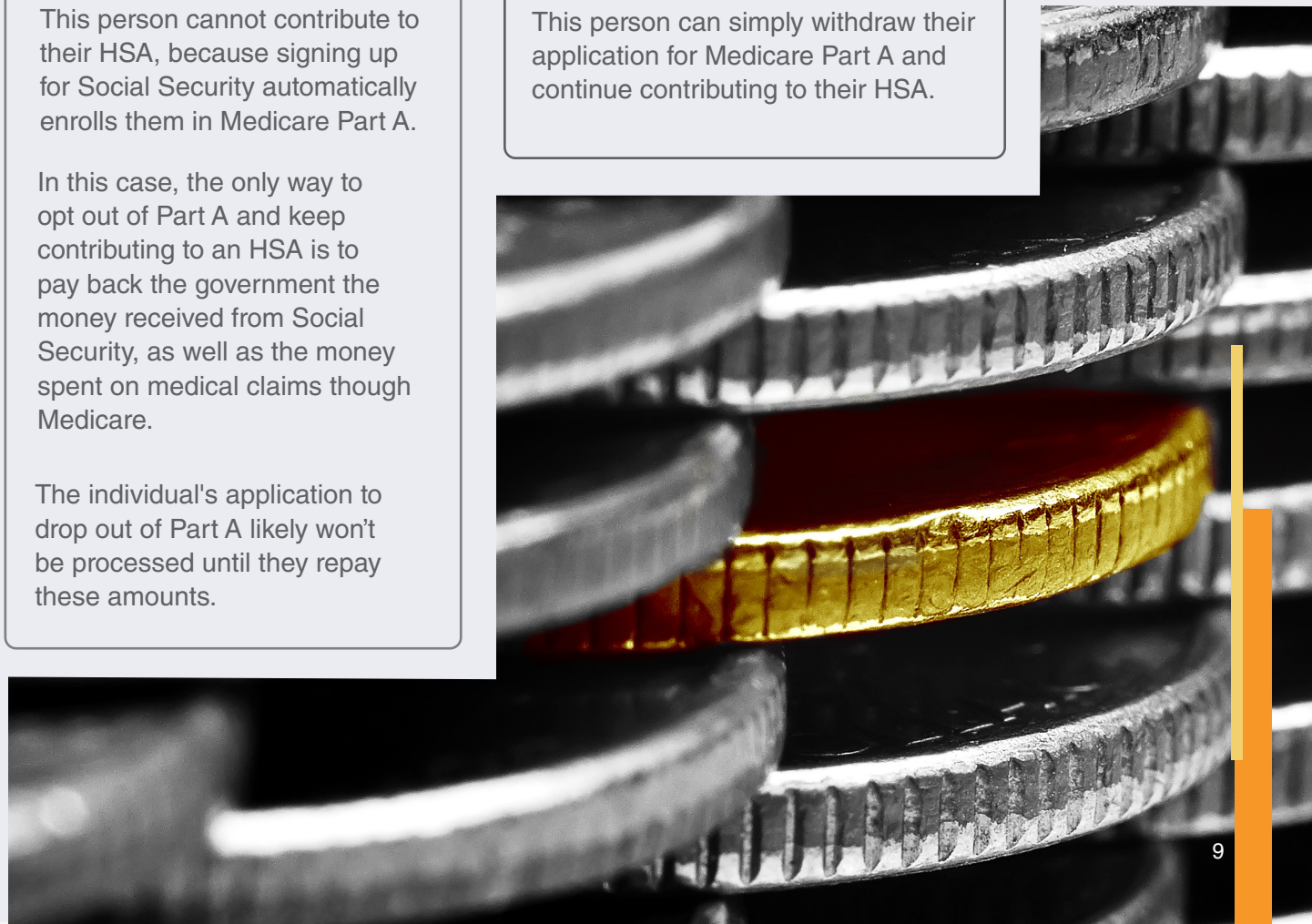
In this case, the only way to opt out of Part A and keep contributing to an HSA is to pay back the government the money received from Social Security, as well as the money spent on medical claims though Medicare.

The individual's application to drop out of Part A likely won't be processed until they repay these amounts.

Scenario 3

For those who applied for Medicare Part A at age 65 or later but HAVE NOT applied for Social Security benefits:

This person can simply withdraw their application for Medicare Part A and continue contributing to their HSA.



For Those Who Want to Keep Working and Contributing to Their HSA

Everyone's circumstances are different, so it's important for employees nearing retirement age to talk to their financial, tax, and benefits advisors to see if it makes sense for them to delay Medicare Parts A and B.

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If the individual is ***age 55 or older***, you can advise them to take advantage of the $1,000 catch-up contribution that they can add to their HSA each year once they turn 55, on top of the IRS-mandated limits. Just keep in mind that, if the individual decides to opt into Medicare at age 65, they can no longer make any contributions, including the catch-up contributions.

If the individual is age ***65 or over*** and is looking to keep contributing to their HSA as they work, it's possible for them to delay enrolling in Social Security and Medicare altogether until they're no longer covered under their employer's HDHP and HSA.

Social Security benefits, Medicare, and HSAs can get complicated quickly, but by knowing the basics, you can point clients and employees in the right direction—whether they are coming up to retirement age or they are already past it.

TOPIC 3

HSAs in Retirement and Paying for Long-Term Care

When it comes to saving for the golden years, long-term care is a pricey—and often overlooked—retirement expense. Here, we break down long-term care and how an HSA can help offset the costs.

The Cost of Long-Term Care

Long-term care refers to services that help older adults with daily living, which may include in-home care to help a person maintain their independence, but they can also allow for an extended stay in a nursing home.

The need for long-term care often happens gradually as a person ages, but it can happen suddenly if a chronic condition worsens, or in the event of a heart attack or stroke.

This type of care does not come cheap. According to the U.S. Department of Health and Human Services, the national average costs for long-term care are:

- **$3,628 per month for care in an assisted living facility (for a one-bedroom unit)**
- **$6,844 per month for a semi-private room in a nursing home**
- **$7,698 per month for a private room in a nursing home**[4]

Can Medicare Help Pay for Long-Term Care?

Medicare typically only covers short-term care for people ages 65 and older. Although Medicare can be a big help with certain medical costs, individuals are often left paying for long-term care with personal funds.

[4] Costs of Care. U.S. Department of Health and Human Services.

Using an HSA to Pay for Long-Term Care

Planning for medical costs in retirement can be daunting, and oftentimes the last thing people consider is how they will pay for assisted living should they need it in the future. Below, we cover the ways individuals might use HSA funds to cover the costs of long-term care.

Option 1

Use HSA funds to Pay for Long-Term Care:

When the need for long-term care arises, a person can use their HSA to help offset the monthly cost.

Keep in mind that using HSA funds to pay for long-term care could quickly drain a retirement nest egg since it can cost nearly $100,000 a year.[4]

Option 2

Use HSA funds to Pay for Long-Term Care Insurance:

Individuals can purchase a long-term care insurance policy, and then use their HSA to pay for the premiums.

This type of coverage must be purchased before it is needed; individuals cannot wait until they need long-term care to buy.

If an individual has retirement in mind and a robust HSA, planning ahead to purchase this type of insurance could be beneficial to protect their retirement savings.

Long-term care is not something most people want to think about, but a little planning can go a long way when it comes to protecting retirement savings and valuable HSA funds.

[4] Costs of Care. U.S. Department of Health and Human Services.

Conclusion

Helping clients and employees plan for health care costs as they age is just as critical as advising them on their overall retirement savings plan.

An HSA can be a valuable savings tool for individuals who want to feel prepared for health care costs later in life. When employees make the most of an HSA, they're not just setting aside cash for future medical expenses—they're building on a health-to-wealth strategy, chock full of tax-advantaged benefits that can even leave them with extra money to enjoy during retirement.

We hope this guide serves as a solid starting point when it comes to coaching your clients or employees to make educated decisions surrounding their HSAs and retirement.

To learn more about HSAs:

Visit: connectyourcare.com/our-products/health-savings-account

Email: contact@connectyourcare.com

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ConnectYourCare creates greater participant value through intuitive account management; greater employer value and savings through dynamic, outcome-based workflows and tools; and greater partnership value through deep engagements to meet goals—all with proprietary, cloud-based technology and a modern, intelligent platform as its foundation.

Trusted by leading organizations, spanning all industries and sizes, we are making it easier for people to manage care, so they can enjoy life.

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