HSA's and Retirement

According to the Employee Benefit Research Institute (EBRI) Medicare benefits will cover approximately only half of an individual's estimated medical expenses during retirement. After retirement, a couple aged 65 who live to the average life expectancy could need as much as $295,000 to cover premiums and out-of-pocket medical expenses. HSA's can be a powerful retirement accumulation vehicle because it is the most tax- advantaged account being offered today.

One of the biggest advantages of a retirement account, like an HSA, is that the funds are allowed to grow without being taxed each year. This can dramatically increase your return. For example, if you are in a 25% tax bracket and were to invest $5,450 each year in a taxable investment that yielded a 7% return, you would have $167,568 (after tax) after 20 years. If you put that same money in a tax-free investment vehicle like an HSA, you would have $223,425 – that's over $55,000 more*.

At Age 65

An HSA allows you to:

- Pay Medicare premiums
- Withdraw the funds without penalty for additional income or any reason, and pay only income tax
- Use the account for eligible expenses and keep the funds tax-free, including earnings

Strategies

In order to build up additional funds for your retirement, there are three important strategies to consider:

Strategy 1

Place your money in mutual funds or other investments that have growth potential. Though this is riskier than placing your money in an FDIC-insured savings account, it is the only way to really take advantage of the tax-deferred growth opportunity that an HSA provides.

Strategy 2

Delay withdrawals from your account as long as possible. Though you may withdraw money from your HSA tax-free at any time to pay for qualified medical expenses, you do have the option of leaving the money in the HSA so that it continues to grow (tax-free). As long as you save your receipts, you can make medical withdrawals from your account tax-free at any future date to reimburse yourself for medical expenses incurred today.

Strategy 3

Make the maximum allowable deposit to your HSA at the beginning of each year. Even though you are allowed until April 15 of the following year to make deposits to your HSA, you should take advantage of the tax-free growth in your account by funding it as soon as possible. The extra interest you can earn by contributing to your account on January 1 of each year, rather than the next April 15, could be significant over a period of years.

*This example is for illustrative purposes only and does not reflect interest rates currently in effect and may not reflect your tax bracket. Please consult your investment advisor.