Are you prepared for health care costs in retirement?

If your retirement portfolio doesn't include a health savings account (HSA), it probably should.

A health savings account can play an important role in your long-term saving strategy

No one wants to run out of money in retirement. Making sure you don't requires careful planning and an awareness of what your major expenses may be. Most retired Americans will need more money to pay for their health care needs than their insurance coverage will provide, and yet, they do not plan for these expenses. So it can be shocking to learn how much you may really need. Research suggests that a 55-year-old couple retiring in 10 years will need $950,000 in savings — just for health care.[1]

Retirement can last a long time

Statistics confirm that you can be fairly sure your retirement will last 10 years. But what if it lasts 20 or 30 years? Are you prepared?

Age at retirement	Chance of living 10 years in retirement	Chance of living 20 years in retirement	Chance of living 30 years in retirement
65	76%	38%	5%
70	65%	20%	1%
75	49%	7%	~0.1%

Source: forbes.com/sites/simonmoore/2018/04/24/ how-long-will-your-retirement-last/#764996ba7472

To cover expenses in retirement, you'll need a lump sum, and you'll probably achieve that sum through multiple accounts such as a 401(K) and an IRA. If your retirement portfolio does not include a health savings account, you may be missing out on a powerful tool to fund your later years.

Fast facts:

- A recent AARP® study found that almost two-thirds of respondents have never tried to figure out how much their health care will cost them in retirement.[2]
- Medicare may only cover about 51% of health care costs.[3]

What's an HSA?

An HSA is a special type of tax-advantaged individual account used to save and pay for qualified medical expenses. It's like an IRA for your health. But unlike an IRA, you can use the money now or in retirement, and it comes out of the account income-tax-free when used to pay for qualified medical expenses.

An HSA helps you get ready for health care expenses — like prescription drugs, medical supplies, doctor visits, physical therapy and even long-term care insurance — that are likely to arise. At the same time, it allows you to capture significant tax benefits, and you may even choose to invest part of your HSA in mutual funds to further grow your retirement savings.

To open an HSA, you must be eligible

The first step in deciding if an HSA is right for you is determining if you're eligible. If you can answer "Yes," to each statement below, you may be eligible for an HSA.*

I am **enrolled** in a qualifying high-deductible health plan (HDHP).

☐ Yes ☐ No

My annual deductible is at least **$1,400** for an individual or **$2,800** for a family.

☐ Yes ☐ No

My out-of-pocket maximum is **$7,050** for an individual or **$14,100** for a family.

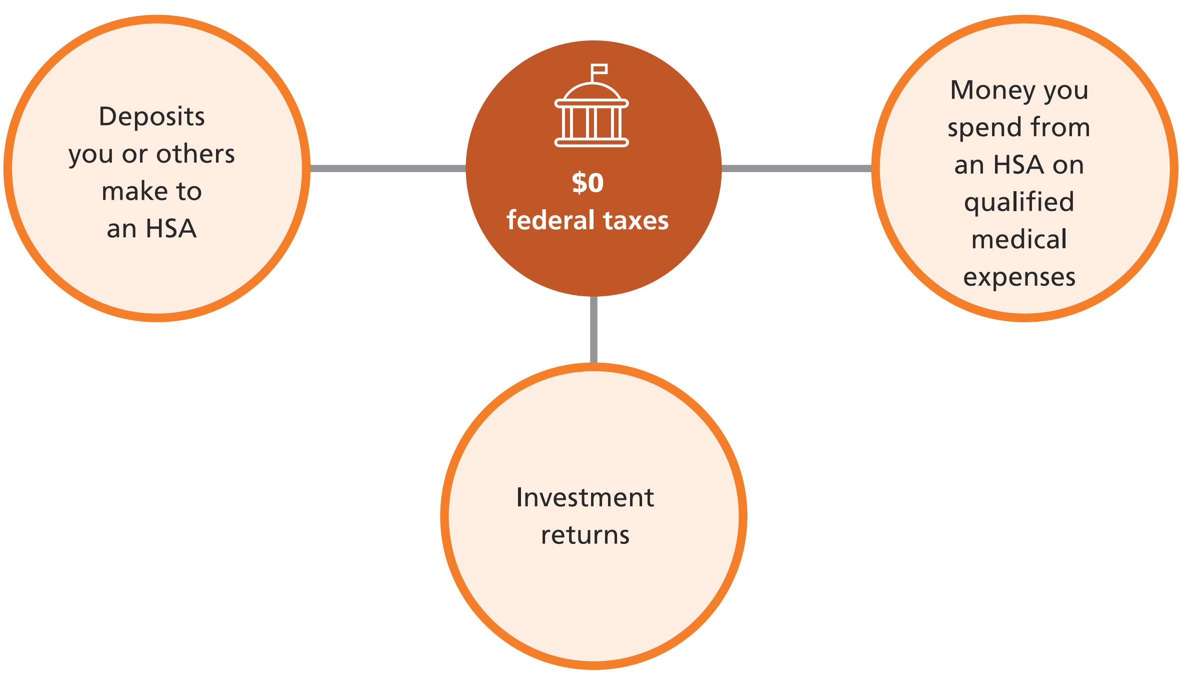
☐ Yes ☐ No

I am **not enrolled** in Medicare or any other disqualifying coverage such as a general purpose health FSA or HRA.

☐ Yes ☐ No

You'll pay less in taxes

One of the great benefits of an HSA is that you don't have to pay federal and — in most cases — state income taxes on HSA contributions. With the HSA, you don't have to pay taxes on:



*For additional details on eligibility to establish and contribute to an HSA see IRS Publication 969.

For example, here is how Mary saves on taxes while saving for health care expenses:

$50,000
Mary's annual salary

$2,000
The amount Mary contributes to her HSA this year

$48,000
The amount Mary is taxed on by the IRS (rather than her $50,000 annual salary)

$440
The amount Mary saves in taxes (at a 22% tax rate)

Let's do the math:

If Mary saves $2,000 in her HSA each year for five years, she will have $10,000 in her account and will have saved $2,200 in taxes.

$2,000 x 5 = $10,000

Potential Tax savings of $2,200

You decide how much you want to contribute
The IRS has yearly predefined contribution limits for HSAs. These are the limits for 2022:

$3,650
if you have single coverage

$7,300
if you have family coverage

An extra $1,000
if you are 55 or older

So how much should you contribute?

A common workplace retirement savings rule of thumb is: Save up to the maximum matching contribution in your 401(k), max out your HSA, then go back to your 401(k).* Ideally, you'd contribute the maximum allowable amount to your HSA. That may or may not be realistic for you.

Here are three common approaches for individuals and families:

Beth, 50 years old with two grown children

Each year for 10 years, Beth contributes enough to cover her annual deductible: $2,000

She sometimes moves funds from her HSA to her investment account

She uses $8,850 for qualified medical expenses

Beth saves $4,800 in taxes over 10 years (24% tax rate)

Her investments earn **$3,513***** **and her ending assets are $14,663**

Ray, 52 years old and single

Each year for 10 years, Ray contributes the individual maximum contribution amount: $3,600**

He uses $10,450 for qualified medical expenses

Ray invests any balance over $2,000

In 10 year's time, he has $33,766 in his investment account

He saves $8,640 in taxes over 10 years (24% tax rate)

Ray earns **$10,216** in gains on his investments*** and his ending assets are **$35,766**

John and Mary, married and 60 years old

Each year for 5 years, John and Mary save the maximum for a family, $8,100 ($7,100 for a family and an extra $1,000 because the account holder is over age 55): $40,500**

They use $15,000 for qualified medical expenses

They invest the remaining balance

In 5 years, they save $9,840 in taxes (24% tax rate)

John and Mary have earned **$4,898** in returns*** and their ending assets are **$30,898**

*Applicable if your employer matches a percent of contributions.

**Examples are based on 2022 contribution limits, which may change based on IRS regulations.

***Assumes 7% interest, compounded annually.

Hypothetical examples are for illustrative purposes only. All events, persons and results described herein are entirely fictitious, and amounts will vary depending on your unique circumstances.

Are you currently saving for health care? Wherever you are in life, your HSA can save you a lot of money and — when paired with investment accounts — could help you make even more.

Three things that may surprise you about HSAs:

2022 → 2023

The funds in the account belong to you. Whether you contribute money or your employer makes a contribution, you own the account — even if you change jobs, lose your job or choose a different health plan.

There is no "use-it-or-lose-it" rule. Unused funds remain in your account from year to year. Your balance continues to grow through new contributions, interest earnings or investment income.

You decide when to use the funds. You can use the account to pay or be reimbursed for qualified medical expenses now or in retirement.

Investments are not FDIC insured, are not bank issued or guaranteed by Optum Financial or its subsidiaries, including Optum Bank, and are subject to risk including fluctuations in value and the possible loss of the principal amount invested.

You can choose to invest your HSA funds

Once your HSA balance hits a predetermined threshold (typically$2,000), you can choose to transfer designated amounts over that threshold into an investment account.

The goal for investing your HSA dollars is to achieve growth in your overall HSA balance. Any positive investment returns you realize are not taxed as income. This is how your HSA becomes a serious long-term investment tool that can play an even greater role in your overall wealth and retirement strategy. If you invest your HSA regularly and that investment compounds at an average of 7% annual growth rate, it adds up quickly.

Optum Financial makes investing easy and more accessible for you by offering two investment opportunities.

Optum Financial Self-directed mutual funds: Choose from a wide variety of over 30 mutual funds, that average a four-star Morningstar rating and represent some of the lowest expense ratios in the industry, including life stage funds.

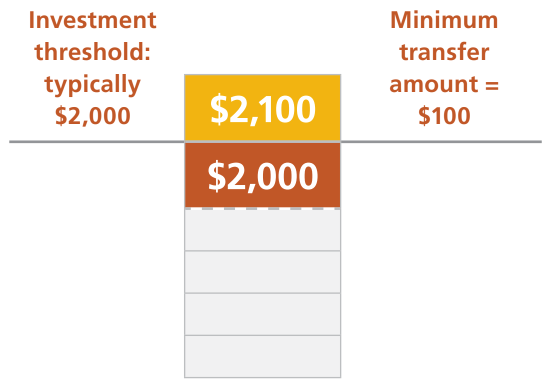
Betterment digitally managed investments: Betterment helps take the guesswork out of investing your HSA. Based on your HSA investment goals, Betterment will recommend a personalized portfolio of low-cost exchange traded funds (ETFs) and help keep your HSA investment on track through auto-deposits and automated rebalancing.

Starting at age 65, use your HSA to pay for anything

If you use your HSA to pay for non-qualified medical expenses before age 65, you could pay a 20% penalty tax charged by the IRS, plus income tax on the amount you spent. But after age 65, you can use it for pretty much anything. You decide. You just have to pay income tax on the funds spent that are not qualified medical expenses.

It’s easy to manage your account

Optum Financial provides the tools needed to simplify HSA management.



Compound interest is the concept of earning interest on your investment, then earning interest on your investment plus the interest. Over time, this may result in the exponential growth of your money.

Calculate your health care costs

Health care expenses are one of the biggest financial worries for retirement. It’s one thing to estimate costs using public averages and quite another to predict your potential health care costs.

The **Health Savings Checkup tool** from Optum Financial lets you see how specific health conditions could affect your health care costs in retirement. By answering just a few questions about your health, your HSA contributions and retirement goals, you will get an estimate of future health care costs that are then broken down by how much Medicare will cover, how much your HSA will cover and what you’ll be responsible for.

Give it a try. You can access the tool at **healthsavingscheckup.com**.

Pay for Medicare with an HSA

As long as you are 65 or older, you can use your HSA to pay for Medicare premiums and out-of-pocket expenses, including deductibles, copays and coinsurance for Medicare Parts A, B and D.

Checklist: Getting started with an HSA
☐ Find out **if you are eligible for an HSA**.
☐ If you're eligible, start the enrollment process. You'll need: • Your Social Security number • A valid email address • Your Medical ID card that contains your Group/Employer number
☐ Register for online access so you can deposit funds, check your balance, capture receipts and pay bills online.
☐ Download the mobile app.
☐ Start making contributions.
☐ Sign up for pre-tax payroll deduction into your HSA, if it's available through your employer.
☐ When your account meets the investment threshold, start investing your HSA funds.

Thank you for choosing Optum Financial.

Investments are not FDIC insured, are not bank issued or guaranteed by Optum Financial or its subsidiaries, including Optum Bank, and are subject to risk including fluctuations in value and the possible loss of the principal amount invested.

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Sources

1. HealthView Services. 2019 retirement health care costs data report.
2. aarp.org/work/retirement-planning/info-11-2013/plan-retirement-health-costs.html.
3. Frontstin, Paul. Savings needed to fund health insurance and health care expenses in retirement: Findings from a simulation model. Employee Benefits Research Institute (EBRI), May 2008.

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