HealthEquity®

TIAA

THE NEW NEST EGG

Why a Health Savings Account is a key component to a retirement savings strategy.

There is an ever-widening gap in retirement savings and it's connected to the rising cost of healthcare for workers and retirees alike. That's why more employers are now offering Consumer Driven Health Plans (CDHP) that include Health Savings Accounts (HSA) as part of their healthcare benefits package. HSAs can help their employees throughout their journey toward financial well-being.

Pension and retirement savings plans can provide lifetime income protection although they are taxable in retirement. An HSA and other retirement savings plans such as pre-funded Health Reimbursement Accounts (HRA) can provide tax-free benefits for retirees to pay for healthcare expenses. The combination of lifetime income protection and tax-free healthcare solutions can help reduce the savings gap. This paper discusses why HSAs are a key element to an employer's overall retirement benefits offer and how they can help employees in their overall financial well-being.

Inside, you'll discover:

1. Trends in retirement savings
2. The HSA triple-tax advantage
3. How to optimize a retirement savings strategy
4. Why employer matching can make an impact
5. How to help your employees invest their HSA dollars

The retirement savings gap is growing—and it's bigger than you think

Projections by the World Economic Forum (WEF) suggest that the US retirement savings gap could reach $137 trillion by 2050.[1] A similar study by the WEF found that most retirees will outlive their savings by a decade.[2] Meanwhile, an independent study commissioned by the Federal Reserve found that 1 in 4 Americans have zero retirement savings.[3]

Women especially continue to fall behind. Gender pay disparity is translating into a deeper retirement savings gap for women.[4] In addition, the National Institute on Retirement Security found that more than two thirds of millennials have nothing saved for retirement either.[5] Swelling student loan debt, combined with two generation-defining crises (2008 recession and COVID-19 global pandemic) have made it difficult for millennials to get ahead.

Study after study confirms the same thing. Americans are simply not prepared for retirement—and more than ever they will rely on social security as their only source of retirement income.

At the same time, healthcare costs are rising with no end in sight. According to recent estimates, the average couple will need between $301,000[6] and $390,000[7] to cover out-of-pocket medical expenses in retirement.[8] These estimates include costs related to Medicare premiums and deductibles. The reality is that healthy couples will need to absorb even more costs, as longer life expectancy translates into higher long-term healthcare costs.

THE RETIREMENT SAVINGS GAP IS TIED TO RISING HEALTHCARE COSTS

$137 TRILLION

retirement savings gap by 2050

1 in 4 have

ZERO

saved for retirement

$300,000

is the estimated minimum a couple will need for retirement

[1] http://www3.weforum.org/docs/WEF_White_Paper_We_Will_Live_to_100.pdf
[2] https://www.weforum.org/agenda/2019/06/retirees-will-outlive-their-savings-by-a-decade/
[3] https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf
[4] https://www.forbes.com/sites/davidkudla/2019/12/20/advice-to-women-on-bridging-the-retirement-savings-gap/#4cb2ea7e1180
[5] https://www.nirsonline.org/wp-content/uploads/2018/02/Millennials-Report-1.pdf
[6] Based on median prescription drug expenses. Source: Employee Benefit Research Institute 2019 https://www.ebri.org/content/savings-medicare-beneficiaries-need-for-health-expenses-in-2019
[7] https://www.cnbc.com/2019/07/18/retiring-this-year-how-much-youll-need-for-health-care-costs.html
[8] These estimates include costs for, Medicare Parts B and D, Dental, Vision, Hearing, Routine Exams, Surgery, Long-term end-of-life care.

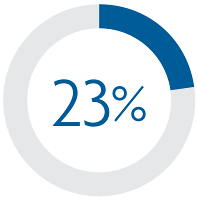
CONNECTED PROBLEMS REQUIRE CONNECTED SOLUTIONS

Given the challenges we face, more employers than ever are offering HSA-qualified health plans.

HSA-qualified health plans enable individuals to gain more choice and control over their healthcare. These plans also generally have lower premiums while inspiring people to become savvier healthcare consumers. In turn, this helps lower overall costs for both employees and employers.

of large employers offered an HSA-qualified health plan last year[9]

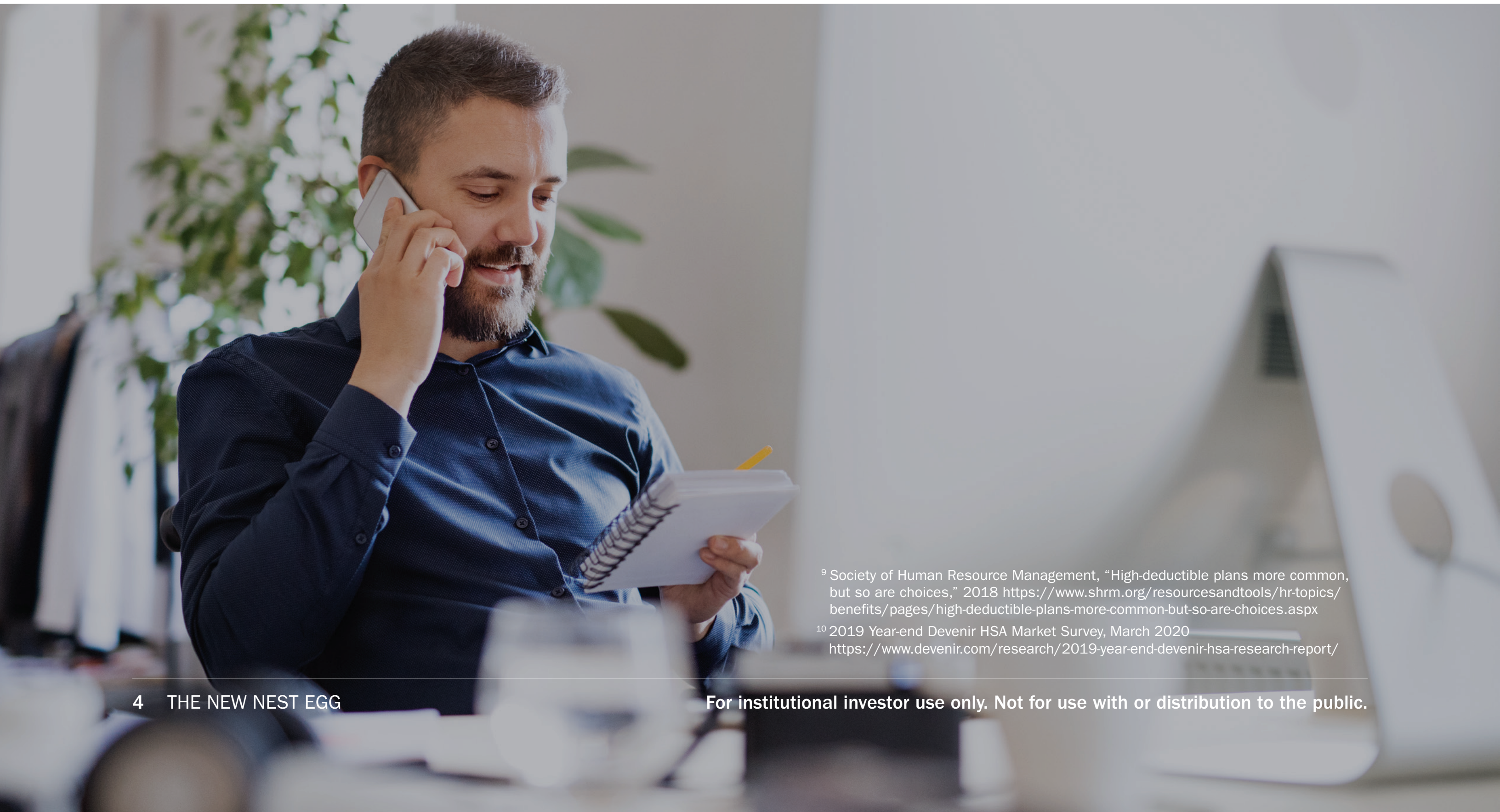
increase in HSA plan adoption year over year[10]



rise in HSA assets in just the past year[10]

HSAs in the United States[10]

HSAs are particularly advantageous because they create an opportunity to maximize long-term savings and offer unmatched flexibility in retirement. The next several sections explain how HSAs can empower your employees to start closing the retirement savings gap.



[9] Society of Human Resource Management, "High-deductible plans more common, but so are choices," 2018 https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/high-deductible-plans-more-common-but-so-are-choices.aspx

[10] 2019 Year-end Devenir HSA Market Survey, March 2020 https://www.devenir.com/research/2019-year-end-devenir-hsa-research-report/

HSAs ENJOY A TRIPLE-TAX ADVANTAGE[11]

Unlock powerful tax savings that can't be found anywhere else.

1. Pre-tax contributions
2. Tax-free earnings
3. Tax-free distribution[12]

Tax-free contributions apply to federal income taxes as well as FICA payroll taxes. When your employees make tax-free HSA contributions, they save on average 30 percent of their income.[13] Importantly, 401(k)/403(b) contributions are still subject to FICA taxes. FICA taxes are approximately 7.65% on each dollar, so contributions to an HSA go further than contributions to a 401(k)/403(b).

In addition, HSA earnings (whether from interest or investments) are not taxed either. HSA members can contribute to their HSA as long as they are enrolled in a qualified HDHP. However, upon reaching age 65 and if an HSA member enrolls in Medicare, they are no longer allowed to make HSA contributions because Medicare is not considered a high-deductible health plan.

Because of their triple-tax advantage, HSAs deliver maximum flexibility in retirement. HSA members age 65 and older can use their HSA for any expense, not just qualified medical expenses. But if the money is not used for qualified medical expenses, then it's taxed as ordinary income—just like a 401(k)/403(b). However, unlike a 401(k)/403(b), an HSA is not subject to required minimum distributions. And HSA distributions are never taxed if the money is used for qualified medical expenses.

The table below contrasts HSAs and 401(k)/403(b) accounts.

	Health Savings Account	401(k)/403(b) retirement account
Contributions	✔ Tax free	FICA tax
Earnings	✔ Tax free	✔ Tax free
Withdrawals for qualified medical expenses	✔ Tax free	Taxed as ordinary income
Withdrawals for regular expenses	Taxed as ordinary income	Taxed as ordinary income
Required minimum distributions (RMD) Also note an additional penalty if you withdraw for regular expenses before age 65.	No	Yes

[11] HSAs are never taxed at a federal income tax level when used appropriately for qualified medical expenses. Any HSA distributions prior to age 65 and not used for qualified medical expenses are subject to ordinary income tax and a 20% excise tax.

[12] For qualified medical expenses. It is the members' responsibility to ensure eligibility requirements as well as if they are eligible for the expenses submitted.

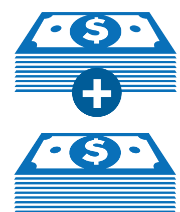
[13] This is a rough estimate only based on US median income.

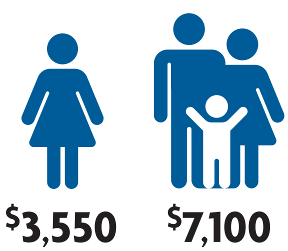
OPTIMIZE YOUR RETIREMENT HEALTHCARE SAVINGS STRATEGY

To maximize flexibility in retirement, consider using an HSA in conjunction with a tax-advantaged retirement account. Using a 401(k)/403(b) or an IRA exclusively is not ideal because distributions are taxable, plus a significant portion of retirement spending will likely be for healthcare. An HSA enables individuals to pay for qualified medical expenses in retirement—in many instances, tax free.[14] Here are some steps to maximize a contribution strategy.

1 MAX OUT THE EMPLOYER 401(k)/403(b) MATCH

Commonly, employers match fifty cents on the dollar up to six percent of employee income. Other match plans go dollar for dollar up to three percent. Regardless of the approach, an employer 401(k)/403(b) match represents real income that should be captured if available.



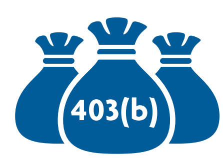


2 CONTRIBUTE THE HSA MAX

The HSA contribution limits for 2020 are $3,550 for individuals and $7,100 for families and for 2021, the contribution limits are $3,600 for individuals and $7,200 for families. In most cases, it may benefit a HSA member to maximize contributions to their HSA before maxing out their 401(k)/403(b). FICA savings alone often justify prioritizing the HSA.

3 MAX THE 401(k)/403(b)

After maximizing HSA contributions, then contribute additional money to a 401(k)/403(b). The 401(k)/403(b) is a powerful tax-advantaged account that enables people to enjoy pre-tax contributions.



There are some people, however, for whom this strategy may not be ideal. Considering that an HSA can cover a myriad of over-the-counter medicines such as cough syrup, pain relievers and menstrual care products; if someone is inclined to regularly use their HSA for routine purchases, then a different long-term savings strategy should be considered.

[14] After age 65, if you withdraw funds for any purpose other than qualified medical expenses, you will be subject to income taxes. Funds withdrawn for qualified medical expenses will remain tax free.

HSA PLAN DESIGN: CONSIDER A FLEXIBLE MATCH

Not everyone has the flexibility to contribute to both their 401(k)/403(b) and their HSA. Given the rising costs of things like housing and student loan repayment, some people simply need as much take-home pay as they can muster. In these cases, individuals may be forced to choose between taking advantage of the employer 401(k)/403(b) match and contributing to their HSA. In such instances, it makes sense to maintain an HSA balance that is high enough to cover the annual health plan deductible. That way, if a medical issue arises, they won't need to go too far out of pocket.

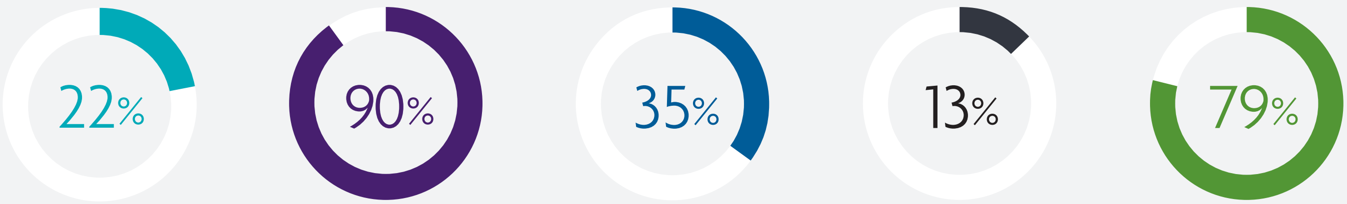
Some organizations, however, offer what's called a **flexible match plan.** A flexible match plan empowers individuals to choose which accounts earn the employer match. For example, employees can contribute to their 401(k)/403(b) but request the employer match be contributed their HSA—or vice versa. The advantage of this approach is that lower-income or financially constrained employees can build their balances across different account types. They don't have to choose between making 401(k)/403(b) contributions and HSA contributions. It's the best of both worlds.

Employer matching is almost universal in 401(k)/403(b) programs because it incentivizes participation. Yet it's rarely seen in HSAs, as most employers opt for a seed. Employers looking to help their employees effectively manage long-term health savings should consider an HSA-qualified health plan that includes an employer match—just like their 401(k)/403(b).

HealthEquity is the administrator of the TIAA health savings account, and leveraged their anonymized client data to compare HSAs that use an employer match (29 organizations) to a control group that uses a seed-only approach (45 organizations). Please see the findings below.

Although not right for every business, it's clear that the employer match is a powerful tool that helps incentivize HSA adoption and use, while helping to lower overall cost.

Employer match (vs seed only)



more employees contribute

see higher levels of employee participation

higher average employee contributions

greater employer cost savings*

had lower employer contributions

*Cost savings are estimates only. Actual results may vary.

HSA AS INVESTMENT GROWTH ENGINE[15]

HSAs are an especially effective retirement savings tool because you can invest just like a 401(k)/403(b). Unfortunately, not everyone invests their HSA.

According to EBRI,[16] fewer than 20 percent view HSAs as an investment vehicle. And only 7 percent invest their HSA dollars into stocks, bonds and mutual funds. We've found that several factors keep people from investing their HSA dollars.

Misunderstanding

Some mistakenly believe HSAs carry hidden tax penalties if they withdraw invested HSA funds before age 65. They believe investments carry different rules than HSA funds that aren't invested. Others are worried they'll incur very high fees.

Inexperience

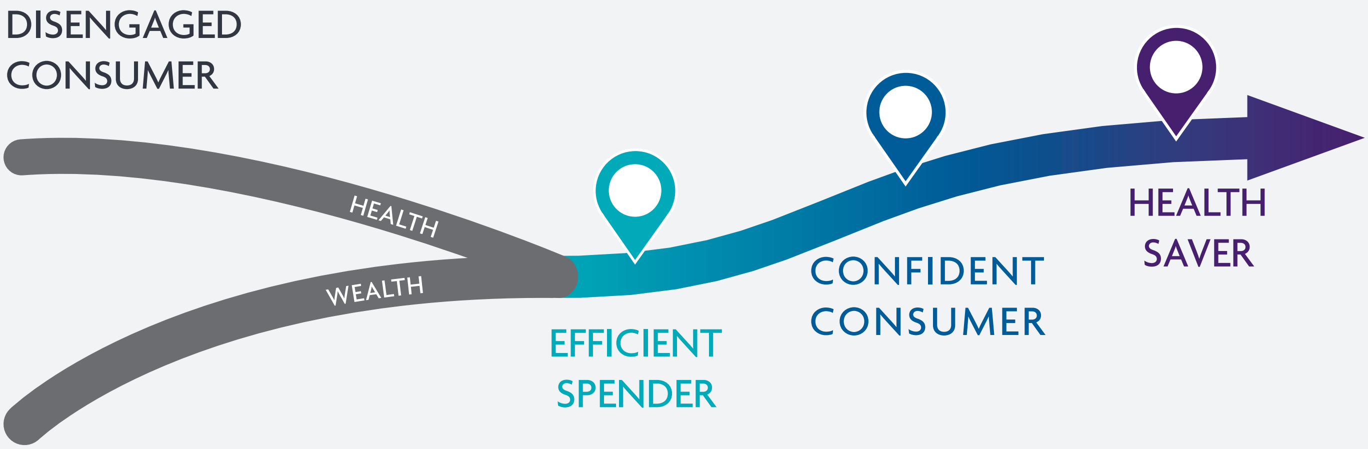
Many don't know how to select investments or balance their portfolio. That's why plan sponsors say educating employees about HSAs is top concern.[17] Employees need to understand how their HSAs work, and also how to use them to their fullest effect.

Difficulty

The reality is that investing can be time consuming and complicated. Often, platform navigation is confusing. And it's hard to access research and make comparisons.

The TIAA HSA administered by HealthEquity offers an integrated digital experience that can enable your employees to holistically manage their retirement savings alongside their healthcare savings. As account contributions are made to the HSA, the value is placed into an interest-bearing cash account to help cover immediate medical expenses. Then, upon reaching an account minimum of $1000, HSA members will have the opportunity to invest into a diversified menu of TIAA-CREF and other funds to potentially grow their HSA balances. Through our integration with HealthEquity, your employees will have access to a robust array of educational resources from both institutions such as calculators, webinars, communications, videos and more to help them in their journey from disengaged consumers to become empowered health savers.

Empowering the journey from disengaged consumer to empowered health saver



[15] Investments are subject to risk, including the possible loss of the principal invested, and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. Investing through the HealthEquity investment platform is subject to the terms and conditions of the Health Savings Account Custodial Agreement and any applicable investment supplement. Investing may not be suitable for everyone and before making any investments, review the fund's prospectus

[16] EBRI, A Possible Disconnect Between Perception and Utilization of HSAs, Jan 2019 https://www.ebri.org/docs/default-source/fast-facts/ff-321-cehcs-24jan19.pdf?sfvrsn=7cc3e2f_7

[17] PSCA 2019 Survey: https://www.benefitspro.com/2019/06/06/hsa-education-top-concern-of-plan-sponsors/

To help novice investors overcome their inexperience, HealthEquity Advisors, LLC[18] offers a powerful robo advice tool called Advisor.

Advisor offers two configurations, enabling members to adjust their level of control. First is the **GPS** option, which is a recommendation engine that suggests investment options based on age, account balance, income and more. This option gives members the opportunity to ultimately select their own investments based on targeted advice. The **AutoPilot** option, by contrast, is a fully automated advisory tool that uses intelligent technologies to manage member portfolios. Member inputs create a risk profile, then **AutoPilot** will automatically rebalance portfolios based on member-specific factors. In this respect, **AutoPilot** empowers even the most inexperienced members to invest confidently.

ADVISOR™

powered by: HealthEquity ADVISORS, LLC

GPS

Tap into algorithm-based guidance and recommendations

GPS recommends investment options based on age, investment objectives, investment experience and more. This option gives members the opportunity to ultimately select their own investments based on targeted advice.

AUTOPILOT

Let intelligent technologies manage your entire portfolio

HSA member inputs create a risk profile, then **AutoPilot** will automatically rebalance member portfolios based on specified factors. **AutoPilot** empowers even the most inexperienced members to invest confidently.

The **HealthEquity Investment Desktop** brings it all together. Using on-screen guides and step-by-step tutorials, we make it easier than ever for members to find information, conduct research and select investments with confidence.

Anchored by a diversified line-up of TIAA-CREF and other mutual funds, HSA members have options to find the perfect savings mix for their goals.

[18] Investments are subject to risk, including the possible loss of the principal invested and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. HealthEquity, Inc. does not provide investment advice. HealthEquity Advisors, LLC™, a wholly owned subsidiary of HealthEquity, Inc. SEC-registered investment adviser, provides web-based investment advice to HSA holders that subscribe for its services (minimum thresholds and additional fees apply). Registration does not imply endorsement by any state or agency and does not imply a level of skill, education or training. Investing may not be suitable for everyone and before making any investments, review the fund's prospectus.

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MAKE THE MOST OF YOUR HSA

HSA-qualified health plans empower employees, while helping employers better manage overall healthcare costs. But not all HSAs are built the same. How you implement and manage your HSA can make a huge difference for your employees.

The TIAA HSA brings together innovative technology and remarkable service to deliver a next-generation HSA experience. Building on 120 years of collective experience, at TIAA and HealthEquity we know what it takes to help your employees achieve financial well-being.

Help your employees build the ultimate retirement nest egg.
Call your TIAA relationship manager or contact us at tiaahsainfo@TIAA.org.

The TIAA Health Savings Account is administered by HealthEquity Inc. TIAA and HealthEquity are not legally affiliated.

The TIAA group of companies and HealthEquity do not provide legal, tax or financial advice.

All data referenced in this paper is based exclusively on anonymized HealthEquity client data.

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This material is not a recommendation to buy, sell, hold, or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular type of health coverage or account type. It does not take into account the specific health status, investment objectives, tax and financial condition or particular needs of any specific person. Federal, state, and local tax treatment of HSAs and distributions may vary. HSA account holders should discuss their specific situation with their legal, tax or financial professional.

You should consider the investment objectives, risks, charges, and expenses carefully before investing. Please call 877-518-9161 or go to TIAA.org/prospectuses for current product and fund prospectuses that contain this and other information. Please read the prospectuses carefully before investing.

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