

## Health Savings Account Planning Guide for Americans 50+



- Medicare does not cover vision, hearing aid, dental and nursing home care.
- By age 65, 80% of Americans will have one chronic condition. 50% will have two.<sup>1</sup>

If you're already using a health savings account (HSA), you know it can be an easy and tax-free way to pay for qualified medical expenses. As you get closer to retirement, it's also important to think about how an HSA can help you afford medical expenses once you're no longer working.

If you're not using an HSA but have a high-deductible plan\*, open one today.



## Prepare for everyday costs — and the unexpected.

While getting preventive care and doing your best to stay healthy are important first steps toward keeping medical costs down, anyone can face unavoidable health conditions and expenses. That's why it's important to plan ahead. An HSA offers an opportunity to save tax free today, so you'll be prepared far into the future.

If you plan ahead, you can use your HSA to pay for ongoing qualified medical expenses, such as eyeglasses and co-pays. Once you reach age 65, you will also be able to use your HSA to pay for Medicare premiums including:<sup>2</sup>

- **Part A** (hospital and inpatient care)
- **Part B** (doctor and outpatient care)
- **Part D** (prescription drugs)



## Know how it all adds up.

Having the right Medicare Part A, Part B and Part D coverage can reduce your out-of-pocket spending when you need to see the doctor or get treatment, but it won't cover everything. While most retirees qualify for Part A at no cost, many choose to purchase Medicare Advantage plans, offered by a variety of private health insurers, that offer additional benefits. For people enrolled in traditional Medicare, a Medigap plan can cover co-payments and co-insurance.

Of course, this extra coverage comes at a cost — and that's why it's important to start saving today. Whether you're writing out a check at the doctor's office or sending in a monthly payment for insurance, the expenses can add up.



## Know what to expect.

According to the Employee Benefit Research Institute, if you want a 90% chance of having enough money saved to cover your health care expenses during retirement, you'll need \$116,000 if you're a man or \$131,000 for a woman.<sup>3</sup>

That's around a quarter million dollars per couple — just for medical costs. And the latest statistics from the Federal Reserve show the mean value of retirement accounts is just \$201,300.<sup>4</sup>

# 3x

## Get triple tax savings.

By maximizing your HSA contribution each year through age 65, you can save the money you'll need once you're 65 and older — and save on taxes today. HSAs offer a triple tax savings:

- The money you put into your HSA is tax deductible.
- Your savings grow income-tax free.
- You don't have to pay income taxes on withdrawals used for qualified medical expenses.

Once you've reached 65 years of age and started using Medicare, you can no longer contribute to an HSA. At age 65+, you pay only taxes on ordinary income. There is no additional tax on distributions made after the date you are disabled, reach age 65, or die.<sup>2</sup> So an HSA is a great account to use as a last resort for unexpected expenses. If you find you have more money saved than needed, you can use the funds to pay non-medical-related bills.

Year	Contribution limit (family)	Catch-up contribution if 55+	Total contributions
2011	\$6,150	\$1,000	\$7,150
2012	\$6,250	\$1,000	\$7,250
2013	\$6,450	\$1,000	\$7,450
2014	\$6,550	\$1,000	\$7,550
<b>Total</b>	<b>\$25,400</b>	<b>\$4,000</b>	<b>\$29,400</b>

Year	
2011	\$2,145 annual tax savings <sup>2</sup>
2012	\$2,166 annual tax savings <sup>2</sup>
2013	\$2,235 annual tax savings <sup>2</sup>
2014	\$2,265 annual tax savings <sup>2</sup>
<b>Total</b>	<b>\$8,811 annual tax savings<sup>2</sup></b>

## Watch how quickly your contributions could add up:

If you had been contributing the maximum amount for the past four years (based on family contribution limits), you would have saved \$29,400 for retirement — and reduced your taxes by \$8,811.<sup>5</sup> And that HSA balance could grow even more if you use your HSA's investment feature.\*\*

If you've been thinking about your HSA solely as a way to pay for current-year qualified medical expenses, such as trips to the doctor or prescription co-pays, it's time to start thinking ahead. Make your account part of your retirement planning.

# FREQUENTLY ASKED QUESTIONS

Get the facts about HSAs and figure out how to make the most of your account with these frequently asked questions:

## **How much can I contribute tax free?**

For 2015, the established IRS contribution limit is \$3,350 for individuals and \$6,650 for families. If you're 55 or older, you can contribute an additional \$1,000.<sup>6</sup> If you're married, your spouse can establish a separate HSA and make a "catch-up" contribution too.

## **Can I use my HSA to pay insurance premiums?**

Not until you turn 65. Then you can use your HSA to pay premiums for Medicare Part B, Part D prescription-drug coverage or all-in-one private Medicare Advantage plans; however, you cannot use it for Medigap premiums.<sup>2</sup>

## **What if I need to access the money for an emergency?**

You can withdraw money from your HSA at any time. If you don't use the money for qualified medical expenses, you will need to pay a 20% IRS penalty plus taxes if you're under 65. Once you're 65, you can remove money at any time, for any reason, without an additional penalty on distributions made after the date you are disabled, reach age 65, or die.<sup>2</sup>

## **Does my HSA balance earn interest?**

Yes, it does. And once you have a certain balance in your HSA (usually \$2,000), you can even invest in mutual funds.\*\*

## **How can I invest in mutual funds?**

Once your account reaches a designated balance (usually set by your employer), known as the investment threshold, you can invest some of your money in mutual funds and potentially grow your dollars tax free.\*\* That threshold depends on your account type.

When you invest in mutual funds, you'll pay no federal income taxes on your HSA investment earnings while they're in your account — and in most states you won't pay state income taxes either. You will only pay taxes if you use the money for something other than qualified medical expenses. Consult with your tax professional for details.

If you already have an Optum Bank HSA and are interested in investing, log in at [OptumBank.com](http://OptumBank.com), click on your HSA account, and then click "My Investments" in the top navigation bar. You can see your available mutual fund options and use an HSA asset allocation calculator. You can also view a video designed to help you understand Optum Bank's investment program.

When you set up your investment account, you'll choose how you want the funds to be allocated among the available mutual funds. Once your account is established, you can change your investment elections, transfer funds and rebalance your account. You can also see how your mutual funds are performing. Then, when you need money to pay for qualified medical expenses, simply transfer it back into your HSA deposit account.

## **I started my HSA at work. What if I get a new job?**

Your Optum Bank HSA is your account regardless of where you work. You take it with you, and the balance in the account is yours to keep.

## **What happens to my balance when I die?**

You set a beneficiary for your HSA, just like you would with an insurance policy or any other investments. If you have money remaining at death, your beneficiary will inherit it.\*

## Your HSA can be a powerful savings tool for retirement.

An HSA offers a triple tax advantage. It can go in pre-tax with payroll contributions, grow tax-free and come out tax-free.

You can use it to pay qualified medical expenses at anytime. Need the money for a non-medical reason? Once you've turned 65, you can withdraw any or all of it penalty free. Ask your accountant for details. You will be taxed on ordinary income but not receive any penalty.

Even if you've gotten a late start with saving, there's still plenty of opportunity to save. When you are over age 55, you can make a \$1000 catch-up contribution each year in addition to your IRS contribution limit.



## Wondering if you've saved enough money for health care during retirement?

Visit [HealthSavingsCheckup.com](http://HealthSavingsCheckup.com) to find out. Then, visit [OptumBank.com](http://OptumBank.com) to maximize your HSA contribution for this year or open an account with your high-deductible plan.

\* You must have a \$1,250 or higher deductible to qualify for an HSA.

\*\*Investments are not FDIC insured, are not guaranteed by Optum Bank<sup>SM</sup> and may lose value.

† When used for qualified medical expenses.

‡ Tax rules may apply.

1. Centers for Disease Control and Prevention.
2. IRS. Publication 969. Health Savings Accounts and Other Tax-Favored Health Plans. Available at: [http://www.irs.gov/publications/p969/ar02.html#en\\_US\\_2013\\_publink1000204063](http://www.irs.gov/publications/p969/ar02.html#en_US_2013_publink1000204063). Accessed December 2, 2014.
3. Employee Benefit Research Institute. "Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Good News Not So Rare Anymore," and "IRA Asset Allocation, 2012, and Longitudinal Results, 2010-2012." Vol. 35, No. 10. October 2014. Available at: [http://www.ebri.org/publications/notes/index.cfm?fa=notesDisp&content\\_id=5454](http://www.ebri.org/publications/notes/index.cfm?fa=notesDisp&content_id=5454). Accessed November 18, 2014.
4. Federal Reserve. "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances." September 2014. Available at: <http://www.federalreserve.gov/pubs/bulletin/2014/pdf/scf14.pdf>. Accessed November 18, 2014.
5. Tax savings calculations assume a 25% federal rate and a 5% state rate.
6. In order to make a contribution to your HSA, you must be enrolled in a qualifying high-deductible health plan and meet the other requirements defined by the IRS.

For 2015, you can contribute up to the IRS limits of \$3,350 if you have self-only coverage or \$6,650 if you have family coverage. Contribution limits are increased by \$1,000 for eligible individuals ages 55 or older. These limits include contributions from you, your employer or others.

Health savings accounts (HSAs) are individual accounts offered by Optum Bank<sup>SM</sup>, Member FDIC, and are subject to eligibility and restrictions, including but not limited to restrictions on distributions for qualified medical expenses set forth in section 213(d) of the Internal Revenue Code. Fees may reduce earnings in account. State taxes may apply. This communication is not intended as legal or tax advice. Please contact a competent legal or tax professional for personal advice on eligibility, tax treatment and restrictions. Federal and state laws and regulations are subject to change.



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