Do Your Employees Know About HSAs?

As estimated retirement healthcare expenses grow, it’s more important than ever to educate eligible employees about HSAs — not just as tax-favored health savings tools, but as the unique retirement savings tools that they are.
There are two major retirement planning facts that seem to be trending. And while they may look unrelated, they actually have an interesting connection.

The first fact is that Americans are woefully underprepared for retirement. The second is that employers are expanding the tools in their toolboxes to ensure employees are poised to retire comfortably.

One of those tools, which may seem a little unlikely to some, is a health savings account (HSA). It's a smart way to save that people may not think about at first.
A SMART RETIREMENT TOOL

The idea of retiring comfortably is inching further out of grasp for more and more Americans, even those with years to go before retirement.

Among the bleak statistics, the HSA industry hones in on one in particular: If a couple wants a 90 percent chance of covering medical expenses in retirement above and beyond what’s covered by Medicare, they’ll need $264,000, according to the Employee Benefits Research Institute (EBRI). Note that this analysis does not even factor in the savings needed to cover long-term care expenses.

Enter the HSA. Think of it as a “medical 401(k).”

By nature, HSAs were created to offer eligible individuals (those covered by an HSA-qualified health plan) a way to reimburse themselves for qualified medical expenses. What’s more, these purpose-specific accounts offer an array of tax savings for both accountholders and employers who contribute to them.

For the accountholder, contributions are tax deductible; earnings and interest grow tax-free; and withdrawals for qualified medical expenses are tax-free. And HSA deferrals are not subject to FICA taxes, saving employers money, too.

Keep in mind that there is no deadline for reimbursing qualified medical expenses. In other words, those expenses do not need to be reimbursed in the same year they were incurred. This is where the proverbial shoebox comes in handy.

Many savvy accountholders max out contributions to their HSAs and invest those funds for maximum growth. Meanwhile, they pay medical expenses out of pocket whenever possible and sock those receipts away in a shoebox, or more likely in an app.

If and when they need access to cash flow, they pull out a receipt or two for a past qualified medical expense, withdraw the funds from their HSA, and use them however they see fit.

To sweeten the deal, the creators of the HSA intentionally wrote in a provision allowing accountholders to access their funds penalty-free and without limitations upon reaching retirement age. (As with a traditional 401(k), income taxes on those funds still apply.) Hence, the HSA was arguably created to work as a “medical 401(k).”
But, does promoting the HSA actually lead to cannibalizing the traditional 401(k)? Not according to Patrick Jarrett, Cofounder & HSA Ambassador at Richmond, Virginia-based HealthSavings Administrators, an HSA administrator that offers first-dollar investing to its account holders.

“We’re seeing just the opposite,” Jarrett said. “In our experience, HSA enrollees are actually more likely to contribute to their 401(k) plans.

“We see many account holders maxing out their company’s 401(k) match, and then maxing out their annual HSA contribution (for 2019, $3,500 for single health coverage and $7,000 for family coverage) to take advantage of the rich tax benefits HSAs offer. Then, any remaining funds go into the more traditional retirement savings vehicles. The HSA is treated as an extension of the 401(k).”

When communicated as part of a comprehensive retirement savings approach, Jarrett says they’re treated as part of a holistic retirement savings plan.

There are over 21 million HSA accounts and the number is projected to increase to nearly 30 million by 2019.*

For 2017, the average employer contribution was $719 (for those making contributions), accounting for 33% of all HSA dollars contributed to an account.

In many ways, HSAs are now where traditional retirement vehicles were in the 1980s: underused and unclear. Participants and employers required more education about investment/savings opportunities back then, and the same is true for HSAs today.

Why?

First, most HSA administrators are banks, which tend to focus on securing a deposit—often several thousand dollars—before offering investment options. Banks characterize HSAs as transactional accounts, not savings accounts as the name implies. Promoting debit card utilization over investing as well as claims integration with the HSA perpetuate the mentality that HSAs are mere money market accounts for short-term use.

Second, HSAs are typically paired alongside health plan options during open enrollment meetings. That’s because HSA eligibility is contingent on coverage under a qualified health plan. But because the health plans require so much focus, HSAs are delivered as an afterthought and a way to take the sting out of a high deductible health plan.

So, in the employee’s mind, retirement and healthcare are totally separate benefits. What is missing is the reality that healthcare expenses will be one of the largest expenditures of retirement dollars. And, the majority of financial education that takes place in the workplace focuses almost exclusively on the retirement plan.

“We need to shift the conversation,” Jarrett said. “We need to shift not only how we talk about HSAs, but who does the talking.”

According to Jarrett, retirement advisors are in the perfect position to include HSAs among their lineup of retirement planning tools. Jarrett also encourages employers to shift when the conversation happens: “Most education happens at open enrollment and is diluted with a myriad of announcements about the new leave policy, the online app for the health insurance, and the changes to the prescription benefits,” Jarrett said. “It is costly to the employer and often infective for the employee.”

Having employees allocate more dollars to the HSA can provide some cost savings for employers as well. HSA deferrals are not subject to FICA taxes like 401(k) dollars are.
As employers adopt a more holistic approach to offering retirement planning solutions, the problems described earlier become opportunities. Involving the 401(k) advisor broadens the retirement discussion. Healthcare savings can now be characterized as a key tool for addressing a significant portion of retirement expenses.

But even if employers take up the torch, there’s a sizeable knowledge gap to transcend and there are misconceptions to overcome. Jarrett offers tips to successfully engaging employees in HSAs, based on the practices of some of HealthSavings’ most successful groups:

- **Admit that open enrollment meetings are not a learning environment.** There needs to be easily consumable information well in advance of open enrollment. This material should focus on helping employees decide which health plan to choose, and the value of HSAs should be included as a factor.

- **Have topic-specific information available in near real-time.** Once employees enroll in an HSA, recognize that most employees use healthcare insurance sporadically, so think about offering articles and infographics, quick videos, etc.

- **Offer wellness incentives.** Not only do these incentives promote wellness, a value in and of itself, they also promote accumulation in the HSA, whenever it is appropriate and truly healthy, rather than spending.

- **Contribute seed money.** Not only does it promote High Deductible Health Plan (HDHP) and HSA adoption, but data shows it also encourages employees to contribute to their own HSAs, too.

- **Finally, make it easy for employees to invest their HSA funds.** Ideally, work with your financial advisor to offer the same lineup as their 401(k) or other investment accounts.

As of June 2017, HSAs hold about $42.7 billion in assets, a year-over-year increase of 23%.*
