RETIREMENT PLAN Update

Issue 2, 2021

Because the time is now ...

Using HSAs for retirement

Health savings accounts are primarily used as a savings vehicle to help people pay out-of-pocket medical expenses. However, some people may be able to use them to save for retirement as well.

Health savings accounts (HSAs) were created in 2003 as a savings vehicle to help people pay out-of-pocket medical expenses. Although that is their primary purpose, HSAs contain several features that could potentially make them viable as a retirement savings vehicle for some individuals.

The nuts and bolts of HSAs

An HSA is essentially a medical savings account available to those enrolled in a qualified high-deductible health plan (HDHP). HSAs offer several tax-saving features. For example, contributions are deductible (or excluded from income), account earnings accumulate tax free and, as long as the medical expenses paid with HSA savings are "qualified" expenses for the individual, spouse, or dependents, HSA withdrawals are tax free.

Qualified expenses: Qualified expenses include doctors' fees, hospital services not paid for by insurance, and prescriptions, among others. While health insurance premiums generally are not considered qualified expenses, there

Continued on page 2

Continued from page 1

are some exceptions. For example, individuals receiving unemployment compensation can use HSA funds to pay for health care coverage.

Qualifications to open an HSA: To open and contribute to an HSA, individuals must have a qualified high-deductible health plan. In addition, they generally cannot have other health coverage (although certain types of insurance are allowed, such as vision and dental care) or be enrolled in Medicare.

To qualify, the high-deductible health plan must have an annual deductible of at least $1,400 for self-only coverage or $2,800 for family coverage (for 2021). Also, the sum of the annual deductible and other annual out-of-pocket expenses (other than premiums) required to be paid under the plan cannot exceed $7,000 for self-only coverage and $14,000 for family coverage (for 2021). These amounts are adjusted for inflation annually.

Setting up an HSA is similar to setting up a traditional savings account or an individual retirement account (IRA) in that it can be opened with a lump-sum payment or through an arrangement to make contributions on a regular basis.

Contributions: In general, the maximum contribution to an HSA in 2021 is $3,600 with self-only coverage and an additional $1,000 in catch-up contributions for those aged 55 years or more. The maximum family contribution for 2021 is $7,200 plus a $1,000 maximum catch-up contribution for participants aged 55 years or more. These limits will be adjusted for inflation in future years. An individual's employer or family member may also contribute, as long as the total contribution amount doesn't exceed the limit.

Contributions can be kept as cash or invested in other options that may be available, such as stock or bond funds.* Any money not spent during

the year is rolled over for subsequent years. A relatively healthy individual could accrue a sizable HSA balance over a number of years.

Rules for withdrawals: The rules for withdrawals are quite flexible. An individual with an HSA may make a withdrawal at any point in the future for any qualifying expense incurred since the HSA was first opened. For example, a child needs dental work and her parent pays the $2,800 cost out of pocket this year. If the parent saves the receipt, the parent could use that bill 25 years later in retirement as the basis for an HSA withdrawal. In addition to the receipt, the parent would need records showing that the expenses were not previously paid or reimbursed from another source or taken as an itemized medical deduction.

Using an HSA to save for retirement

The combination of favorable tax treatment, the potential opportunity to invest contributions in longer term assets, and the flexible withdrawal rules make HSAs particularly attractive as an alternative retirement savings vehicle for certain individuals. An individual who currently maximizes contributions to all tax-favored retirement accounts for which he or she qualifies and who also saves in taxable accounts could treat the HSA as another option to save more and to save in a tax-favored way. Essentially, the individual could treat the HSA as a retirement savings account and let the assets compound for as long as possible while paying out-of-pocket medical costs with taxable funds.

However, for those who cannot fund all tax-advantaged retirement vehicles, the decision to use an HSA as a retirement savings account is less clear cut. It may make sense in this situation to try to fund a 401(k) or other tax-advantaged retirement savings account, especially if there is an employer match. As always, each individual's situation is unique and the input of an experienced professional can be invaluable when considering different retirement savings options.

* You should consider a fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.

An action plan for preretirees

As someone saving for their retirement, you may want to revisit your investing and financial strategies as well as your timetable for retirement in light of the financial crisis the country is experiencing. Here are some issues you should consider as a preretiree.

As someone saving for their retirement, you may want to revisit your investing and financial strategies as well as your timetable for retirement in light of the financial crisis the country is experiencing. Even if retirement is still several years away, you can see how well various assumptions you may have made about retirement are holding up in light of the increased volatility in the financial markets and the number of jobs under threat as a result of the economic slowdown.

Here are some issues you should consider as a preretiree.

Is your employment secure?

Job losses have been significant and many employees have had their hours and wages reduced. While it may be difficult to assess your future job security, it may make sense in this climate to seek out additional sources of income. Do you have a skill or talent that can generate extra income? For example, can you find part-time work doing coding or bookkeeping for small businesses? The gig economy has suffered but work may be available. Save and invest what you earn from part-time work.

Do you have an emergency fund?

If you don't have an emergency fund and you are still employed, consider setting aside part of your wages to fund one. This will help you deal with unanticipated expenses without having to use a credit card or borrow from your retirement plan. Try to aim for saving enough money to cover three to six months' worth of expenses.

Should you maximize your Social Security benefits?

You may want to consider delaying taking Social Security benefits for as long as you can afford to do so. You can start collecting Social Security retirement benefits as early as age 62, but you won't be eligible for the full benefit amount. You also can postpone signing up for Social Security until after your full retirement age (FRA)—the age at which you'll be eligible for full benefits—in which case your benefit increases (8% per year up to age 70 for those born in 1943 or later).

FRA is based on the year in which you were born. To see how this works, assume you were born in 1960. Here are the numbers:

- Age 62: receive 70% of your monthly benefit (the minimum amount)
- Age 65: receive 86.7% of your benefit
- Age 67: receive 100% of your benefit
- Age 68: receive 108% of your benefit
- Age 69: receive 116% of your benefit
- Age 70: receive 124% of your benefit (the maximum amount)

Can you save more?

If you have a job and an emergency fund, you should try to boost the amount you save. Living below your means involves cutting down on discretionary expenses. Look for places you can reduce your spending. And look into selling household items, jewelry, or clothes you no longer want on the online marketplace. Most online sales sites charge a small commission. Again, use any money you generate for savings or to pay down debt.

Continued on page 4

Continued from page 3

Are your investments sufficiently diversified?

Diversification[1] is an important investing strategy that involves spreading your money among a variety of funds or portfolios that hold different investments in different asset classes. The thinking is that spreading out your investments helps you manage risk in your portfolio since one asset class may rise at the same time as another one declines. However, the severe volatility in the stock market has forced many investors to revisit how they allocated their investments. You may need to reevaluate your asset allocation1 in light of your particular risk tolerance, time frame, and investment goals. For example, recent events may have convinced you that you are taking on more investment risk than you are truly comfortable with. You may be drawing closer to your anticipated retirement date and might want to focus on asset preservation rather than asset growth.

Should you stop or reduce your retirement plan contributions?

You may be tempted to preserve cash by reducing or eliminating what you contribute to your retirement plan. However, you should think carefully before doing so. The money you contribute to your plan is intended to provide for those years when you will be retired and no longer drawing a regular paycheck. You'll want your money to work 24/7 on your behalf for as many years as possible to take advantage of compounding.

Reach out to a professional

These are unusual and stressful times. If you think you would benefit from the input of an expert, consider contacting a financial professional.

1. Diversification and asset allocation do not ensure a profit or protect against losses. Investing in mutual funds involves risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.

60 South Sixth Street | Minneapolis, MN 55402

RBC Clearing & Custody, a division of RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC.

21-20-00729_20182-CC (04/21)