RETIREMENT PLAN
Update

Issue 4, 2024

Your Challenge, Our Solutions™

Using HSAs for retirement

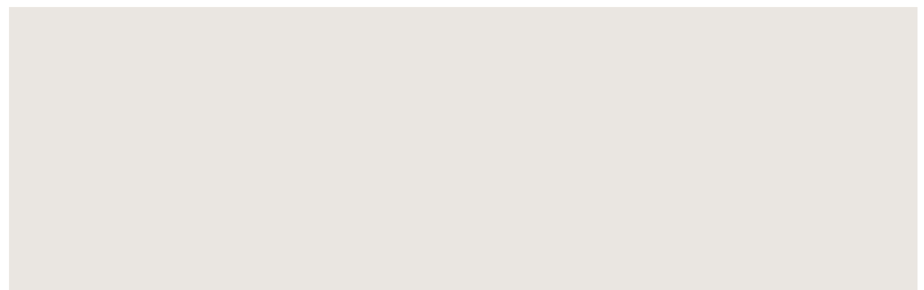
Health savings accounts are primarily used as a savings vehicle to help people pay out-of-pocket medical expenses. However, some people may be able to use them to save for retirement as well.

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 their dependents—HSA withdrawals are tax-free.

Qualified expenses: Qualified expenses include doctor fees, hospital services not paid for by insurance and prescriptions, among others. While health insurance premiums generally are not considered qualified expenses, there are some exceptions. For example, individuals receiving



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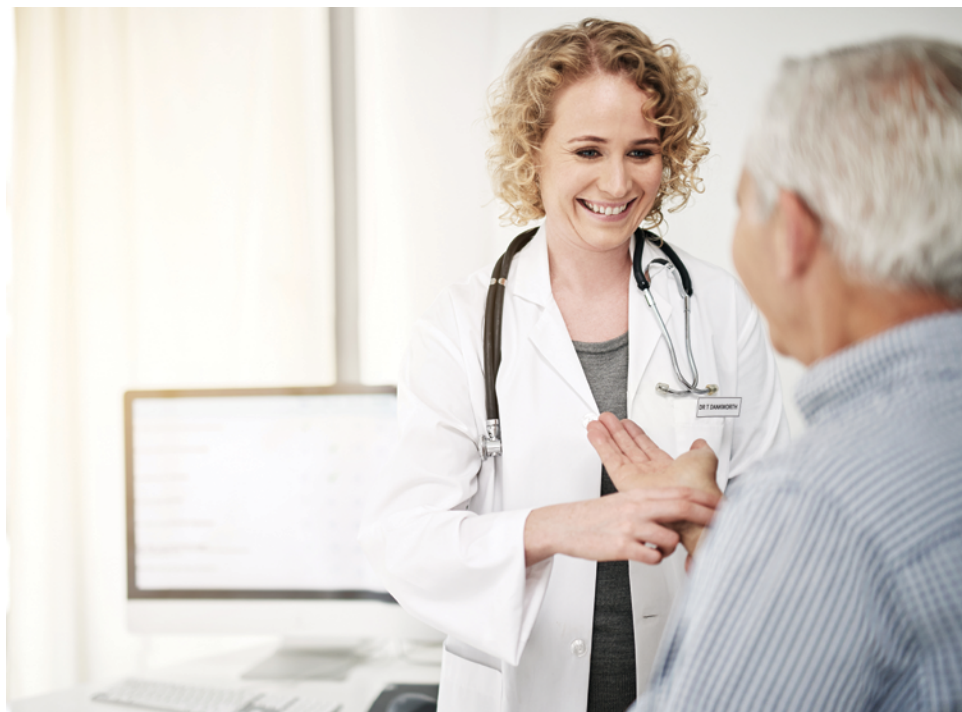
unemployment compensation can use HSA funds to pay for health care coverage.



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 $1,600 for self-only coverage or $3,200 for family coverage (for 2024). 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 $8,050 for self-only coverage and $16,100 for family coverage (for 2024). 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 2024 is $4,150 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 2024 is $8,300 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 opened. For example, if a parent paid $2,800 out-of-pocket for a child's dental work in 2000, they could use that bill in 2025 as the basis for an HSA withdrawal. They would need the receipt for the dental work as well as records indicating that the expense was 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 to invest contributions in longer term assets and 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-considerate retirement accounts they qualify for and who also holds savings in taxable accounts could treat the HSA as another option to save even more in a tax-considerate manner. 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 clearcut. 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.

Keep your beneficiary choices updated

It's important to revisit the accounts and policies that allow you to choose a beneficiary in order to make sure your choices are up to date.

An up-to-date will is an important first step in ensuring that your property actually passes to the people you want to receive your assets when you die. However, this is not the only step you should take. Retirement plan accounts, life insurance policies and certain other assets may allow you to designate a beneficiary. But once you have named beneficiaries, you should be mindful that various life changes and events may require you to add or delete beneficiaries from your bequest. Here's what you need to know about designating beneficiaries and the situations that may require you to revisit your beneficiary choices.

Retirement plan accounts

Chances are you participate in an employer-provided, tax-deferred retirement plan, such as a 401(k), 403(b) or a 457 plan. Or perhaps you are using an individual retirement account (IRA) to save for retirement on your own. Whatever type of plan you have, you were required to name a beneficiary or beneficiaries when you first opened the account. In general, married plan participants are required to name their spouse as the primary beneficiary of a qualified plan account. An exception occurs when the spouse signs the required type of consent that waives the spouse's rights to the plan assets.

Major life events—such as a marriage, divorce or the death of a named beneficiary—may require you to review and update your beneficiaries. Similarly, if you have a new child or grandchild who you want to name as a secondary beneficiary, you will need to update your beneficiary designations.

Failure to keep beneficiary designations current could have unpleasant, unintended consequences. For example, if you name your spouse as beneficiary of your retirement plan and later divorce that spouse, your plan assets may very well go to that spouse when you die if you fail to update your beneficiary designation.

Life insurance policies

You are generally required to name a beneficiary or beneficiaries when you first buy a life insurance policy. The proceeds of your life insurance policy will be paid to the person or persons named as beneficiaries in your policy—even if you name someone else in your will to receive the proceeds of your life insurance policy.

Other assets

There are other assets that can pass through beneficiary designations. If you bought company stock through an employee stock purchase plan, you may be able to designate a beneficiary for that stock. You may also be able to designate a beneficiary to exercise any stock options you own within a specified period after your death.

Estate planning can be a complex undertaking. The assistance of an experienced financial professional is essential if you are unsure about the best ways to pass on your assets and when to add or delete a beneficiary.

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