Hidden Gem: HSAs in Retirement

When saving for retirement, you're probably aware of the benefits of using tax-preferred accounts such as 401(k)s and IRAs. But you may not be aware of another type of tax-preferred account that may prove very useful, not only during your working years but also in retirement: the health savings account (HSA).

HSA in a nutshell

An HSA is a tax-advantaged account that's paired with a high-deductible health plan (HDHP). You can't establish or contribute to an HSA unless you are enrolled in an HDHP. An HDHP provides "catastrophic" health coverage that pays benefits only after you've satisfied a high annual deductible. However, you can use funds from your HSA to pay for health expenses not covered by the HDHP. Contributions to an HSA are generally either tax deductible if you contribute them directly, or excluded from income if made by your employer. HSAs typically offer several savings and investment options. Your employer will likely indicate which funds or investment options are available if you get your HSA through work. All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

Withdrawals from the HSA for qualified medical expenses are free of federal income tax. However, money you take out of your HSA for nonqualified expenses is subject to ordinary income taxes plus a 20% penalty, unless an exception applies.

Benefits of an HSA

An HSA can be a powerful savings tool. First, it may be the only type of account that allows for federal income tax-deductible or pre-tax contributions coupled with tax-free withdrawals. Depending upon the state, HSA contributions and earnings could be subject to state taxes. In addition, because there's no "use it or lose it" provision, funds roll over from year to year. And the account is yours, so you can keep it even if you change employers or lose your job.

HSA as a retirement tool

During your working years, if your health expenses are relatively low, you may be able to build up a significant balance in your HSA over time. You can even let your money grow until retirement, when your health expenses are likely to be greater.

In retirement, medical costs may prove to be one of your biggest expenses. Although you can't contribute to an HSA once you enroll in Medicare (it's not considered an HDHP), an HSA can help you pay for qualified medical expenses, allowing you to preserve your retirement accounts for other expenses (e.g., housing, food, entertainment, etc.). And an HSA may provide other benefits as well.

- An HSA can be used to pay for unreimbursed medical costs on a tax-free basis, including Medicare premiums (although not Medigap premiums) and long-term care insurance premiums, up to certain limits.
- You can repay yourself from your HSA for qualified medical expenses you incurred in prior years, as long as the expense was incurred after you established your HSA, you weren't reimbursed from another source, and you didn't claim the medical expense as an itemized deduction.
- And once you reach age 65, withdrawals for nonqualified expenses won't be subject to the 20% penalty. However, the withdrawal will be taxed as ordinary income, similar to a distribution from a 401(k) or traditional IRA.
- At your death, if your surviving spouse is the designated beneficiary of your HSA, it will be treated as your spouse's HSA.

HSAs aren't for everyone. If you have relatively high health expenses, especially within the first year or two of opening your account, you could deplete your HSA or even face a shortfall. In any case, be sure to review the features of your health insurance policy carefully. The cost and availability of an individual health insurance policy can depend on factors such as age, health, and the type and amount of insurance.
When planning for retirement, it’s important to consider a wide variety of factors. One of the most important is health and its associated costs. Thinking about your future health and the rising cost of health care can help you better plan for retirement in terms of both your finances and overall well-being. This quiz can help you assess your current knowledge of health and health-care costs in retirement.

**Questions**

1. Health-care costs typically rise faster than the rate of inflation.
   - True.
   - False.

2. You could need more than $500,000 just to cover health-care costs in retirement.
   - True.
   - False.

3. Medicare covers the costs of long-term care, as well as most other medical costs.
   - True.
   - False.

4. The southern, warmer states are generally the healthiest places for seniors to live.
   - True.
   - False.

5. If you’re concerned about health-care costs in retirement, you can just delay your retirement in order to maintain your employer-sponsored health benefits.
   - True.
   - False.

**Answers**

1. **True.** The average inflation rate from 2010 to 2017 was less than 2%, while the average spending on prescriptions, doctors, and hospitals grew between 4% and 5%. From 1970 to 2017, annual per-capita out-of-pocket spending on health care grew from about $600 to approximately $1,100 (in 2017 dollars).

2. **True.** In 2017, America’s Health Rankings projected that a 45-year-old couple retiring in 20 years could need about $600,000 to cover their health-care costs, excluding the cost of long-term care. The same report projected that about 70% of those age 65 and older will need some form of long-term care services. And according to the Department of Health and Human Services, the average cost of a one-year stay in a nursing home (semi-private room) was $82,000 in 2016.

3. **False.** Original Medicare Parts A and B help cover inpatient hospital care, physicians’ visits, preventive care, certain laboratory and rehabilitative services such as physical therapy, and skilled nursing care and home health care that are not long term. Medicare Part D helps cover the cost of prescriptions (within certain guidelines and limits). Medicare does not cover several other costs, including long-term care, dental care, eye exams related to eye glasses, and hearing aids. Seniors may need to purchase additional insurance to cover these and other services not covered by Medicare.

4. **False.** Interestingly, America’s Health Rankings found that the five healthiest states for seniors were (1) Utah, (2) Hawaii, (3) New Hampshire, (4) Minnesota, and (5) Colorado.

5. **Maybe true, maybe false.** Many people believe they will work well into their traditional retirement years, both to accumulate as large a nest egg as possible and to take advantage of employer-sponsored health benefits (if offered beyond Medicare age). While this is an admirable goal, you may not be able to control when you actually retire. In a 2018 retirement survey, nearly 70% of workers said they planned to work beyond age 65; 31% said they would retire at age 70 or older. But the reality is that nearly 70% of current retirees retired before age 65. Many of those individuals retired earlier than planned due to a health problem, disability, or other unforeseen hardship.

The bottom line is that while it’s hard, if not impossible, to predict your future health needs and health-care costs, it’s important to work these considerations into your overall retirement planning strategies. Take steps now to keep yourself healthy — eat right, exercise, get enough sleep, and manage stress. And be sure to account for health-care expenses in your savings and investment strategies.

---

2. Preparing for Health Care Costs in Retirement, America’s Health Rankings, 2017, and LongTermCare.gov, 2018
3. Medicare.gov
4. Senior Report, America’s Health Rankings, 2018
5. 2018 Retirement Confidence Survey, Employee Benefit Research Institute
How to Recover from a Mid-Life Financial Crisis

A financial crisis can be scary at any age, but this is especially true when you’re in your 40s or 50s. Perhaps you’re way behind on saving for retirement or have too much debt from unnecessary spending. Or maybe an unexpected challenge, such as a job loss, illness, or break from the workforce for caregiving responsibilities, took a direct hit on your finances.

Regardless of how you got to this point, it’s important to develop a strategy that will help you re-establish financial stability.

Regain control
Start by accepting the reality of your situation. This may be easier said than done when you'd rather avoid the anxiety, stress, and guilt that you may feel when you have money issues. It's okay to feel these negative emotions as part of the recovery process. They are likely to pass with time as you come up with a plan to regain control.

Review your spending
Another step is to create a budget to help establish a positive cash flow. If you're spending more money than you earn, you'll need to cut back on your discretionary spending immediately. If you've made cuts and your monthly income still isn't enough, you'll need to figure out a way to cut your fixed expenses or increase your income.

Reduce your debt
It's likely that debt is one of the reasons why you're facing a financial crisis. One survey found that people between the ages of 45 and 54 reported the highest amounts of debt overall, totaling $134,600.  

To reduce your overall debt, identify the amount and interest rate for each obligation you have. Then tackle it by paying off the debt with the highest interest rate first, then the next highest, and so on.

You might also consider restructuring your debt. This involves negotiating new repayment terms with creditors so you can meet your monthly expenses and pay off your debts within a reasonable amount of time. If you can't afford to hire a professional credit counselor to help you manage or restructure your debt, check with your local Consumer Credit Counseling Service (CCCS) office or another nonprofit credit counseling service to receive assistance at low or no cost.

You should also consider other options, such as seeking part-time work for extra income or liquidating assets, that can help you pay off debt more quickly.

Rebuild your funds
Chances are you've drained your emergency savings fund. If so, you'll need to build it back up. Otherwise, you'll risk racking up credit card debt or dipping into your retirement savings when the next crisis hits. It's okay to start small. Set aside a percentage of your paycheck each pay period to go into your cash reserve. Continue adding money after reaching your goal.

Revisit your financial relationships
In order to prevent another financial crisis, what changes will you need to make to your current financial relationships? Consider the following.

• Career. Do you need to increase your income with a second or a part-time job? Is there room for growth in your current career, or should you consider additional education or training to help boost your earnings?

• Home. Do you currently live in an expensive location? Does it make sense to downsize your home or move to a lower-cost area?

• Family. If you're financially supporting adult children, can you reduce or discontinue it? Similarly, if you support your elderly parents, can your adult sibling(s) share the financial burden of care?

• Habits. Do you overspend to reward yourself? Are you an emotional shopper? Do you buy things you actually want, or are you just trying to keep up with the Joneses?

• Health. Can you make a lifestyle change to improve your health to help avoid future issues and potentially reduce medical costs?

Some of these changes will require careful research (e.g., moving or changing careers), whereas others can be easier to implement (e.g., avoiding shopping sprees or reducing aid to adult children).

Reassess your finances periodically
As you get back on the right financial track, it's critical to monitor your progress. Failure to do so in the past might have contributed to your crisis, so make it a habit to periodically review your finances. You might benefit from working with a financial professional who can help you stay on track with your financial goals as your situation changes.

1 2016 Survey of Consumer Finances, Federal Reserve Board (most recent data available)
Mid American Credit Union
Mid American Credit Union
Jessica Brokaw
8404 W Kellogg Dr
Wichita, KS 67209
316-722-3921 x182
Jessica.Brokaw@cusonet.com

Non-deposit investment products and services are offered through CUSO Financial Services, L.P. ("CFS"), a registered broker-dealer Member FINRA/SIPC and SEC Registered Investment Advisor. Products offered through CFS: are not NCUA/NCUSIF or otherwise federally insured, are not guarantees or obligations of the credit union, and may involve investment risk including possible loss of principal. Investment Representatives are registered through CFS. The Credit Union has contracted with CFS to make non-deposit investment products and services available to credit union members.

Do I need to get a REAL ID when I renew my license?
If you need to renew your driver’s license, you may want to get a REAL ID. The REAL ID Act, passed by Congress in 2005, enacts the 9/11 Commission’s recommendation that the federal government set minimum security standards for state-issued driver’s licenses and identification cards.

Beginning October 1, 2020, residents of every state and territory will need to present a REAL ID-compliant license/identification card, or another acceptable form of identification (such as a passport), to access federal facilities, enter nuclear power plants, and board commercial aircraft. Although implementation has been slow, states have made progress in meeting the REAL ID Act’s recommendations. A majority of states and territories, along with the District of Columbia, have complied with all REAL ID requirements. The remaining noncompliant jurisdictions have been granted a temporary extension from the Department of Homeland Security.¹

To obtain a REAL ID, you must apply in person at your state’s department of motor vehicles (or other approved service center). Your picture will be taken and signature captured electronically. You must provide more documentation than you would normally need for a standard driver’s license or identification card. A REAL ID requires that you show (in original or certified form) proof of identity and lawful presence (e.g., U.S. passport, birth certificate), state residency (e.g., mortgage statement, utility bill), and Social Security number (e.g., Social Security card, paystub). In addition, if your current name doesn’t match the one on your proof of identity document, you must prove your legal name change (e.g., marriage certificate).

When states first implemented REAL ID recommendations, applicants were faced with delays and long wait times. However, many states have since streamlined the process by allowing applicants to start the application process online. For more information on applying for a REAL ID, you can visit your state’s department of motor vehicles website or dhs.gov/real-id.

¹ Department of Homeland Security, REAL ID Compliance Extension Updates, October 2018

What are some ways to prepare financially for severe weather?
Floods, tornadoes, lightning, and hail are common spring events in many parts of the country and may result in widespread damage. Severe weather often strikes suddenly, so take measures now to protect yourself and your property.

Review your insurance coverage. Make sure your homeowners and auto insurance coverage is sufficient. While standard homeowners insurance covers losses from fire, lighting, and hail (up to policy limits), you may need to buy separate coverage for hurricanes, floods, earthquakes, and other disasters. Consult your insurance professional, who can help determine whether you have adequate coverage for the risks you face.

Create a financial emergency kit. Collect financial records and documents that may help you recover more quickly after a disaster. This kit might contain a list of key contacts and copies of important documents, including identification cards, birth and marriage certificates, insurance policies, home inventories, wills, trusts, and deeds. Make sure your kit is stored in a secure fireproof and waterproof container that is accessible and easy to carry. The Emergency Financial First Aid Kit, available online at ready.gov, offers a number of checklists and forms that may help you prepare your own kit, as well as tips to guide you through the process.

Protect your assets. Take some commonsense precautions to safeguard your home, vehicles, and other possessions against damage. For example, to prepare for a possible power outage, you might want to install an emergency generator and a sump pump with a battery backup if you have a basement or garage that is prone to flooding. Inspect your yard and make sure you have somewhere to store loose objects (e.g., grills and patio furniture) in a hurry, cut down overhanging tree limbs, and clean your gutters and down spouts. Check your home’s exterior, too, to make sure that your roof and siding are in good condition, and invest in storm windows, doors, and shutters. In addition, make sure you know how to turn off your gas, electricity, and water should an emergency arise. And if you have a garage, make sure your vehicles are parked inside when a storm is imminent.