T.RowePrice

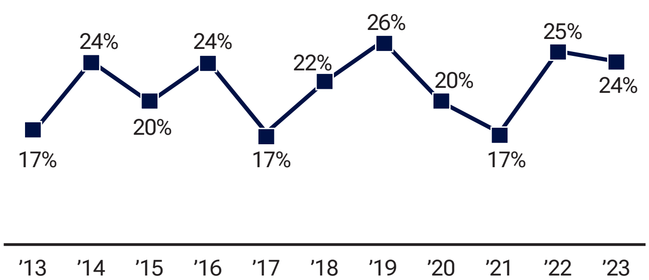
USING HEALTH SAVINGS ACCOUNTS

How to strategically address health care with employers

Health care costs are a significant concern for employees and employers. Historically, health care and retirement savings have largely been kept separate, but health care expenses are now seen as a critical component of a holistic retirement savings strategy. Enter Health Savings Accounts (HSAs), which have increased in popularity at both the employer and employee level.

HSA use by employers

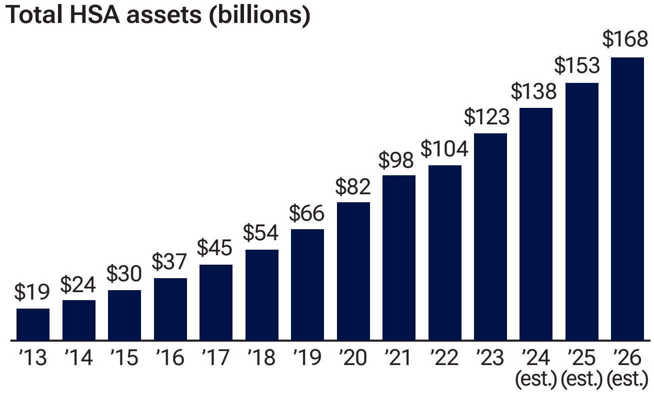
Among firms offering health benefits, percentage offering High Deductible Health Plan (HDHP) with HSA



Source: Employer Health Benefits 2023 Annual Survey, KFF, https://files.kff.org/attachment/Employer-Health-Benefits-Survey-2023-Annual-Survey.pdf

Growth of HSA assets

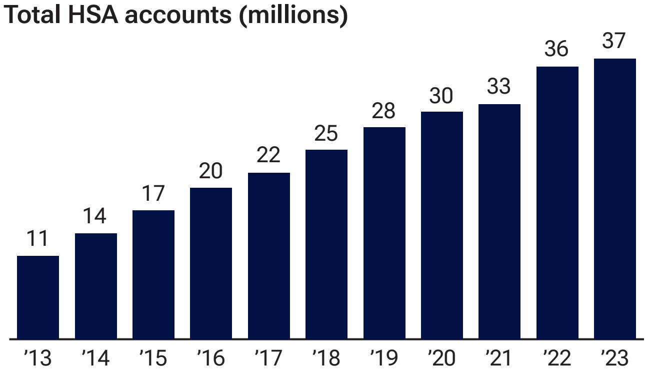
Total HSA assets (billions)



Source: Devenir Research, 2023 Year-End HSA Market Statistics & Trends Executive Summary. Estimates derived from 2023 Year-End Devenir HSA Market Survey, press releases, previous market research and market growth rates. Assets are rounded to the nearest billion and include both deposits and investments.

HSA use by employees

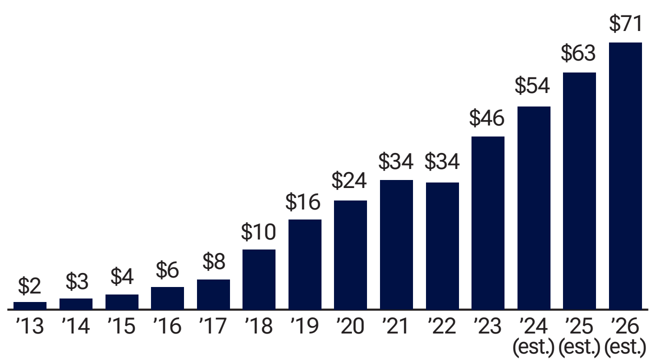
Total HSA accounts (millions)



Source: Devenir Research, 2023 Year-End HSA Market Statistics & Trends Executive Summary. Accounts are rounded to the nearest million and include both funded and non-funded accounts.

Growth of HSA investment assets

Total HSA investment assets (billions)



Source: Devenir Research, 2023 Year-End HSA Market Statistics & Trends Executive Summary. Estimates derived from 2023 Year-End Devenir HSA Market Survey, press releases, previous market research and market growth rates. Assets are rounded to the nearest billion.

Understand the differences in health care savings options

There are a number of tax-advantaged ways to save for health care expenses in retirement. The chart below reflects Roth and pretax employer-sponsored plans (as opposed to IRAs) unless noted.

Advantages

ACCOUNT TYPES	PRETAX	ROTH	HSA
Contributions[1]	Excluded from taxable income	Not excluded from taxable income	Excluded from taxable income
2024 Maximum Annual Contributions	$23,000 retirement plan $7,000 IRA[2]	$23,000 retirement plan $7,000 IRA[2]	$4,150 individual $8,300 family
Distributions	Limited access[3]	Limited access[3]	Qualified medical expenses (QME): No tax or penalty
Taxes on Distributions	Ordinary rate	Tax-free if qualified[4]	Tax-free if used to pay QME
Distribution Penalty[5]	10% on early distributions	10% on early distributions	20% on non-QME distributions
Required Minimum Distributions (RMDs)	Begin at the later of age 73 or retirement[6]	None	None
Tax Treatment for Non-spouse Heirs	Ongoing tax deferral (subject to RMD requirements)	Ongoing tax-free (subject to RMD requirements)	Value immediately subject to ordinary income tax

Advantages of account type (relative to the others) shown in blue. All three types grow tax-deferred. These are not the only options when it comes to saving for health care and/or medical related expenses in retirement. Note that while HSAs are structured for the individual to save or invest for health costs, this is not the intended primary purpose of a defined contribution plan or an IRA. Individuals should evaluate their health coverage needs and other factors before seeking tax benefits of an HSA. HSAs are only available if you are covered by a high deductible health plan. Chart is for illustrative purposes only. Source: IRS documents.

Health care expenses are now seen as a critical component of a holistic retirement savings strategy. Know enough to be credible and conversant in HSAs and health care.

Exploring HSAs may help you bring value to employers and differentiate your practice from your peers.

T. Rowe Price suggests that you:

1. Offer fair and balanced reviews of health care savings options and strategies.
2. Provide ongoing investment education.
3. Establish a process to help employers vet providers and set up an HSA.

For additional information on planning for health care expenses, please reference the list of resources below or contact your T. Rowe Price representative.

- medicare.gov
- IRS.gov (Publication 969)
- How to Best Use Your Health Savings Account | T. Rowe Price
- A New Way to Calculate Retirement Health Care Costs | T. Rowe Price
- Breaking Down Health Care Expenses in Retirement | T. Rowe Price

troweprice.com/healthcare

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[1]Federal income taxes. State laws vary. HSA contributions through an employer may be excluded from FICA taxes. [2]Subject to income limitations on participation (Roth IRA) or deductibility (Traditional IRA). Amounts do not include catch-up contributions. [3]Early distributions from retirement plans or IRAs may be subject to taxes and penalties unless an exemption applies. [4]Once you reach age 59½ with an account that has been opened for at least five years, you may qualify for tax-free withdrawals of both Roth contributions and any accumulated earnings. [5]Penalties end at age 65 for HSA and generally at age 59 ½ for Roth and Pretax. Distributions of contributed assets from Roth accounts are tax- and penalty-free. HSA distribution penalty is applicable to non-qualified (non-QME) distributions. [6]The SECURE 2.0 Act of 2022 was signed into law in late December 2022 and changes the Required Minimum Distribution (RMD) age to 73 for individuals who turn 72 on or after January 1, 2023. By April 1 following the year you reach age 73, you must begin to withdraw a certain amount of money annually from your retirement account(s). If you are still working with the company that sponsors your plan, you may be allowed to delay your first RMD until the April 1 following the year in which you retire. For each year following the year you reach your RMD age (or retire, if later—as applicable) the deadline is December 31. The SECURE 2.0 Act of 2022 provides that the RMD age will change again to 75 in 2033.

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