T. Rowe Price

It's time to include health care in a holistic retirement strategy

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 being considered a critical component of a holistic retirement savings strategy. As health care is increasingly considered through the lens of retirement wellness, employers need to understand the savings options available.

Pretax and Roth retirement accounts, along with Health Savings Accounts (HSAs), are three common ways that many employees can save for health care expenses in retirement. It's important to consider the advantages of each.

Understand the differences in health care savings options

The chart below reflects Roth and pretax employer-sponsored plans (as opposed to IRAs) unless noted.

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

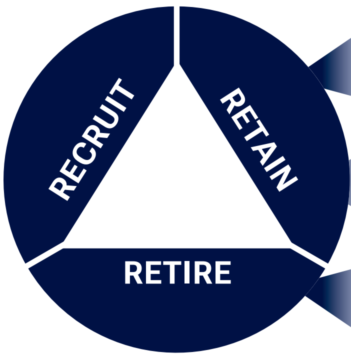
Advantages

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 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.

[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.

HSAs paired with a High Deductible Health Plan (HDHP) can be part of a competitive benefits package

The old mantra of offering a competitive benefits package to "recruit, retain, and reward" needs updating. With an emphasis on financial wellness and health care flexibility, the "three Rs" should now shift to "recruit, retain, and retire."



Recruit: Attract the best employees with a comprehensive and flexible benefits package

Retain: Employees appreciate the potential HSA tax advantages

Retire: HDHP/HSA may provide added financial support for retirees

HSAs may help you bring value to your employees.

Here are some things to consider:

1. **Arrange for fair and balanced reviews of health care savings options, strategies, and benefits to employees**
2. **Review educational materials to ensure that they are clear and comprehensive**
3. **Connect the health care conversation to retirement and financial wellness**
4. **Evaluate adoption and usage data**
5. **Explore ways to provide employees with HSA investment education**

For additional information on planning for health care expenses, please reference the list of resources below or contact your financial professional.

- 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

TO LEARN MORE

Talk with your financial professional to learn more about including health care in a holistic retirement strategy.

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