



Dennis Triplett

Chairman

UMB Healthcare Services

A division of UMB Financial Corporation

HSAs build long-term wealth with tax-favored savings

Most people don't realize that health savings accounts (HSAs) are one of the best long-term savings vehicles in the market today. Paired with high-deductible health plans, HSAs are available to help pay for current qualified medical expenses as well as to save for future expenses, all in a tax-exempt account.

Many consumers continue to use their HSA the same way they use their flexible spending account (FSA) – using available funds for current expenses. While that is an option with HSAs, it is not a requirement as the “use or lose it” rule doesn't apply with these accounts, and deposited funds are able to grow year-over-year. It is easy to understand where the confusion comes from as HSAs are still new to many consumers and are often overlooked in benefits education and communications.

We believe there's a great need for employers to educate themselves – and employees – about all that HSAs can offer beyond paying for the current year's medical expenses. HSAs can serve as a powerful tool for long-term savings and as a key part of an overall retirement strategy to build wealth for both medical and other general retirement expenses, including tax-free Medicare premiums.

Building wealth in an HSA

Even though HSAs are designed to pay current **and future** medical costs, only a handful of people fully grasp the opportunity to provide for future needs.

Our 2014 study of over 440,000 HSA holders showed an average monthly deposit balance of \$1,874. Nearly 56 percent of UMB accountholders have increased their balances and are saving more, however they are not coming even close to the maximum allowed to contribute each year.

At that rate, most people are short-changing their futures. In 2015, the IRS allows a maximum HSA contribution of \$3,350 for individuals¹ or \$6,650 for family¹ coverage (plus a catch-up amount of \$1,000 more for people over 55 years old).

Less than 5 percent of the HSA holders we studied “maxed out” their allowable contributions.

Yet medical costs loom as a major financial burden for retirees. Employee Benefit Research Institute calculates that the average couple retiring at 65 will need nearly \$300,000 for healthcare alone during retirement.

For illustrative purposes only, consider the potential on the upside: If a 40-year-old employee earning \$80,000 today makes maximum HSA contributions, assuming a 5 percent return, the HSA alone will have more than \$306,000 by age 65 – enough to cover that average retired couple's health expenses.

Note: This is a hypothetical example of compounding returns over time and is not intended to represent performance of any particular investment or savings vehicle. The rates of return are constant nominal rates, compounded monthly. Actual investments will fluctuate in value. Contributions are assumed to be made at the beginning of the month. It does not take into consideration taxes or other applicable deductions, which will lower returns. Actual net returns will be based on the investor's investment choices within the HSA account. Investing in this manner does not ensure a profit or guarantee against loss in declining markets.

¹See end of article for details.

Of course, an earlier start adds more to savings, and delays limit the amount of the nest egg. And long-term returns vary. The point is, every employee faces the prospect of large medical costs in the future – and **every employee**, to prepare for those needs, should start saving now.

Gaining triple tax advantages

Employees should always first take advantage of any offered match for their HSA or 401k. After that, it can be a confusing task selecting where to invest remaining funds with the many types of accounts available. While many further invest in their 401k or IRAs, their HSA may be a better option in terms of flexibility, tax advantages and long-term growth potential.

The comparison chart below illustrates the key tax considerations for each type of account.

	Traditional IRA	Roth IRA	401k	HSA
Contributions	Tax deductible	Taxed (not tax deductible)	Pre-tax (before income and payroll taxes)	Pre-tax (before income and payroll taxes) or Tax deductible ¹
Investments	Tax deferred	Not taxed	Tax deferred	Not taxed
Withdrawals	Tax deferred	Not taxed	Tax deferred	Not taxed ¹

Taxes are an important consideration in long-term investing because of the compounding of savings. HSAs have the potential to offer triple tax advantages for individuals – something not seen in other retirement accounts. Only an HSA offers tax benefits at deposit, during the account’s life and upon withdrawal¹. So a person saving for future medical needs can avoid taxes at all three stages in this life cycle.

Investing for long-term growth

Major HSA providers now offer multiple investment options, including money market funds², self-directed accounts³ for mutual funds or individual stocks, and FDIC-insured accounts for cash needs. Yet only around one percent of the HSA holders we studied used the available investment options.

Employers should find an HSA plan that encourages long-term savings, including:

- **Robust investment options**^{2,3} – including no-load or load waived mutual funds, target date funds, index funds, as well as bank and money market options.
- **Proactive educational approach** – communicating with employees on how HSAs work both to pay near-term medical costs and to bolster a long-term retirement plan.
- **Integration with other benefits** – offering tools to help employees plan for the future, including investment objectives, risk tolerance and mix of assets across all accounts.

In an effort to simplify investing in an HSA, UMB will be launching a new investment tool, UMB HSA Saver™³, in August of 2015. HSA Saver features a personalized dashboard with an overview of the accountholder’s current investments, as well as access to transaction history, customized reporting and the ability to manage those investments. The tool also features a marketplace where accountholders can identify and research potential investment options.

Our goal with this tool is to simplify the investment process while taking the guesswork out of mutual fund selection by vetting mutual funds³ in various asset classes for inclusion in the UMB HSA Saver.

Today, most act as if the “S” in HSA stands for **spending** rather than **savings**. We have the opportunity to educate employees about the benefits of saving with an HSA, including preparing for future health care expenses during retirement or later in life.

¹All mention of taxes is made in reference to federal tax law. Please check with your state’s tax laws to determine the tax treatment of HSA contributions, or consult your tax adviser. Neither UMB Bank n.a., its parent, subsidiaries nor affiliates are engaged in rendering tax advice. You may be eligible for additional tax savings if your employer offers a cafeteria plan and allows HSA contributions via payroll deductions. Please contact your employer for more information. Contributions are subject to annual limits established by the IRS. Payments and withdrawals not made for qualified medical expenses are subject to taxes and penalties.

²A peg balance (currently \$1,000) is set to determine the amount of money that moves in and out of the money market mutual fund. Funds in your HSA up to the \$1,000 peg balance, are a deposit in an FDIC-insured account. Funds in excess of \$1,000 are an investment in a money market mutual fund that is not insured by the FDIC or any other governmental agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

³Investments you make through your self-directed HSA account are not FDIC-insured. Currently there are two self-directed UMB HSA investment accounts: (1) a self-directed HSA brokerage investment account, which is offered through UMB Financial Services, Inc., member FINRA (www.finra.org), SIPC (www.sipc.com). UMB Financial Services, Inc is a wholly-owned subsidiary of UMB Financial Corp and an affiliate of UMB Bank, n.a. UMB Financial Services, Inc. is not a bank and is separate from UMB Bank, n.a. and other banks, (2) a self-directed UMB HSA Saver investment program, whose securities are selected through UMB Investment Management. UMB Investment Management selects mutual funds in various asset classes for inclusion in the UMB HSA Saver Investment Program. UMB Investment Management is a department of UMB Bank, n.a. UMB Bank, n.a. is a wholly owned subsidiary of UMB Financial Corporation.

Investments in securities, whether through the Money Market Sweep Account or through investments in the Self-directed Brokerage Account or HSA Saver Account are:

Not FDIC-Insured · May Lose Value · No Bank Guarantee.