Should employers sponsor an HSA?

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Most businesses today offer a medical plan with a high deductible.

That's no surprise. In fact, the average deductible is now over $1,900 a year for a single employee PPO. If your plan qualifies, you reduce your employee's costs by an average of 30% by offering a payroll deduction Health Savings Account (HSA).

An HSA is a savings account much like a 401(k), but it's used to pay for out-of-pocket expenses like deductibles, coinsurance or even Medicare premiums. An employee can contribute pretax up to $3,850 a year for a single employee, $7,750 for a family.

HSAs have been around for over 20 years but in recent years have begun receiving employer contributions similar to a 401(k). Any used contribution amount rolls over each year, so it can grow, and invest your funds like a 401(k).

In fact, many HSAs are mirroring the 401(k) investment options. An HSA outshines the 401(k) in that the accumulation in the HSA is tax free when used for health care expenses. Withdrawals from a traditional 401(k) are subject to tax.

If we allow an HSA to grow until retirement we will have a nest egg separate from the 401(k) to use to fund all or a portion of the estimated $150,000 per person out-of-pocket health care costs in retirement.

If you can invest $1,000 a year at a 6% growth rate, made over a 35-year career, you might yield a HSA nest egg of $183,989. Keep in mind that withdrawals for health care expenses paid for from an HSA are tax free, but those same withdrawals would be taxed if taken from the traditional 401(k) making the annual after tax value in a HSA about 60% greater. (Source: PSCA Insights, Summer 2020, HSAs — The Ultimate Retirement Savings Tool). You can use both an HSA and 401(k) to maximize tax benefits.

Why is this so important? A big misconception among Americans is that Medicare is free; in fact every worker pays a premium in retirement.

Many workers don't find this out until they retire, and they are often caught unprepared. Medicare premiums are structured by your income level; in 2023, the lowest premium is $164.90 a month per person and goes as high as $560.50 a month per person. Making these premium payments from the HSA will reduce the net cost of those premiums. This is why the HSA nest egg makes such a big difference.

Here's why employers need to understand the power of the HSA. It is becoming an increasing trend for employers to sponsor and contribute to HSAs. Offering an employer-sponsored HSA has the following benefits:

- You reduce the cost of out-of-pocket health care expenses by an average of 30% (federal, state and FICA average tax savings). An employer also saves the FICA tax.
- You help shield employees from the financial stress of high deductibles by funding an employer contribution to the account. Most common amount is 50% of the health-plan deductible each year.
- You offer another source of a retirement income for health care costs in the future making retirement easier for an aging workforce.
- You will be more favorably viewed in recruitment and retention of your valued workers.
- You can also meet diversity and inclusion goals with a tiered employer contribution.

An HSA has powerful benefits in shielding not only current health care expenses, but by building a savings account to use in years when health care costs are greater or at retirement. Businesses can use the HSA alongside their 401(k) to maximize the benefits of both plans.

To learn more about using HSAs in the most beneficial way, visit www.myfinancialadvisor.org/education.

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