

Why should you use your Health Savings Account (HSA) to save for retirement?

It is estimated that a 65-year-old couple retiring now will spend \$275,000 on health care, not including long-term care. That is in today's dollars, so imagine what those costs will be in the future. The best way to help protect your nest egg is with a sizable HSA balance.

Your HSA is a great way to cover current medical expenses while receiving a tax break, but if you are able to pay for these expenses out of pocket today, it can be a huge benefit for the future.

Why? HSA's come with what we call a triple tax break*:

1. Deduction for contributions
2. Tax-free growth
3. Tax-free withdrawals for qualified health care spending

*Consult your tax advisor for additional information.

Let's take a closer look at these three areas:

- 1.** Contributions are on a pre-tax basis, meaning that they reduce your federal and state income tax liability, and they're not subject to FICA taxes. In addition, any contributions your employer makes do not have to be counted as part of your taxable income. At age 55, HSA owners can make an additional \$1,000 catch up contribution.
- 2.** Just like your 401(k) and IRA's, your account balance grows tax-free. Interest, dividends, or capital gains you earn are nontaxable. This is the key to success with HSA retirement planning, earnings growth! Most HSA's are in low yield money markets. We can help with that.
- 3.** Withdrawals for qualified medical expenses are tax-free. This is why an HSA is superior to a traditional 401(k) or IRA's as a retirement vehicle. If you spend on qualified medical expenses, you NEVER pay taxes on these dollars. For example, you can reimburse yourself for eyeglasses you purchase today, years from now. Keep a detailed record of all medical expenses you pay for out of pocket, not using your HSA.

Outlined below are just a few of these expenses:

- Office-visit co-payments
- Health insurance deductibles
- Dental expenses
- Vision care (eye exams and eyeglasses)
- Prescription drugs
- Medicare premiums
- Some costs of the premiums for a tax-qualified long-term care insurance
- Hearing aids
- Hospital and physical therapy bills
- Medical Supplies
- In-home nursing care
- Retirement Community fees for lifetime care
- Long-term care services
- Meals and lodging that are necessary while obtaining medical care away from home
- Modifications that make your home easier to use as you age, such as ramps, grab bars and handrails.

Another benefit is the IRS does not require you to take distributions from your HSA in any year, before or during retirement.

Checking

Your HSA contributions are deposited into a checking account*. You will use this account to pay for your medical expenses as they arise. You will receive a debit card when the account is opened to allow for easy access to this money. The funds in the account earn interest that is compounded monthly. Contact your local First Western Bank & Trust branch for current rates and details.

*HSA accounts are only available in conjunction with a High Deductible Health Plan (HDHP).

Certificate of Deposit

As the funds grow in your checking account, you may choose to transfer some funds from your checking into a 1-year Certificate of Deposit. This will allow you to earn a higher rate of interest by investing some of the dollars. Contact your local First Western Bank & Trust branch for current rates and details.

HSA Agency Account

Checking HSA account holders also have the ability to move all or a portion of their funds into an HSA agency account available through our First Western Trust Department*. These accounts are allowed access to a wide range of investment vehicles ranging from mutual funds, ETF's, individual stocks, and bonds. Contact Trent Westmeyer, VP Retirement Benefits Officer, at 701-857-7154 for more information.

*Investments may include assets which are not insured by the Federal Deposit Insurance Corporation (FDIC), not a deposit of or guaranteed by First Western Bank & Trust, and may be subject to investment risk, including loss of the principal amount invested.

For more information about Health Savings Accounts and Other Tax-Favored Health Plans visit:

www.irs.gov/forms-pubs/about-publication-969

