

News & Information

CCH® BENEFITS — 8/20/08 HSA Savings Insufficient To Fund Retiree Health

From Spencer's Benefits Reports: While health savings accounts (HSAs) can be used to save for health care expenses in retirement, the maximum savings that can be accumulated in an HSA will be far from sufficient to fully cover the savings needed in retirement for insurance premiums and out-of-pocket expenses, according to a recent analysis by the Employee Benefit Research Institute (EBRI).

According to the EBRI analysis, one of the difficulties in using an HSA to save money for premiums and out-of-pocket expenses during retirement is that individuals also can (and might need to) use the money in the account to pay for health care services during their working years or to pay COBRA premiums and insurance premiums during periods of unemployment.

For example, if an individual preserves as much as 90% of the end-of-year account balance each year, the HSA account balance would be \$38,000 after ten years for an individual, instead of \$59,000 (if none of the account balance was used before retirement). It would be \$76,000 instead of \$118,000 for a husband and wife. Distributions from the HSA prior to becoming eligible for Medicare will erode the value of the account and will drive a greater wedge between needed savings and the amount of money in an HSA when a person retires.

In another example in the EBRI analysis, a husband and wife both age 55 in 2008 would be able to save \$118,000 in an HSA by 2018 if both were to make the maximum contributions, including catch-up contributions. Each person would need to have an HSA in order to make catch-up contributions, so in effect there would be two \$59,000 accounts after ten years. However, the EBRI analysis notes that "a husband and wife would need to save as much as \$654,000 by the time both reach age 65 in 2018 to have enough money to cover their premiums and out-of-pocket expenses 50% of the time." If, instead, the couple has a goal of having a 90% chance of having enough savings in retirement to cover premiums and out-of-pocket expenses, the couple would need as much as \$1,064,000. A fully funded HSA with no distributions for medical expenses while covered by a high-deductible health plan would only account for between 11% and 23% of the total need.

The EBRI analysis, which appeared in the August 2008 issue of *EBRI Notes*, uses data from an earlier EBRI report that estimated the savings needed to cover health insurance premiums and out-of-pocket expenses for health care services in retirement.

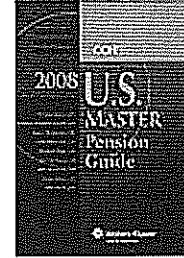
For more information, visit <http://www.ebri.org/>.

For more information on this and related topics, consult the CCH Pension Plan Guide, CCH Employee Benefits Management, and Spencer's Benefits Reports.

Visit our News Library to read more news stories.

©2008, CCH. All Rights Reserved.

FEATURE PRODUCTS



The U.S. Master Pension Guide reflects the latest regulations, rulings and cases for qualified retirement plans, surveying the different type of plans from which an employer may choose, and describing the procedures for obtaining plan qualification.

[Learn More >>](#)

[Copyright](#) | [Privacy Policy](#) | [Site Map](#)