HealthEquity®

HSA INVESTMENT GUIDE

Use your HSA to build the ultimate retirement nest egg

Connecting Health and Wealth

PLANNING FOR HEALTHCARE COSTS IN RETIREMENT

Picture your retirement. What comes to mind? Maybe you envision lazy afternoons with your grandkids or lots of traveling, boating, golfing, RVing, and all the other fun stuff.

But think beyond the day to day: Retirement will also entail significant healthcare expenses. In fact, recent estimates show the average couple will need between $301,000[1] and $390,000[2] to cover out-of-pocket medical expenses in retirement.

Medicare isn't free. It has premiums just like your health insurance today. Prescriptions tend to cost more in retirement too. The irony is that healthy couples will need to absorb even more costs, as longer life expectancy translates into more healthcare spending.

Bottom line: You can't plan for retirement without also planning for your healthcare. That's why more Americans than ever are investing in their Health Savings Account (HSA) to build long-term retirement and healthcare savings.

Only an HSA delivers a triple-tax advantage[3]

- Make pre-tax contributions
- Grow tax-free earnings
- Enjoy tax-free distribution for qualified medical expenses

Taken together, this is a recipe for potential long-term growth and significant tax savings compared to other retirement account options.

[1] Based on median prescription drug expenses. Source: Employee Benefit Research Institute 2019: https://www.ebri.org/content/savings-medicare-beneficiaries-need-for-health-expenses-in-2019

[2] CNBC: https://www.cnbc.com/2019/07/18/retiring-this-year-how-much-youll-need-for-health-care-costs.html

[3] HSAs are never taxed at a federal income tax level when used appropriately for qualified medical expenses. Also, most states recognize HSA funds as tax-deductible with very few exceptions. Please consult a tax advisor regarding your state's specific rules.

COMPARE HSA TO 401(k)

When it comes to retirement, everyone talks about the 401(k). But your HSA is one of the best retirement accounts available. Not only can you invest your HSA[4] and potentially capitalize on tax-free growth, but your HSA also delivers powerful tax advantages you can't find anywhere else.

Table 1. HSA vs 401(k)

	HSA	401(k)
Assets	✔ Investable	✔ Investable
Contributions	✔ Not taxed	✘ FICA taxed
Earnings	✔ Not taxed	✔ Not taxed
Distribution for qualified medical expenses	✔ Not taxed	✘ Taxed (as ordinary income)
Distribution for non-qualified medical expenses	✘ Taxed (as ordinary income after age 65)	✘ Taxed (as ordinary income after age 59-1/2)
Required minimum distribution	✔ Never	✘ Yes (Age 72)

As you can see, your HSA brings all the tax efficiency of a 401(k) along with several extra bonuses. For example, 401(k) contributions are subject to 7.65% FICA payroll taxes, while HSA contributions are not. So, HSA contributions go further than 401(k) contributions and can help you save faster. In addition, HSAs do not have required minimum distributions. Plus, members age 65 and older can take taxable HSA distributions for any expense —just like a 401(k). And, of course, distributions are always tax-free when used for qualified medical expenses.

Considering how much you're likely to spend on healthcare in retirement, those advantages can translate into huge savings. Here's an example based on a modest 22 percent effective tax rate.

Table 2. Spending Power in Retirement

	HSA	401(k)
Balance (at age 60)	**$300,000**	**$300,000**
Spending power (distributions are not taxed)	**$300,000** (distributions are not taxed)	**$234,000** (distributions are taxed)

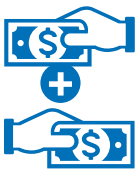
HSA SAVINGS (versus 401k) = $66,000

[4] Investments are subject to risk, including the possible loss of the principal invested, and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. Investing through the HealthEquity investment platform is subject to the terms and conditions of the Health Savings Account Custodial Agreement and any applicable investment supplement. Investing may not be suitable for everyone and before making any investments, review the fund's prospectus.

[5] After age 65, if you withdraw funds for any purpose other than qualified medical expenses, you will be subject to income taxes. Funds withdrawn for qualified medical expenses will remain tax-free.

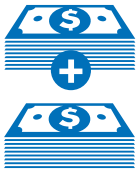
OPTIMIZE YOUR RETIREMENT SAVINGS STRATEGY

Given that a significant portion of retirement spending will go toward healthcare costs, it is not ideal to use a 401(k) as your sole retirement savings vehicle. An HSA offers much more flexibility and empowers you to pay for qualified medical expenses in retirement—in many instances, tax-free. Therefore, in most cases, it is prudent to use a 401(k) in conjunction with an HSA. For many people, an effective contribution strategy could follow these steps.



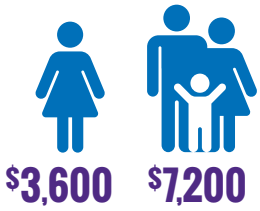
1 MAX OUT THE EMPLOYER HSA MATCH

Many organizations offer an annual seed contribution. Other organizations offer an ongoing HSA contribution match. Usually the match is dollar-for-dollar up to a specified limit. Given the short- and long-term flexibility associated with your HSA, it's important to capture this match first. Don't leave free HSA money on the table!



2 MAX OUT THE EMPLOYER 401(k) MATCH

Commonly, employers match fifty cents on the dollar up to six percent of employee income. Other match plans go dollar for dollar up to three percent. Regardless of the approach, an employer 401(k) match represents real income that should also be captured if available.



3 CONTRIBUTE THE HSA MAX

The HSA contribution limits for 2021 are $3,600 for individuals and $7,200 for families. Members 55+ can contribute an additional $1000 beyond these limits. In most cases, it may be advantageous to maximize contributions to your HSA before maxing out your 401(k). FICA savings alone often justify prioritizing the HSA.

4 MAX OUT YOUR401(k)

After maxing HSA contributions, then contribute additional money to a 401(k). Maxing contributions to both your HSA and retirement accounts should help you build a nest egg your future self will appreciate.

There are some members, however, for whom this strategy may not be ideal. Consider that HSA dollars cover myriad over-the-counter medicines, including cough syrup, pain relievers and even menstrual care products. If inclined to regularly use the HSA for such routine purchases, then a different long-term savings strategy should be considered. It's difficult to save for retirement if you're regularly dipping into your HSA for routine spending. For some people, the 401(k) early distribution penalty serves to create the necessary savings discipline.

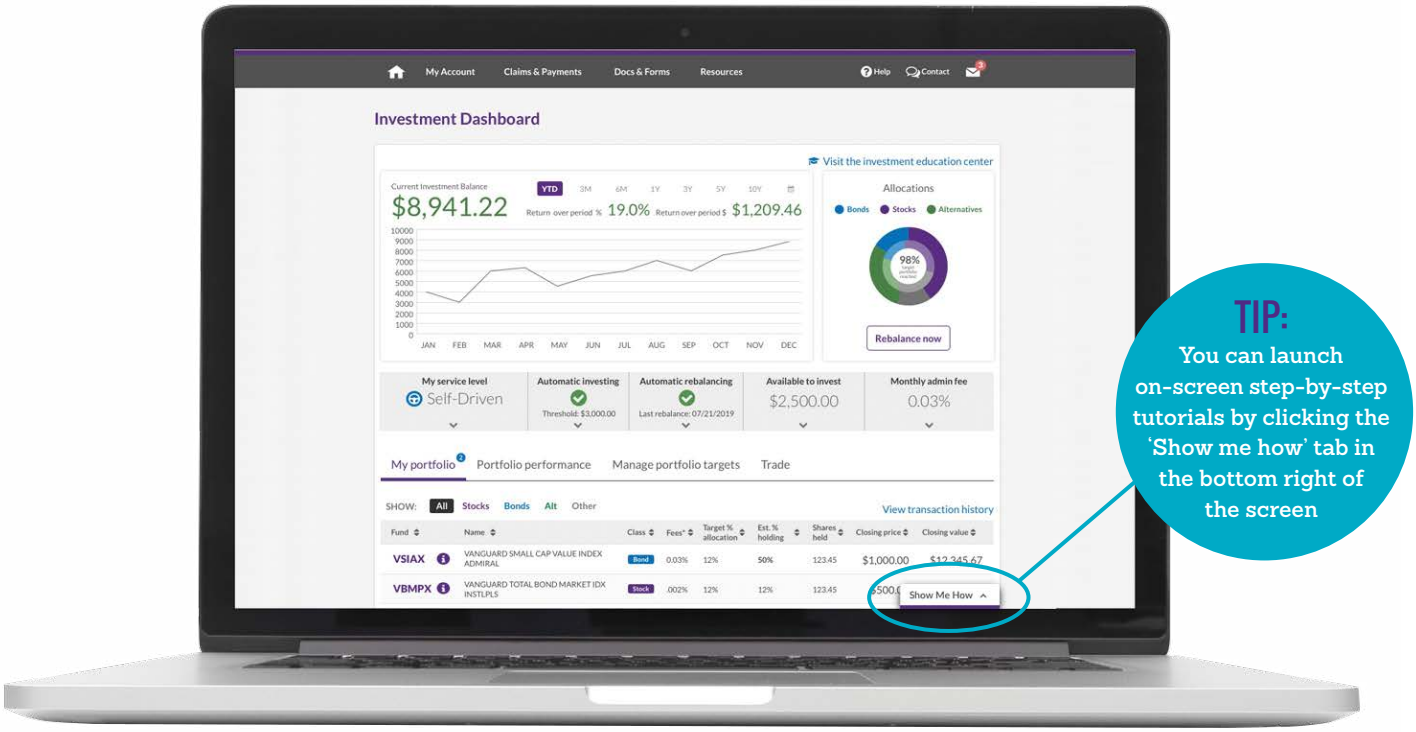
GETTING STARTED: HSA INVESTMENT DESKTOP

HealthEquity makes it easy to invest your HSA dollars. Here's how to access the HSA Investment Desktop:

1. Log into your HealthEquity member account
2. Hover over 'My Account' in the navigation bar
3. Select 'Investments' from the dropdown menu

Once inside, you have several options to choose and manage your investments.

- View portfolio performance and allocation
- Set portfolio targets
- Research fund options and historical performance
- Buy, sell and trade funds
- Automatically reinvest earnings and rebalance investments



TIP:
You can launch on-screen step-by-step tutorials by clicking the 'Show me how' tab in the bottom right of the screen

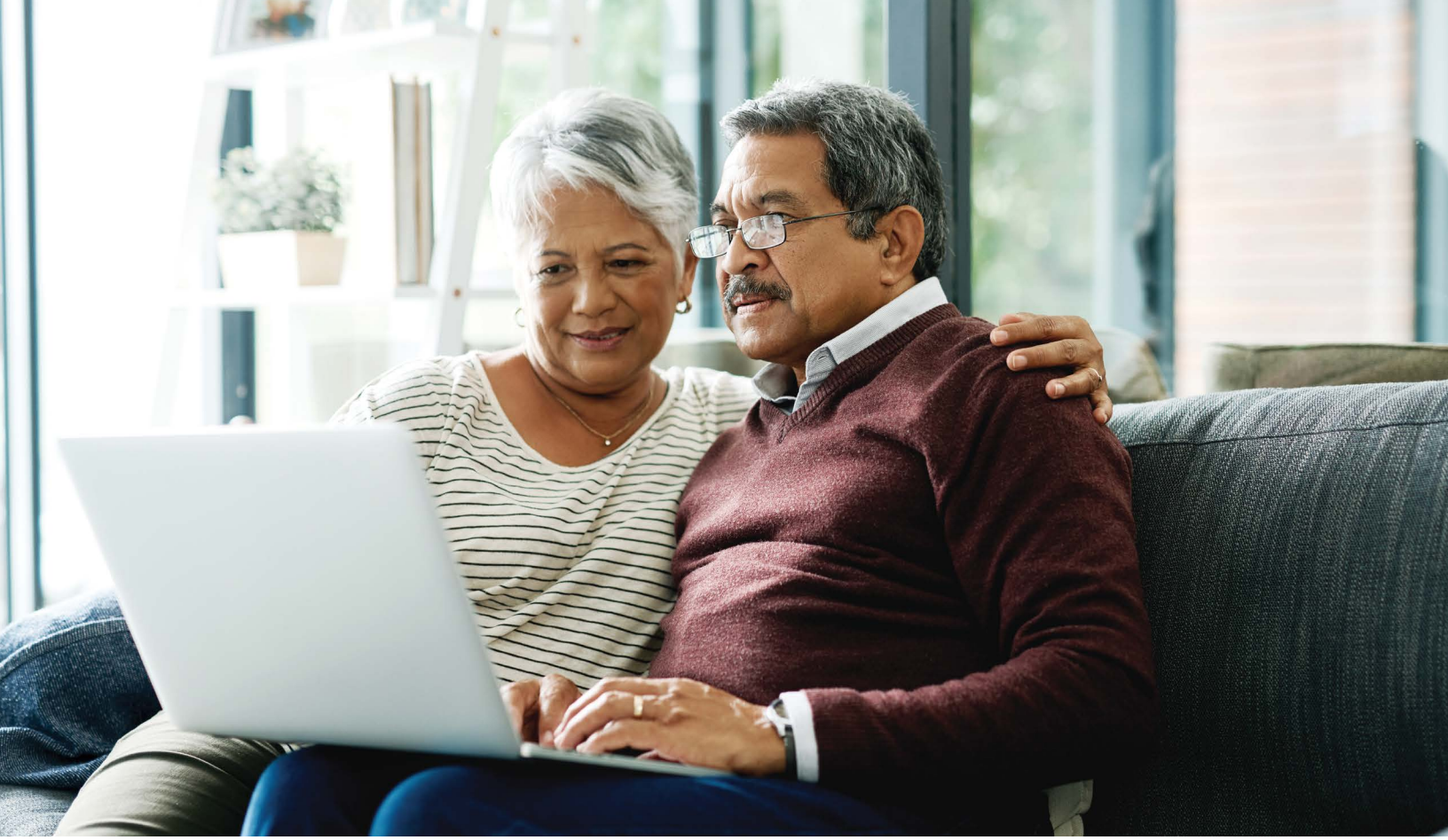
INVEST IN OUR LINEUP OF 23 LOW-COST VANGUARD FUNDS

Vanguard is the largest provider of mutual funds in the world and has more than 6 trillion dollars in assets under management.[7] Each of the funds we offer carries a comparatively low expense ratio (an expense ratio expresses the percentage of assets deducted each fiscal year for fund expenses). In addition, most of the funds we offer are rated 4- and 5-star by Morningstar,[8] an industry-leading research and advisory firm. Be confident that no matter your selection, you'll be in investing in high-quality funds.

Vanguard fund	Symbol	Morningstar (Mstar) category	Mstar rating	Expense ratio
Bonds				
Short Term Idx Adm	VBIRX	Intermediate-Term Bond	★★★★	0.07
Total Bond Market Idx InstPls	VBMPX	Intermediate-Term Bond	★★★★	0.03
Total Intl Bond Idx Adm	VTABX	World Bond	★★★★	0.11
Inflation-Protected Secs I	VIPIX	TIPS	★★★★	0.07
Short-Term Infl-Prot Sec Idx Adm	VTAPX	TIPS	★★	0.06
Stocks				
Growth Index I	VIGIX	Large Growth	★★★★	0.04
Institutional Index Instl P1	VIIIX	Large Growth	★★★★★	0.02
Value Idx Adm	VVIAX	Large Blend	★★★★	0.05
Extended Market Idx InstlPlus	VEMPX	Mid-Cap Value	★★★★	0.04
Mid-Cap Value Idx Adm	VMVAX	Mid-Cap Blend	★★★★	0.07
Small Cap Index Adm	VSMAX	Small Blend	★★★★★	0.05
Small Cap Value Idx Adm	VSIAX	Small Blend	★★★★	0.07
Total Intl Stock Indx InstlPls	VTPSX	Foreign Large Blend	★★★★	0.07
Emerging Markets Stock Idx I	VEMIX	Diversified Emerging Mkts	★★★	0.10
Other				
REIT Index I	VGSNX	Real Estate	★★★	0.10
Materials Index Adm	VMIAX	Natural Resources	★★★★	0.10
Wellesley® Income Admiral™	VWIAX	Balanced Allocation	★★★★★	0.16
Target Date Funds				
Target Retirement 2020 Inv	VTWNX	Target Date 2016-2020	★★★★	0.13
Target Retirement 2030 Inv	VTHRX	Target Date 2026-2030	★★★★	0.14
Target Retirement 2040 Inv	VFORX	Target Date 2036-2040	★★★★	0.14
Target Retirement 2050 Inv	VFIFX	Target Date 2046-2050	★★★★	0.15
Target Retirement 2060 Inv	VTTSX	Target Date 2051-	★★★	0.15
Retirement Income Inv	VTINX	Retirement Income	★★★★	0.12

[7] Investments made available to HSA holders are subject to risk, including the possible loss of the principal invested, and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. Investing through the HealthEquity investment platform is subject to the terms and conditions of the Health Savings Account Custodial Agreement and any applicable investment supplement. You should carefully consider the investment objectives, risks, charges and expenses of any mutual fund before investing. A prospectus and, if available, a summary prospectus containing this and other important information can be obtained by visiting the Vanguard website at vanguard.com. Please read the prospectus carefully before investing. Consult your advisor or the IRS with any questions regarding investments or on filing your tax return.

[8] As of Q3 2020



TAKE ADVANTAGE OF WEB-BASED AUTOMATED INVESTING ADVICE AND RECOMMENDATIONS

Investing can be confusing and somewhat time consuming. We understand. If you're not ready to manage you own portfolio, Advisor™ powered by **HealthEquity Advisors, LLC**[9] can help. The integrated Advisor™ platform offers two configurations, enabling you to adjust your level of control.

GPS

Tap into algorithm-based guidance and recommendations

GPS recommends investment options based on age, investment objectives, investment experience and more. This option gives members the opportunity to ultimately select their own investments based on targeted advice.

AUTOPILOT

Let intelligent technologies manage your entire portfolio

Member inputs create a risk profile, then **AutoPilot** will automatically select investments and rebalance member portfolios based on specified factors. **AutoPilot** empowers even the most inexperienced members to invest confidently.

[9] Investments are subject to risk, including the possible loss of the principal invested and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. HSA holders may select Vanguard funds for investment through the HealthEquity investment platform but HealthEquity, Inc. does not provide investment advice. HealthEquity Advisors, LLC™, a wholly owned subsidiary of HealthEquity, Inc. and an SEC-registered investment adviser, provides web-based investment advice to HSA holders that subscribe for its services (minimum thresholds and additional fees apply). Registration does not imply endorsement by any state or agency and does not imply a level of skill, education, or training. Investing may not be suitable for everyone. You should carefully consider the investment objectives, risks, charges and expenses of any mutual fund before investing. A prospectus and, if available, a summary prospectus containing this and other important information can be obtained by visiting the Vanguard website at vanguard.com. Please read the prospectus carefully before investing.

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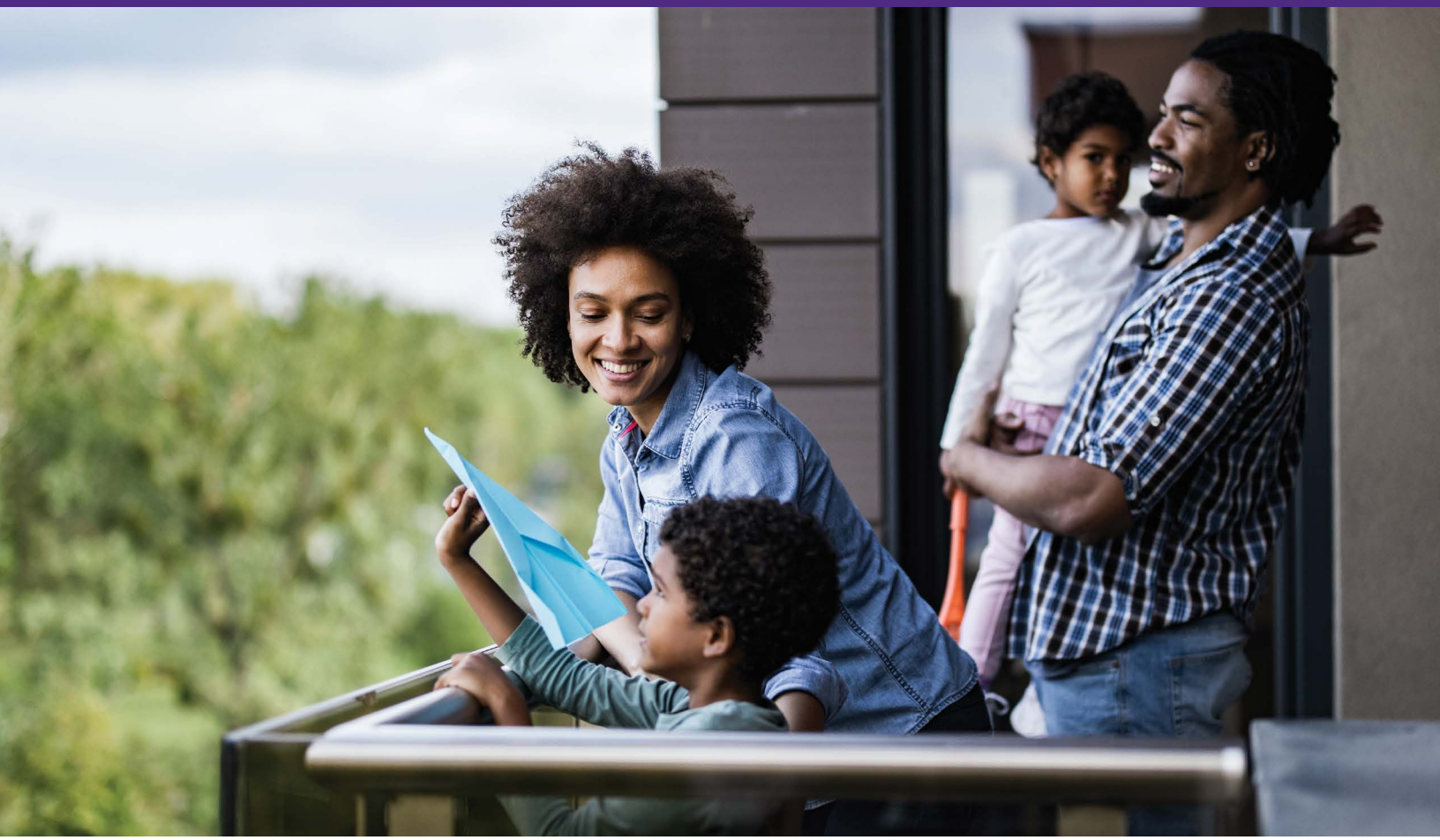

CONNECTING HEALTH AND WEALTH

Get support 24/7

Call us day or night. Our US-based service team measures success by problems solved. We'll do whatever it takes.

Say goodbye to hassle

Log in and manage everything via our simple mobile app.[10] Want to submit a claim? Easy. Just snap a photo and you're on your way.

Stay informed

Check out our vast library of webinars, tutorials, videos, calculators, and more. You'll find tips and tricks to make the most of your HSA.

Questions? We're here for you 24/7

866.735.8195 | HealthEquity.com/Learn

[10]Accounts must be activated via the HealthEquity website in order to use the mobile app.

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