



## Episode 15: HSAs: No regrets!

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**Philip Massey:** And really when you think about your finances and the fact that there's an opportunity to either grow your money long term, or spend at a discount and essentially get more value for each dollar, or maybe both along the way, there's no regrets. It's not an exaggeration, but the reality of being an HSA owner.

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**Philip Massey:** Hello. My name is Philip Massey. I've spent over 20 years in employee benefits and I'm excited to be hosting another episode in our Benefits With Purpose series. This episode is titled "HSAs, No Regrets" With me today is our resident expert across the full spectrum of tax favored accounts, Stephen Durso, Director at WTW. Good morning Steve.

**Stephen Durso:** Good morning, Phil.

**Philip Massey:** Steve, you and I were talking shop like us benefits nerds do, and something you said just stuck in my head when you mentioned your HSA. You said no regrets. I have no regrets with my HSA.

**Stephen Durso:** That's right.

**Philip Massey:** So I didn't dig in at the time. But I imagine what you meant was have poured a ton of money into this thing into your HSA over the years. And the fact that those dollars went there and not to, oh, I don't know, some other opportunity, a luxury item, a necessity, an investment, what have you, that you have no regrets as to the decision to start contributing to your HSA a decade or so ago. Am I right?

**Stephen Durso:** Yes, that's really true. When I said no regrets, I mean I have not regretted any of the dollars that I've poured into my HSA. And over the years, my HSA has met me wherever I am in life.

**Philip Massey:** OK great. So this is what got me thinking of your specific case in a more general sense. And given that this podcast will likely publish in and around October 15, which is HSA Day, let's try to get a sense of the HSA and what it means when you the employee the account holder is let's say mid-career, and that's really both of us. So it's a reflective moment. Here we are, a couple of guys that have come along into the workforce.

And as our careers have grown, advanced, so have our lives. So our relationships, families and of course, our expenses. Now for our audience, if you're listening to this and you happen to be at the beginning of your professional journey, this might be a glimpse into the future. But I think this will resonate with a lot of folks that are at this same point.

So for today, let's focus in on the employee at this midpoint in the continuum. And in regards to the HSA, what is it that prompted you to say no regrets?

**Stephen Durso:** Yeah and, you know, Phil, I've been thinking about that a lot. I'm absolutely happy to share.

**Philip Massey:** Excellent. OK. So starting from the broadest possible perspective, let's talk about the HSA just as a financial vehicle for a moment, just in and of itself is a financial vehicle. When you think about being 20 plus years along into your career, all the money that you've contributed semi-monthly pay period after semi-monthly pay period, tell us more about the journey, the journey through which you arrived at this no regrets point.

**Stephen Durso:** Yeah, you know, so first of all, I don't want to denigrate or throw shade at any other financial vehicle that you find yourself contributing to over the course of a life or a career. But in reality, when you compare anything else to an HSA, the advantages and the flexibility of the HSA just really jump out at you.

**Philip Massey:** Great. Yes, we have committed to a shade free podcast so that's excellent. Safe place for all manner of retirement and investment opportunities. But give us a couple of examples there.

**Stephen Durso:** OK sure. So the first one I'll talk about is a 529 account. So that's an education savings account. And you can make contributions to that for a long time. Maybe when your child's a baby, you start that out. You know what? You're saving for an event that maybe doesn't even occur. So your son might be drafted by the Los Angeles Dodgers right out of high school. So maybe they don't even go to college. But these funds that you've contributed over all of those years are kind of locked into that education account.

And then if you look at a retirement account, like a 401(k) or an IRA, that money, it may be accessible in some very limited scenarios when you're an active employee. But for the most part, it's locked away until you get to retirement. And touching it any time before that would trigger penalty taxes. And I'm not saying that these are not important or valuable savings vehicles. They definitely are. And you should always look at any company match that you might get under a 401(k). Free money is always going to be good.

But what I'm saying is that nothing is going to beat the HSA for the combined opportunity to both save on current expenses, meaning you can access the dollars now if you spend them on medical expenses within the scope of your career. But then it also provides that protection to save and grow a nest egg all the way through to retirement.

**Philip Massey:** OK. And of course, you tease me with the Los Angeles Dodgers reference. You know where you would end up is in class A Rancho Cucamonga, which is fun just in and of itself. But anyway. So part of having no regrets means that you never look at that quarterly statement, the employee portal, see that balance and tell yourself, oh, I really wish I had that money to spend on something else that's affecting me here and now.

**Stephen Durso:** That's right Phil because there's always something in the now that's right around the corner it's about to pop up.

**Philip Massey:** By something, I'm going to guess that you're referring to that avalanche of expenses that arises once you start a family. Am I right?

**Stephen Durso:** Absolutely so think about all those pre-deductible costs, the out-of-pocket expenses for medical, even health related expenses that aren't part of your medical plan. The funny thing is as we're both in our mid-career now is as our careers advance, it's not uncommon that you feel like you're playing catch up with your expenses, and your medical out of pocket is no exception.

I could probably get 100 parents in a room or maybe on a Zoom call, and we could recite a list together like it was the Pledge of Allegiance. I'll give you some good ones, Phil, are you ready?

**Philip Massey:** Oh, absolutely. Hit me.

**Stephen Durso:** OK, so I'll start off with braces because this one is very relevant to me right now. So your children might have an underbite, they might have an overbite. We all want beautiful smiles for our kids. So just next week I'm taking my youngest in to get braces myself. So then there's glasses. Everyone is on a laptop at an early age, which does their vision no favors. So glasses are a big one too.

**Philip Massey:** Sure. Check, check. Yep.

**Stephen Durso:** Exactly Phil. Exactly. And then prescription drugs are going to come into play too. So you have antibiotics, you have bronchial medications, anti-inflammatories, antifungals. There's just so many things out there. Those are just the general run of the mill type of expenses. If someone comes up with a very specific ailment, then there could be additional treatments that often require medications for the long term. So there's just so many different things that come up.

And then there's also emergency room visits. So the options for ending up in emergency room are pretty much endless. But a couple of them could be maybe you fell off your skateboard or your kid did. Child falling off the monkey bars. You could really just fill in the blank as there's so many different ways that you can end up in an emergency room.

**Philip Massey:** Bout of scarlet fever over a holiday weekend when your pediatrician's office is closed. Been there.

**Stephen Durso:** Expect a robust bill for any visit that you make to the emergency room. And you know that emergency room visit, as most parents know, it usually comes with homework. So you might be coming out of there with that parting gift of a prescription to be filled. Maybe you have to pick up crutches, or a brace, or maybe even a little scooter to help your little one move around.

**Philip Massey:** That's right. So you get the home version of the emergency room visit. But in the moment, right, you're not even thinking about that cost. That sort comes later.

**Stephen Durso:** Yeah that's right. So you're just grateful that your loved one's going to be OK. So you had an emergency, you were able to seek care. And then later on, you're like, oh, wait a second. The health care industry is now going to need to get paid. So you have to take care of that as well.

**Philip Massey:** Yeah and that's the hard truth, Steve, right there.

**Stephen Durso:** It sure is Phil. And these are life's expenses. So as a parent, even one of those experiences can be a significant financial setback and can throw your entire budget out the window.

**Philip Massey:** Yeah. And guess given the backdrop of the last couple of years, we'd be remiss to not mention there's also the potential, right, the mental health expenses.

**Stephen Durso:** That's also a good point, Phil. So there's been a lot more discussion about mental health and how important it is not to let those issues go ignored. So you can think about maybe ongoing visits with a mental health professional. Potential medications there. It's the same outcome as a physical ailment. It can be a significant expense.

**Philip Massey:** OK, so now we're getting to it with the plethora of examples. No regrets in these moments, these real life moments, means what to you?

**Stephen Durso:** Yeah, so what that really means is that once I'm home from the emergency room, the danger has passed, within a week or so I know that envelope is going to arrive from the hospital that contains the amount. Now due for those services. And there's absolutely zero regret when I have that HSA protecting me. And I know it's going to be there to pay for those bills that just arrived.

And even if it's more predictable, there's other large expenses too, just like my son needing braces. And you can start to have that conversation around the kitchen table ahead of time. How are we going to pay for this? It's always a relief to know that the HSA will at least be part of the solution. When my orthodontist called me last week to ask if I needed a loan or if I was going to pay for my braces maybe on a monthly basis, I was quick to respond, no, I have an HSA. And that's what no regrets is all about Phil.

**Philip Massey:** Fantastic. So what else gives you that no regrets feeling?

**Stephen Durso:** So we've talked a lot about spending and all the calamities that can lead to emergency room visits. But there's also the savings aspect, which is enhanced by being able to invest as well. So most HSA fund lineups nowadays are pretty robust. I've been fortunate enough to be able to invest over time. And I've seen my balances grow. So that investing is a good effort to save towards retirement. And it's basically a medical 401(k).

And I'm looking at that balance grow and thinking, you know what? That's all mine. When I pull those funds out, I'm not going to have to pay taxes on them as long as I'm using those on medical expenses. And you really can't say that for other types of retirement accounts. When pulling funds out of your IRA or 401(k), taxes are always going to be due.

But for these medical expenses that you're going to experience in retirement, and I've actually seen some studies that say a couple will need \$300,000 to cover out-of-pocket costs, even including your Medicare coverage in retirement. So those costs can be significant. If you use it on those medical expenses, that distribution is tax free. And that's on top of the already tax-free contributions and earnings.

**Philip Massey:** That is so key. We say it over and over again, the HSA has a triple tax advantage. Everyone in the industry talks about this. And it's the kind of thing I think that we say so often that it can lose its meaning. But the fact that you said your contributions, your earnings, your distributions are tax free, it's really one of the unique aspects of the HSA that makes participation so valuable.

**Stephen Durso:** That's right. So we can say triple tax advantage, but what we really mean is you can save earn and pay across the board. So if you think about your tax bracket whatever you pay in income in federal and maybe most state income tax as well, all of this is happening with essentially that percentage of a discount. So the money goes into your HSA rather than being sent to the government.

And if you're contributing, it's lowering your taxable income. So again, that's less money provided to the government. And if you're spending, like we've said in prior podcasts, as long as it's on eligible medical expenses, you're saving that percent essentially on your purchases. It's like a medical discount, if you will. Any earnings either from investments or maybe interest within your HSA as your balance grows over time, those are also going to get the benefit of being tax free as long as they're eventually used on eligible expenses. And really when you think about your finances and the fact that there's an opportunity to either grow your money long term or spend at a discount and essentially get more value for each dollar, or maybe both along the way, there's no regrets. It's not an exaggeration, but the reality of being an HSA owner.

**Philip Massey:** You know you're going through all these points and I'm just nodding my head here. And what I'm hearing is just it's just win-win-win along the way. The HSA has benefits sort of whichever way you turn it financially, as you said just naming them off, the contributions, the earnings, and then the distributions at the end. I mean that's really powerful.

Do you have any other lesser-known tidbits in the spectrum of no regrets?

**Stephen Durso:** Yeah I've got a few more that don't get talked about enough. So all of the examples I've shared anticipate that you have medical coverage itself. So maybe a pre-deductible co-pay out-of-pocket expenses, for example. Now you may find yourself with a shortfall in coverage itself. So a number of years ago, I was between jobs and I was actually able to use my HSA to cover COBRA premiums. So COBRA premiums can be very expensive. But I was able to use the HSA to actually just pay for those until I got my current job. So it worked out great for me. Another one is you can hedge a bit by banking of claims. And we've talked about this on prior podcasts. But if you're in a position to pay for your medical expenses now out of pocket and not use your HSA, you can actually just save your receipts and cash them in at any time in the future, even if it's 20 or 30 years from now when you're retired.

And that way, you've left that money in your HSA to grow all the way over that time. And you can cash in that receipt in retirement tax-free. And then at the end of the day, if you have put in too much money into your HSA, although I do say that is impossible, once you're over the age of 65, you can actually pull your money out of the HSA and use it on any expense and you won't pay a tax penalty.

You would have to pay income tax on the funds that you use on non-medical expenses. But once you're over 65 the penalty for using HSA on non-eligible expenses goes away. So that's another great benefit that a lot of people are not aware of.

**Philip Massey:** Oh, I love those deep cuts Yeah, those are definitely the lesser-known aspects. I don't think as an industry we talk about those enough, particularly the fact that you lose that tax penalty in retirement. And really it becomes that medical 401(k) or just a resource for you financially, right? Taxed as income, you're probably in potentially a lower bracket once you're retired and the dollars are still there for you in a very reasonable manner.

So thanks for all of that Steve. That was great perspective. Really enjoyed this today. I think it was very valuable to take a moment and consider the HSA experience at this mid-career point. This is really where you have some perspective, right? You have had all of these opportunities to contribute along the way as you're growing in your career.

But also these moments where you really needed it, that medical emergency that everybody experiences in one form or another. And you have to reach into your finances to find a way to come to terms with your health care provider, right? And your HSA has been there with you along the way. So looking at it through that lens, your own employee journey, all the money contributed over time, what are you left with? What do you feel? How do you feel in retrospect, Steve?

**Stephen Durso:** Phil, I think you already know what I'm going to say. It's two words. No regrets. That's where we started, and I'm confident that's the way I'll feel all the way into retirement.

**Philip Massey:** Well thanks, Steve. Given again that we're going to publish in and around October 15, HSA Day, this was something of a celebration I think. So thank you for your insight and everything you shared. It was really valuable, I think, for the audience to hear that perspective.

**Stephen Durso:** Well, Phil, it's my pleasure.

**Philip Massey:** Happy HSA Day, Steve. Happy HSA Day, in fact, to all of our listeners. And thanks again for tuning in to our Benefits With Purpose podcast series. Be well, all.

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And then lastly, we've discussed a number of tax benefits here. So would always point employees to a tax professional if they have any questions about their unique tax situation.

**Philip Massey:** Right. If one can believe it you can actually get to a deeper level than we've discussed here, the winds blow from the IRS in many different directions. So excellent insight, Steve. Thanks for shedding some light on the opportunities for families to save money through our favorite tax-favored accounts.

**Stephen Durso:** Yeah, you're welcome, Phil. It's always a pleasure.

**Philip Massey:** And thanks to all our listeners for tuning in again to Benefits with Purpose. Be well, all.

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