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## HSAs No Panacea for Retiree Medical Costs: EBRI

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By Editor Test      Wed, Apr 7, 2010

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*If it's true that retired couples will need \$350,000 on average to cover costs not covered by Medicare, Health Savings Accounts won't be large enough to do the job, says the benefits research organization.*

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Health care savings accounts (HSAs) are not likely to cure the medico-financial ills that millions of Boomers will face in retirement, says the Employee Benefit Research Institute.

Not at their current low contribution limits, that is.

Contribution limits and prevailing low interest rates will likely prevent retirees from accumulating enough money in the accounts to cover all of their health insurance premiums and out-of-pocket health care costs in retirement, the EBRI said.

Based on current interest rates, if a 55-year-old contributed \$3,000 to his or her HSA in 2009 and also contributed the \$1,000 catch-up contribution each year for 10 years, the account would equal \$48,300 after 10 years, assuming a 2% interest rate. Assuming a 5% rate, the amount would be \$55,100.

But a man age 55 in 2009 would need between \$144,000-\$290,000 by the time he reached age 65 in 2019 (depending upon his use of prescription drugs in retirement) merely to have a 50% chance of covering all premiums and out-of-pocket expenses for Medigap and Medicare Part D.

Women, who live longer than men on average, would need more. "The savings needed for retiree health care far exceed the savings potential of an HSA," said Paul Fronstin of EBRI, author of the report.

The present value of lifetime benefits from Medicare for a husband and wife turning age 65 in 2010 has been estimated at about \$376,000. Since Medicare on average covers a little more than one-half of health care costs for beneficiaries, the average husband and wife will need a little less than \$376,000 in savings to cover what is not covered by Medicare.

An increase in the HSA limits would, however, reduce tax receipts for the U.S. Treasury, and the reduction might have to be made up elsewhere. Most of the benefits of HSAs accrue to people with high incomes, who are most able to fund them and have the most to gain from their tax advantages.

The full report is online at [http://www.ebri.org/pdf/notespdf/EBRI\\_Notes\\_04-Apr10.HSAs-TaxExpends1.pdf](http://www.ebri.org/pdf/notespdf/EBRI_Notes_04-Apr10.HSAs-TaxExpends1.pdf).

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