HSAs can help women meet their higher health care costs

Key points

- Women often have higher medical expenses over the course of their lifetimes than men
- Longer life spans and the high cost of maternity care partly account for the difference
- Health savings accounts offer a tax-advantaged way for people with high-deductible health plans (HDHPs) to meet the cost of medical care
- HSAs can also be an effective way to save for the costs of health care in retirement, particularly for women, who often enter retirement with less savings than men

Health savings accounts (HSAs) can benefit everyone, regardless of their sex. However, because of the distinct health and financial challenges that women face, they can particularly benefit from this tax-favored savings vehicle. These accounts are offered to all people who have a high-deductible health plan (HDHP) so they can set aside money to cover many of their out-of-pocket medical expenses. It's important to note that if you are covered by an HDHP while also being enrolled in Medicare, you can't make any further contributions to an HSA. You can, however, still draw on the balance of your HSA to cover qualified out-of-pocket medical expenses.

HSAs are appealing because they offer a triple tax benefit. First, money is deposited into HSAs on a pretax basis. That means you don't owe income taxes on the money you contribute to the account from your wages. Second, any earnings on money held in the account are not taxed annually as they accrue. Finally, contributions and earnings won't be taxed when they're withdrawn, at any age, if they are used to cover a qualified medical expense.

You can make withdrawals from an HSA to cover nonqualified medical expenses, but the tax benefits will be lost. The contributions and earnings portion of such a withdrawal will be subject to ordinary income taxes. Plus, if you're under age 65, the withdrawal for nonqualified medical expenses will also be subject to an additional penalty tax of 20%.

People can use HSAs to cover their current or future medical expenses because the balance rolls over from one year to the next. Whenever you have a major medical expense, you can withdraw amounts from your HSA to cover those costs. Unlike flexible spending accounts (FSAs), HSAs do not have a "use-it-or-lose-it" rule. Given that flexibility, some people may opt to pay for their current medical expenses using their own money out of pocket and save the amounts in their HSA to cover medical costs during their retirement, when they may be living on a lower income.

The money put into an HSA will also never be lost. When someone dies, any remaining amounts in their account can be left to a beneficiary. A woman can therefore rest assured that her savings will benefit her spouse, children, grandchildren, or any other heirs she designates, if she dies before exhausting the balance of her account.

An HSA can be especially beneficial for women because they often have different health and financial situations compared with men.

HSAs can help address women's distinct health and financial needs

Longer life spans

The most recent data available from the Census Bureau shows that even amid the COVID-19 pandemic, which brought a slight decrease in the life expectancy for both sexes, the disparity in women's vs. men's average life spans increased to 5.9 years. Women can now expect to live to 79.1, vs. 73.2 for men.[1] That means women will have to cover 6 more years, on average, of medical expenses at an advanced age, a time when people generally have a greater need for health care services.

Higher lifetime medical expenses

Women collectively incur much higher medical expenses over the course of their lives than men, largely because of the high costs of maternity care. The average cost of childbirth in the U.S., without any complications such as the need for a Cesarean section, is $18,865 for people with insurance.[2] Mothers (and their families) must pay, on average, $2,854 of that amount themselves, with insurance covering the rest.[2]

All the expenses associated with carrying and delivering a child partly explain why the total health care spending on women between the ages of 19 and 34 is more than double that of men the same age. Total expenditures, covered both by insurers and individuals as out-of-pocket expenses, average $4,709 annually for women vs. $2,261 for men in that younger adult age bracket, according to the Kaiser Family Foundation (KFF).[3] The gender gap in health care spending is still significant for women from ages 35 to 44 as well: $5,905 annually for women vs. $3,449 for men.[3] The gap begins to narrow in the decade before retirement, from ages 55 to 64 ($7,190 vs. $6,262).[3]

Over age 65, there is no longer a gender gap in annual medical expenses. But at those ages, health care costs average over $10,000 per year for both men and women.[3] Given that women can expect to live almost 6 years longer, they will typically have almost $60,000 more in medical expenses than men during their retirement years.

Lower retirement savings

Women generally enter retirement with less savings than men. In its analysis of the savings held by adults ages 55 to 66 who were not yet retired, the Census Bureau found that only 22.1% of women had retirement savings of $100,000 or more, while 30% of men did.[4] Given this common savings shortfall, HSAs can provide a much-needed additional resource for retirement savings.

For what medical costs can HSAs be used?

As mentioned earlier, withdrawals from HSAs will maintain their tax-exempt status as long as people use them to pay, or be reimbursed for, "qualified medical expenses." These expenses are defined by the IRS as the costs of diagnosis, cure, mitigation, treatment or prevention of disease, and for the purpose of affecting any part or function of the body.[5] It's a broad definition and, as a result, many medical, prescription drug, dental and vision expenses are safely considered to be qualified medical expenses. Another noteworthy qualified medical expense is the cost of "any qualified long-term care [LTC] insurance contract."[5] This means that an individual can use funds directly from their HSA to pay, or be reimbursed for, LTC premiums on a tax-free basis, up to certain annual dollar limits that are based on the person's age.

Women, specifically, can use HSAs to cover many of the expenses associated with their reproductive health, including menstrual products and pregnancy test kits.[6] While cosmetic surgery will not count as a qualified medical expense when it is performed for purely aesthetic reasons, it probably will qualify when there is a medical justification. For example, a woman who opts for reconstructive breast surgery after a mastectomy can use withdrawals from an HSA to cover any out-of-pocket costs she has from that care.[7] Fertility treatments are also a qualified medical expense; so too is sterilization for women who decide they don't want to have a child or don't want to have any more children.[7]

HSAs can be used to cover health expenses that Medicare does not

People often believe that Medicare will cover all or most of their health care expenses once they reach age 65. It's a faulty assumption because even those with Medicare must almost always pay for Medigap or Medicare Advantage insurance policies to cover medical expenses that Original Medicare does not. Even with these additional coverage options, most people will still have additional out-of-pocket medical expenses. Medicare also does not cover any of the costs of long-term care or dental services. In fact, for a 65-year-old woman to have a 90% chance of covering all her health insurance premiums and all other out-of-pocket costs for medical care over the remainder of her life, estimates are that she will need to have at least $159,000 saved by the time she retires.[8]

HSAs provide an additional source of potential funds to meet this savings goal and help ensure that women will be able to pay for these health care expenses that won't be covered by Medicare in a woman's retirement years.

Annual limits and other rules for HSA contributions

With the preferential tax treatment of HSAs, it would be ideal if contributions of any amount were allowed, but there are limits on what people can put into an HSA each year. The maximum annual amount that can be contributed to an HSA in 2023 is $3,850 for a person covered by an individual HDHP and $7,750 for someone covered by a family HDHP.[9] The IRS adjusts the annual maximums on a yearly basis to reflect increases in the cost of living. Anyone age 55 or older can also make an additional $1,000 "catch-up contribution" each year. However, the IRS does not adjust the annual HSA catch-up limit to take into account increases in the cost of living.

Another key benefit of HSAs is that, unlike Roth IRAs, they have no income-eligibility requirements. Anyone covered by an HDHP and who meets the other eligibility requirements can contribute to these tax-favored savings vehicles, regardless of how much they earn. Money can also be put into HSAs in addition to the contributions someone is already giving to a qualified retirement plan such as a 403(b), 401(k) or 457 plan.

Useful at every stage of a woman's life

HSAs can be a valuable source of savings to cover medical expenses across all stages of a woman's life. In a hypothetical example, let's look at the life of "Sally."

1. Early adulthood

After earning her law degree, Sally joins a firm that provides its employees with an HDHP. Sally opts to establish an HSA and saves the maximum amount allowable each year for an individual with single HDHP coverage. She is reasonably healthy and has no major medical expenses. Under federal legislation — the Affordable Care Act — her once-a-year wellness visit with her physician should be fully covered by her health insurance plan without any out-of-pocket expense. The same legislation also ensures that her FDA-approved birth control can be obtained without any co-insurance or co-payment requirements. As a result, all the money Sally puts into her HSA can be saved and used to cover future expenses.

2. Marriage

When Sally marries, she adds her spouse to her employer's HDHP. She can increase her contributions to the HSA each year, up to the annual maximum amount allowed for families.

3. Reproductive expenses

Sally and her spouse decide to have children, but they need the assistance of a fertility program, which is successful. Sally has 2 children. While she continues to work and contribute to her HSA, withdrawals from it help her cover the costs she incurs for the fertility program, pregnancy test kits, and stays in the hospital when she delivers her 2 children.

4. Family medical expenses

Sally's 2 kids are also covered by the HDHP offered by her employer, and Sally continues to make the maximum family contribution to her HSA each year. During healthy years for the family, Sally does not need to use funds in her HSA to pay for medical expenses. In less fortunate years, when typical childhood illnesses such as strep throat and mishaps such as sports injuries occur, Sally uses her HSA to pay for her children's medical expenses.

5. Pre-retirement years

Sally remains healthy, but when menopause begins, she discovers she will need hormone therapy to treat some of the symptoms she experiences. Withdrawals from her HSA help cover these expenses. Sally also opts to obtain long-term care (LTC) insurance to prepare for the possibility that she or her spouse might someday experience an extended nursing home stay or other LTC event. Withdrawals from her HSA help pay the premiums for LTC insurance, which generally covers nursing home stays and extended in-home care. These expenses are not usually covered by Medicare.

6. Retirement

When Sally reaches age 65, she enrolls in Medicare. Sally plans to use her HSA to cover the premiums for Medigap policies and her LTC insurance as well as the cost of her dental care. Taking into account the annual maximum contributions Sally made to her HSA over her working years, earnings on those contributions minus the amounts spent over the years for her kids' medical needs, her reproductive health, treatment of menopause symptoms and LTC premiums, she has a balance of about $500,000 in her HSA. She has been able to accrue this amount over her decades-long career even while using some withdrawals from her HSA to cover past medical expenses.

7. Death

A balance of $50,000 remains in Sally's account when she dies. If her spouse outlives her, the spouse will become the owner of the account as long as they are the designated beneficiary. As a spousal beneficiary, Sally's spouse can continue to enjoy the HSA's tax benefits and use withdrawals to cover their own ongoing medical expenses for the remainder of their life. However, if Sally's spouse dies before her and she designates her 2 children as her beneficiaries, they'll each receive a distribution of $25,000 from the HSA. These amounts will be treated as taxable income to Sally's children in the year of her death, per the rules governing HSA distributions to nonspousal beneficiaries.

Health savings accounts (HSAs) offer a tax-advantaged way to meet current and future health care costs. That benefit can be especially appealing for women, given their longer life expectancies and need for increased retirement savings.

About us

The Nationwide Retirement Institute® offers a wealth of information and resources on women and retirement and health care cost planning. Financial professionals can use these resources to help their clients learn more about not only HSAs but also Medicare, long-term care insurance and additional approaches to covering medical expenses in retirement. Education and thorough planning are often the keys to making health care costs manageable, and Nationwide® is committed to supporting financial professionals in this effort.

Visit **nationwidefinancial.com/institute** for more resources about women and retirement and health care cost planning.

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[1] "Life Expectancy in the U.S. Dropped for the Second Year in a Row in 2021," Centers for Disease Control and Prevention (August 31, 2022).

[2] "Want to Have a Baby in the US? Get Ready to Pay a Big Bill," Bloomberg (July 13, 2022).

[3] "How Do Health Expenditures Vary Across the Population?" Peterson-KFF Health System Tracker (Nov. 12, 2021).

[4] "Women More Likely Than Men to Have No Retirement Savings," U.S. Census Bureau (Jan. 13, 2022).

[5] Internal Revenue Code (IRC) Section 223(d)(2), IRC Section 213(d)(1).

[6] "Qualified Medical Expenses," HSACenter.com; and "Can you pay for menstrual care pads with an HSA?" HSAList.org.

[7] "Qualified Medical Expenses," HSACenter.com.

[8] "Projected Savings Medicare Beneficiaries Need for Health Expenses Spike in 2021," Paul Fronstin and Jack VanDerhei, EBRI Issue Brief, No. 549 (Jan. 13, 2022). Estimates assume that both individuals in the couple are covered under Original Medicare and have supplemental Medigap policies.

[9] "IRS Announces Spike in 2023 Limits for HSAs and High-Deductible Health Plans," Society for Human Resource Management (April 29, 2022).

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NFM-22668AO (02/23)