Gen X Women: The Time is Now to Embrace Health Savings Accounts

By Megan Gorman

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It's a good time to be a Gen X woman. Now in their 40s and early 50s, these women are hitting their stride. No longer dealing with the challenges and struggles of their 20s and 30s, many of them are successfully growing careers and raising children. It's not surprising that most women at 40 feel they are finally getting comfortable in their own skin.

Life experience is also encouraging them to feel more confident about their finances. As retirement becomes a closer reality, many of them are looking to increase their savings in order to achieve that goal.

Statistics show that women in their 40s and 50s should be aggressive with their finances in order to catch up to their male peers. In their 2018 survey on retirement in America, Stash, an investing app, found that women in their mid-30s and early 40s stall their retirement savings efforts by 15 percent. In comparison, men are saving at their highest rates in their mid-30s and early 40s.

"When families have major challenges, it is often the women who end up devoting themselves to helping others while at the same time trying to keep up with their own jobs," says Anna Rappaport, chair of the Society of Actuaries' Aging and Retirement Strategic Research Program. "Today's challenges make it very hard to prepare much for the future."

In their 40s and 50s, Gen X women need to jump start their retirement planning to catch up and the health savings account (HSA) might be the best tool.

HSAs are a great way to propel retirement planning, as they offer a unique triple tax benefit: the contribution to the HSA gives you a tax deduction, the money grows tax deferred and funds taken out for health care costs are tax free. Further, after age 65, if you take it out for non–health care costs, it is treated just like an IRA where the distribution is taxable but no penalty applies. To some degree, it is a specialized IRA plan.

But the key to the HSA is not to fund it for current medical costs but to earmark these funds for future expenses.

"HSAs are disproportionately benefitting the young, healthy employee," says David J. Campanella, CFP, SVP, US Bank Private Wealth Management. "The further away you are from retirement, the more dollars you can sock away into your HSA account."

Gen X women are midcareer and have 15 to 25 years to work and fund these accounts. But to really leverage HSAs, Gen X women need to do more than just fund the accounts; they need to invest the funds into the equity market.

The average couple retiring today at age 65 will need $280,000 to cover health care and medical costs in retirement.

Laura Davis, CFP at Cuthbert Financial Guidance in Decatur, Georgia, agrees. “Many of our clients use them as an additional retirement vehicle, and as long as they are committed to that concept, we have them invest in the equity allocation they are comfortable with for their other retirement accounts,” she says.

HELPING WITH FUTURE COSTS OF LIVING

But HSAs might be able to further alleviate concerns of Gen X women. The Society of Actuaries’ research found that 64 percent of Gen Xers are concerned that they won’t be able to save enough to maintain their current standard of living into retirement. The average couple retiring today at age 65 will need $280,000 to cover health care and medical costs in retirement per the Fidelity Retiree Health Care Cost Estimate.

But Gen X women shouldn’t worry that funding an HSA would overshadow their other retirement planning. Rather, it is a way to earmark specific funds for the needs of health care in retirement. Other retirement accounts must still be funded to handle day-to-day living costs and other expenditures.

“I recommend thinking about these costs in tandem: health care is one of many costs that should be planned for in retirement,” advises Rappaport. “Saving for future retirement expenses in all categories will help mitigate financial risks and decrease the likelihood of retirement security being derailed by an unexpected medical (or other) cost later in life.”

LONGEVITY RISKS ARE REAL

Gen X women also need to be concerned about longevity risk. Currently the average life expectancy for a woman in the U.S. is 81 years versus 76 years for U.S. men.

“A key issue for women is that they are likely to be alone during at least part of retirement,” says Rappaport. “Gen X women who are part of a couple should have a plan that works for the couple, but that also works for them if they are no longer part of that couple. Many women are divorced or widowed, and women need to consider that there are a variety of things that can happen to them.”

Saving in an HSA in your 40s and 50s helps you prepare for that risk. Since you can’t fund an HSA after age 65, early funding is key.

“Because of the wide variety of expenses HSAs can be used for, no matter how young you start it is extremely unlikely that you could ‘over save’ in an HSA, even if you max it out every year,” says Davis.

NOW IS THE TIME

For most Gen X women, there will never be a perfect time to fund an HSA along with other retirement planning accounts. But time is running out as retirement is in sight. Further, given potential longevity, the HSA is advantageous in saving funds for a time when Gen X women are alone.

Rappaport sums it up best for Gen X women. “I would encourage members of this generation to focus on saving for future expenses now. Believe it or not, your retirement years will be here sooner than you think.” ■

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