Where to save your money for the long term

How to make the most of your 401(k) and HSA

Fidelity INVESTMENTS®

GETTING STARTED

Two great choices for long-term saving

Having access to both a workplace retirement savings plan like a 401(k) and a Health Savings Account (HSA) gives you the opportunity to set aside a lot of money every year.

If you can't afford to max out your contributions to both accounts, how do you decide how much to allocate to your 401(k) and how much to set aside in your HSA? And why does it matter, today and for the future?

Let's explore the answers.

YOUR HSA AND 401(K)

Your job may give you access to two tax-advantaged savings and investment accounts that help you save for the long-term: a workplace retirement plan, such as a 401(k), and an HSA for qualified medical expenses. You are eligible to open a Health Savings Account if you are enrolled in an HSA-eligible health plan, typically a high-deductible health plan.

The law limits how much you can contribute to each account. In 2019:

401(K)

Maximum contribution	$19,000
Catch-up (age 50+)	$6,000

HSA

Individual maximum	$3,500
Family maximum	$7,000
Catch-up (age 55+)	$1,000

If you can max out your contributions to both accounts, great! But if you can't afford to set aside that much, we can help you decide how to allocate your money.

STEP 1

Take care of the basics

Where do you start? Consider contributing enough to get your full employer match in your 401(k), and set aside enough for this year's medical expenses in your HSA.

YOUR 401(K)

We recommend saving at least the equivalent of 15% of your income for retirement, including your employer's contribution, throughout your career. To get there, a good starting point is to make sure you are contributing enough to take full advantage of any contribution your employer offers. In most cases, that contribution is a match—if you don't contribute, neither do they.

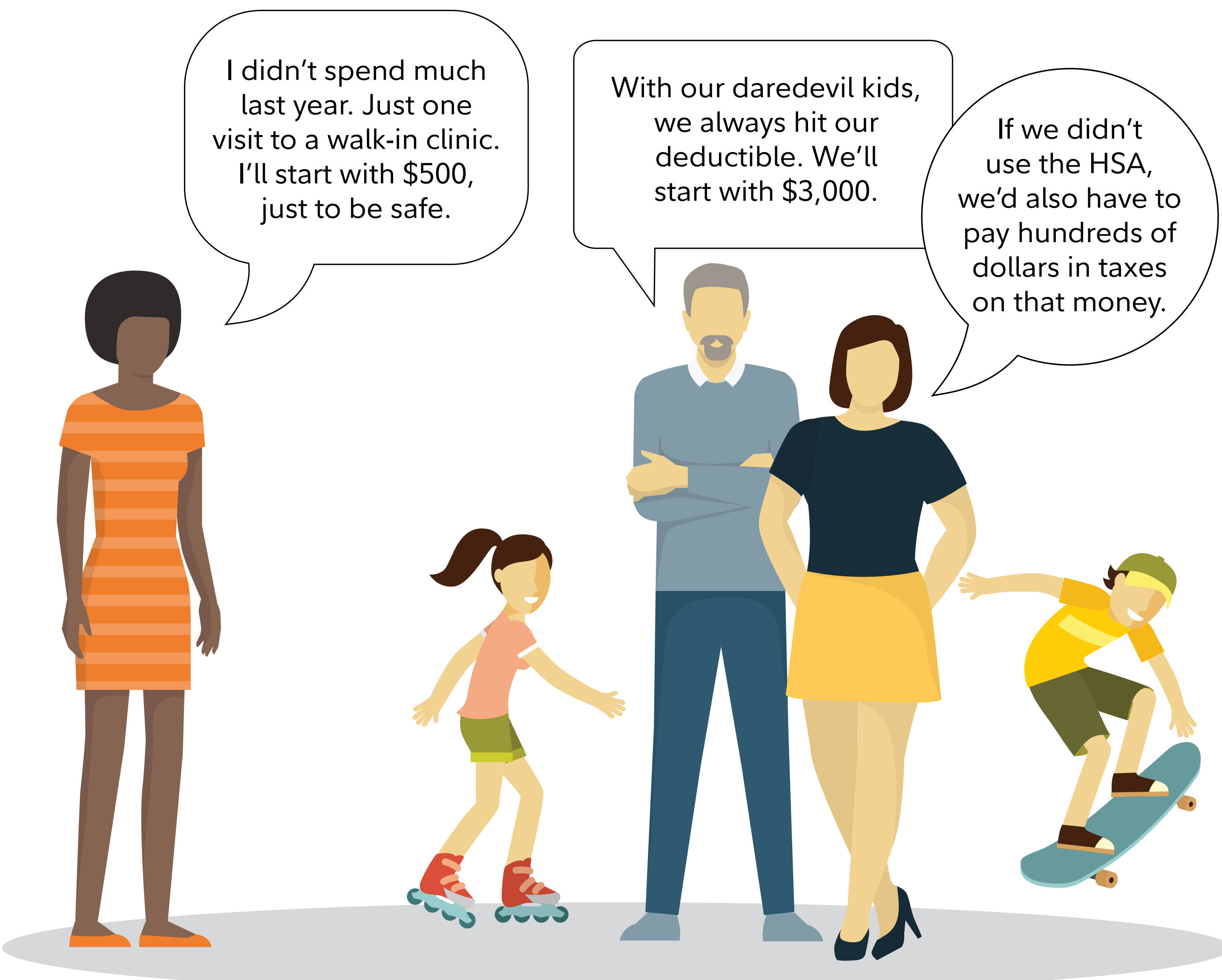
What if your employer doesn't offer a 401(k) match? Aim to contribute enough in your HSA to cover your expected medical expenses (or up to your deductible if you aren't sure).

YOUR HSA

It's also important to set aside at least enough to cover this year's medical expenses in your HSA. This amount includes any contribution your employer makes to your account.

Most people spend at least some money on health care every year, whether it's a visit to a walk-in clinic or something more serious. Think about how much money you spent last year, and try to contribute at least that amount to your HSA. Otherwise, you'll potentially be giving up a tax break and paying more for health care than you need to. For example, it would be like sending an additional $100 to the federal government for every $400 bill you have to pay for qualified health expenses. *(Just to keep it simple, we've assumed a 20% effective federal income tax rate throughout.)*

If you're not sure how much you spend on health care, consider contributing the amount of your deductible to your HSA as a starting point. If you don't spend it all this year, you won't lose it—that's one of the benefits of saving in an HSA; the money is yours until you need it, even if you change jobs.



STEP 2
Max out your HSA

Once you've saved enough to get your employer match in your 401(k) and cover your health care expenses in your HSA, you can focus on maxing out your HSA.

Why not put more money into your 401(k) next? Because your HSA is a powerful tool to help you save for retirement.

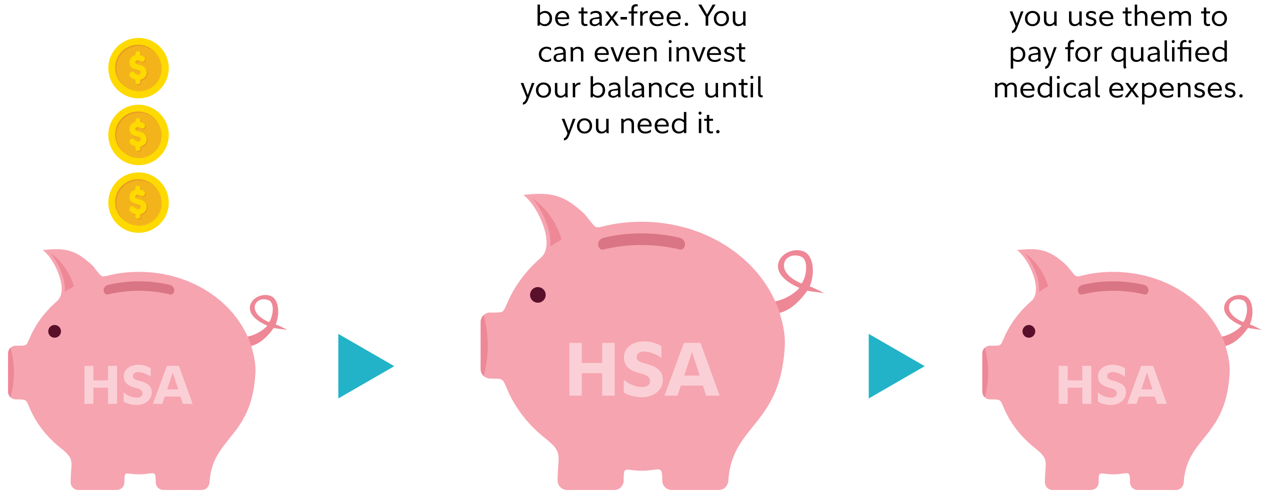
Your HSA and 401(k) have the same tax advantage when you put the money in—you trim your federal income tax bill this year. But they are not the same when you take the money out.

With a 401(k), you pay federal income tax on the money when you withdraw it, no matter what you use it for. With an HSA, you don't owe federal income taxes on withdrawals, as long as you use them for qualified medical expenses. It's the triple tax advantage.

Contributions are tax-free.

Any growth to your savings will be tax-free. You can even invest your balance until you need it.

Withdrawals are tax-free as long as you use them to pay for qualified medical expenses.



If you have access to a limited-purpose Flexible Spending Account, consider contributing enough to pay for current qualifying vision and dental expenses after you max out your HSA. You will likely have to use the money you contribute each year, but it will allow you to save more of your HSA for the future.[3]

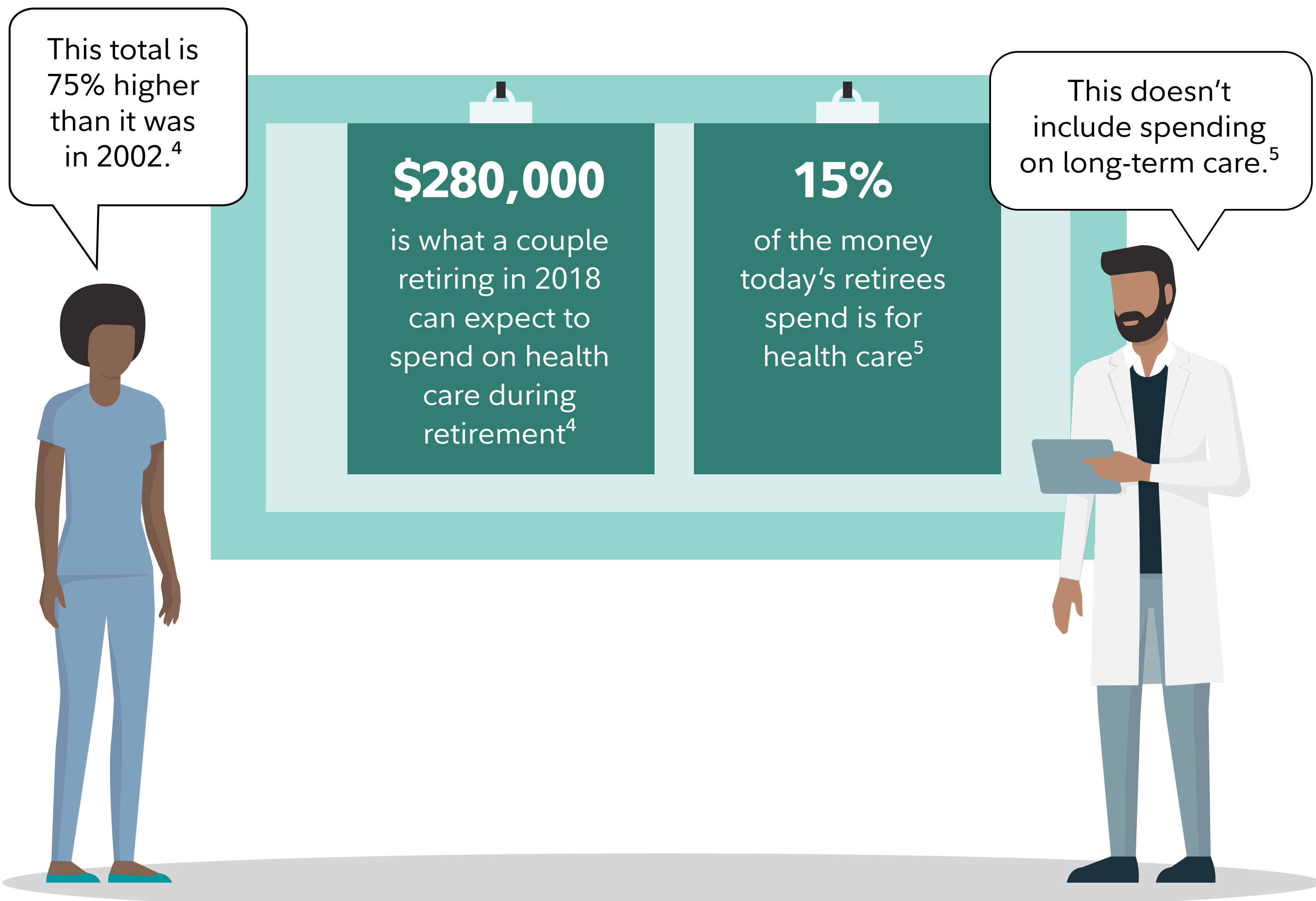
SAVING FOR RETIREMENT

What if that's your primary goal?

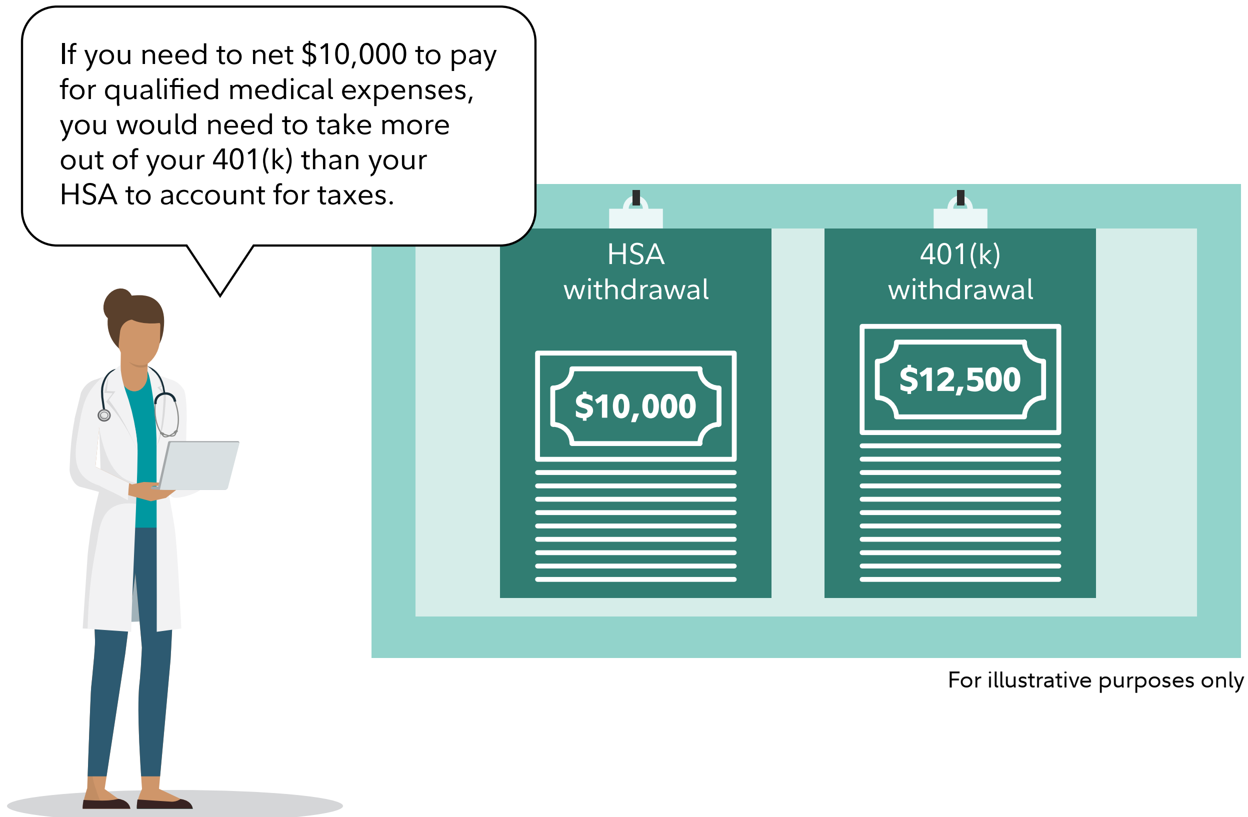
If your primary goal is to save for retirement, the HSA is a great way to do that, for three important reasons:

1. YOU COULD SPEND A LOT ON HEALTH CARE IN RETIREMENT.

If you're one of the lucky ones who doesn't have big medical bills in retirement, you can use your HSA savings for general expenses after age 65. Because these are considered nonqualified withdrawals, they are taxable.



2. MONEY FROM YOUR HSA WILL GO FURTHER IN RETIREMENT, THANKS TO THE TAX BREAK.



For illustrative purposes only

3. ONCE YOU REACH AGE 65, YOU CAN SPEND YOUR HSA BALANCE ON ANYTHING—EVEN GENERAL EXPENSES.

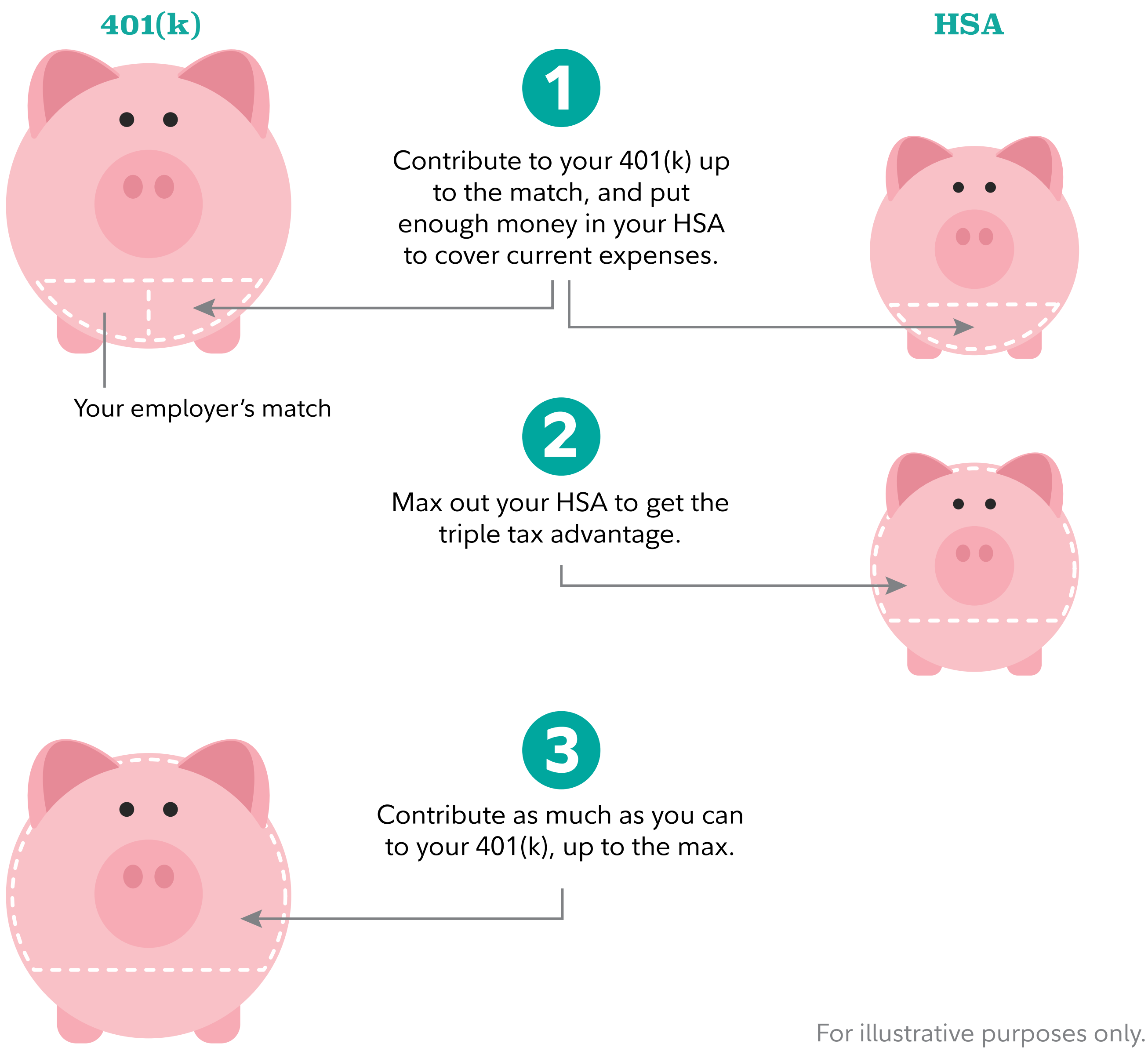
If you are lucky enough that you don't have big medical expenses in retirement, there's no penalty. You simply pay federal income tax on the withdrawals you make to pay for general expenses.

	Pay qualified medical expenses **from your HSA**	Pay other expenses **from your HSA**	Pay any expenses **from your 401(k)**
WITHDRAWAL	$10,000	$10,000	$10,000
TAXES PAID	$0	$2,000	$2,000
YOUR NET	$10,000	$8,000	$8,000

STEP 3

Contribute more to your 401(k)

Once you've maxed out your HSA contributions, focus on contributing up to the maximum in your 401(k) as well. Once you get there, congratulations! You've made the most of your workplace savings. Here's how it looks when you put it all together:



Interested in learning about more ways you can save for the future? Read this article on making the most of long-term savings in tax-advantaged accounts.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

Fidelity does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Fidelity cannot guarantee that the information herein is accurate, complete, or timely. Fidelity makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax professional regarding your specific situation.

[1] Fidelity analysis of 2.6 million participants contributing to 401(k) plans that offer an employer matching contribution as of March 31, 2017.

[2] With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation. The triple tax advantages are only applicable if the money is used to pay for qualified medical expenses.

[3] A Flexible Spending Account is only available through your employer, and these accounts are typically subject to the use-it-or-lose-it rule: You can contribute up to $2,650 annually, but any money left in the account at the end of the year could be lost. Your employer may allow a grace period for spending down your account at the beginning of the following year, or may allow up to $500 to be rolled over. Despite the drawback, using an FSA to pay for qualifying vision and dental costs can help you save. Money goes into the account pre-tax and withdrawals are tax-free when used to cover qualified expenses.

[4] Estimate based on a hypothetical couple retiring in 2018, 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes: cost basis is assumed to equal market value. Estimate is calculated as the assets required today in a taxable account with an effective tax in retirement of 5%, an asset allocation of 30% equity, 50% bonds, and 20% cash, such that there is a 90% chance of being able to pay for healthcare expenses through life expectancy. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care.

[5] Fidelity analysis of Bureau of Labor Statistics 2016 Consumer Expenditures Survey data for Medicare-eligible households (over age 65). This analysis does not include the cost of long-term care for older retirees.

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