

The 401(k) and the HSA:

Partners in long-term savings opportunities



Together we'll go far



Improving your employees' financial health

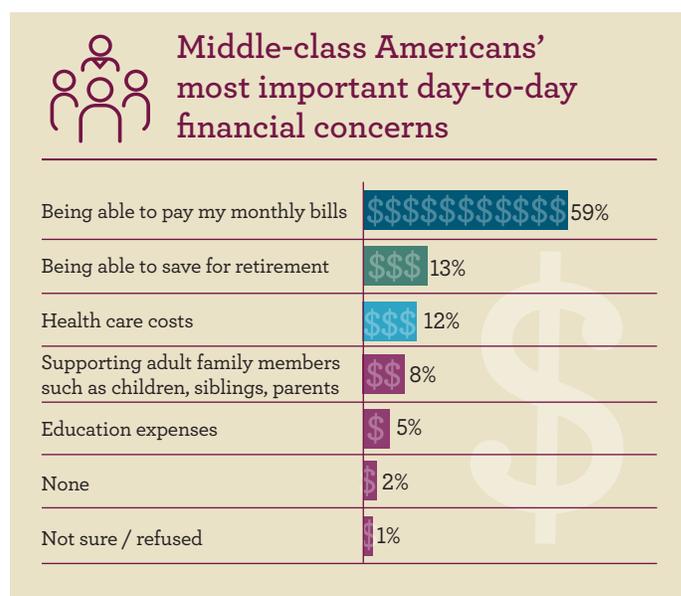
Over the past several decades, the 401(k) plan has become the dominant method for providing employees with a way to save for retirement. Now, employees have an additional way to save for future expenses — more specifically, health care expenses — with a Health Savings Account (HSA).

With the ongoing threat of rising costs for medical care, many individuals are unsure what to do: fund an HSA or put money into a 401(k)? The answer is the two can work together. They can both be used as long-term retirement savings vehicles, with the HSA also offering immediate access for health care expenses.

The goal for organizations offering both of these options is to help employees understand how each account works. Even more importantly, employers can show how the accounts can work together to create the greatest tax advantage and benefit to the employee. Without providing specific advice, the employer can provide the information necessary to help employees evaluate their options and make better informed decisions for their long-term financial health.

The top three financial concerns of middle-class Americans — paying monthly bills, saving for retirement, and health care costs — can be addressed with budgeting

and forethought. After setting aside money for monthly bills, tax-favored contributions can be made to an HSA for short- and long-term health care expenses and to a 401(k) for retirement income. Families can increase their confidence in their current financial picture and become more prepared for the future.



Source: 2013 Wells Fargo Retirement Study

Together, we can help families **increase** their confidence in their current financial picture and become **more prepared** for the future.

Comparing the 401(k) and HSA

At this point in the evolution of employee benefits, most people understand that a 401(k) is for long-term investment. They save money for retirement and understand that money cannot be touched – without penalty – for many years.

The tax-advantaged HSA, on the other hand, has a dual purpose. The money in an HSA can be used immediately for qualified health care expenses or saved

for use later in life. The HSA funds can be used tax-free on qualified medical expenses at any time. Individuals can withdraw the funds at will after age 65 at the current tax withdrawal rate, similar to a 401(k).

The chart below shows a side-by-side comparison of the features of the 401(k) and the HSA. This can be useful in helping employees make decisions about how to use and contribute to the two separate accounts.

	Traditional 401(k)	Health Savings Account
Eligibility	Based on plan design	Set by the Internal Revenue Code
Contributions	Before-tax	Before-tax
Earnings	Not taxed until distribution	Not taxed if used for qualified health expenses
Distributions	Taxed as income	Not taxed if used for qualified health expenses
2015 contribution maximum	\$18,000*	\$6,650* for family coverage \$3,350* for single coverage
2015 catch-up contributions	\$6,000* starting at age 50	\$1,000 starting at age 55
Withdrawal eligibility	Age 59½	At any time for qualified health expenses
Investment opportunity	Yes	Yes, usually with a minimum deposit account balance
Penalties	Early withdrawal	If used for something other than qualified health expenses before age 65
Employer contributions	Allowed, depends on plan design	Allowed
Account ownership	Trust held for employee's benefit	Employee
Required distributions	Must start at age 70½	None
Estate planning/beneficiaries	Will become taxable income to spouse or any other beneficiary when withdrawn	Can be left to spouse and remain in an HSA; taxed as income to other beneficiaries

*These amounts are indexed for inflation in future years.

All tax information relates to federal taxes. HSA tax treatment varies by state.

The information stated above is general in nature. Rules vary and exceptions apply.

Unlike 401(k)s, HSA programs are typically structured so that they are not subject to ERISA. Please consult with your legal counsel about how to prevent ERISA application to your HSA program. Wells Fargo does not give legal or tax advice.

INVESTMENTS IN STOCKS, BONDS, MUTUAL FUNDS, AND RETIREMENT PLANS:

NOT FDIC INSURED	NOT BANK GUARANTEED	MAY LOSE VALUE
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HSA eligibility and expenses

A Health Savings Account (HSA) helps individuals save for health care costs — for today and in the future. The account offers triple-tax savings: contributions, earnings, and withdrawals are all tax-free when used for qualified medical expenses.

Eligibility

To be eligible to open an HSA, an individual must have medical coverage in an HSA-qualified, high-deductible health plan, which meets the following requirements:

Minimum deductible (2015)

Individual coverage: \$1,300

Family coverage: \$2,600

Maximum out-of-pocket limit (2015)

Individual coverage: \$6,450

Family coverage: \$12,900

To contribute to an HSA, the employee cannot be:

- Covered under any other medical insurance that is not a high-deductible health plan
- Covered under a spouse's plan or be able to be claimed as a tax dependent
- Enrolled in Medicare
- Participating in a full-purpose health care flexible spending account (including the grace period from a previous year if a balance remains)*

Qualified expenses

The HSA can be used to pay for any qualified medical expense defined under IRC Section 213(d). These expenses generally include:

- Doctors, hospitals, and prescription drugs
- Dental and vision (excluding cosmetic procedures)
- Chiropractic and acupuncture
- Laboratory fees

The HSA can also be used to pay for long-term care premiums and some long-term care expenses. For example, once a person turns age 65, the HSA can be used to pay for premiums for Medicare Parts B and D.

For a complete list of qualified medical expenses, visit wellsfargo.com/hsa.

*A limited purpose health care flexible spending account is allowed to pay vision and dental expenses.

A complementary way to save

The HSA and the 401(k) are complementary retirement savings tools. The HSA gives employees a way to save for health care costs today and in retirement, while the 401(k) provides a way to save for a paycheck in retirement. Both the 401(k) and HSA offer distinct advantages and can be used together to maximize savings potential.

Maximizing retirement investments

Reports show that those who save in both HSA and 401(k) plans have higher balances than those who save in one or the other. Those with both a Wells Fargo HSA and 401(k) have 58% higher HSA balances and 55% higher 401(k) balances.

Savings strategies vary by employee. Some use the HSA as a way to maximize retirement savings, others save primarily to pay for current health care expenses. Either way, employees can take advantage of the tax savings. A common recommendation is to save at least 10% of income for retirement, regardless of the investment vehicle.

A 401(k) account can be thought of as the primary investment vehicle for retirement savings. By saving the bulk of dollars earmarked for retirement in a primary account, funds can compound at a higher rate. Currently, the contribution limits in 401(k) plans are higher than an HSA, allowing a greater opportunity to save. Plus, because HSAs have not been around as long, more people are already saving in a 401(k). To help maximize their employee benefits, it is important for employees to save in their 401(k) at least an amount equal to the company match, if offered.

An HSA should be considered first and foremost as a health care savings tool. Today, it is the only way to save for retirement health care costs tax free. Similar to a 401(k), individuals can choose to invest HSA dollars in a set of mutual funds.

At a minimum, it is recommended that employees save enough to cover their annual estimated health care expenses. When possible, saving additional funds in the HSA is a good way to cover unexpected health care costs in working and retirement years. The optimal retirement saving strategy takes into account both HSA and 401(k) benefits.

After age 65, funds in an HSA can be withdrawn for any reason — not just health care. When withdrawn for anything other than qualified health care expenses in retirement, funds are taxed at the same withdrawal rate as a 401(k).

Employees can read company-offered documentation to understand any fees and investment opportunities to make an educated decision about the best place to invest for health care and retirement for their personal situation.

Did you know?

Those with both a Wells Fargo HSA and 401(k) have 58% higher HSA balances and 55% higher 401(k) balances.



Four in ten (40%) *middle-class Americans' biggest financial concern in retirement is large, unexpected healthcare expenses.*

Source: 2013 Wells Fargo Retirement Study

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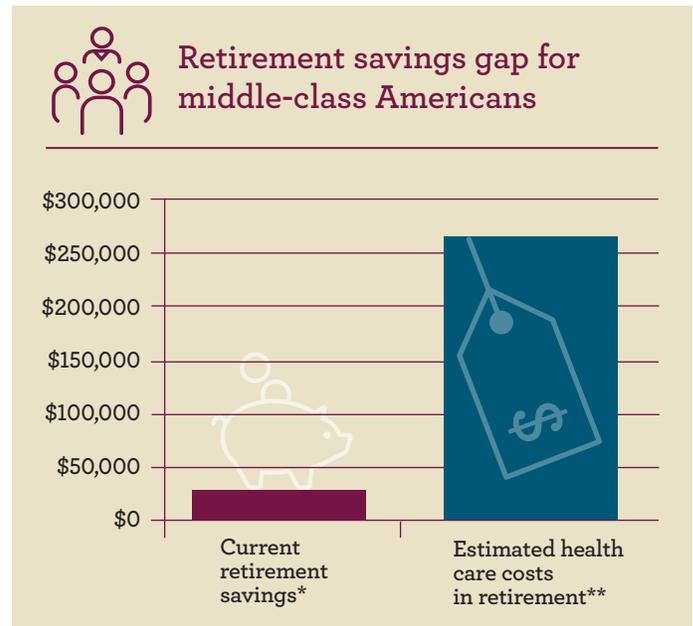
Educating employees about saving

Many Americans are unaware of the actual amount they need to live comfortably in retirement, partly due to underestimating health care costs in retirement. According to the 2013 Wells Fargo Retirement Study, middle-class Americans believe they will spend a median amount of \$48,000 in retirement on health care costs, whereas the Center for Retirement Research estimates a typical couple at age 65 will spend \$260,000 on health care costs. In addition to low estimates, the actual savings of middle-class Americans presents a huge gap as well. They have saved a median amount of \$25,000 for retirement, with only an additional \$9,000 in total investable assets. Awareness is the first step, with planning close behind, for Americans to reach a more financially stable retirement.

You can help your employees bridge the gap. Coordinate educational communication strategies on the benefits of saving in a 401(k) and in an HSA. Many of the messages are similar, and employees can approach their decisions with a basic understanding of the benefits and limitations of each type of account.

When introducing a new high-deductible health plan that allows employees to open an HSA for the first time, communication needs to play a major part in the rollout. Many employees are unaware of the full benefits of HSAs and how they differ from other tax-saving accounts, including the 401(k) and flexible spending accounts. Communicating early, often, and consistently over time is paramount to success.

In addition to the specifics about how each account works, there are two key concepts that can help employees save more in both accounts. First, provide employees with basic budgeting information to help them control their spending so they have money to save. Second, help employees understand the tax advantages offered by these accounts when used for long-term saving.



*Median retirement savings for middle-class American's. Calculated from range selected by respondents in the 2013 Wells Fargo Retirement Study.

**The Center for Retirement Research estimate on health care costs over the remaining lifetime of a typical couple at age 65. Center for Retirement Research Issue Brief 10-4. "What is the Distribution of Lifetime Health Care Costs from Age 65?" 2010.

Use a combination of print, electronic, and video messages, as well as webinars and in-person meetings, to ensure that employees get access to information in ways that appeal to them. Start with simple messages and move to more detailed information over time. Also consider mailing messages directly to the home, as spouses and family members often play a key decision-making role in health care.

As employees build their accounts over time, messages can focus on keeping the savings for use in retirement. Include estimates of what out-of-pocket health care expenses can be beyond age 65. Many people have the mistaken belief that once Medicare kicks in their costs are minimized, but the actual numbers tell quite a different story.

With a Wells Fargo HSA and 401(k), we can help you create a communication strategy that will help prepare your employees for a financially healthy retirement. To learn more, contact your Wells Fargo representative.

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