

# Supplemental SAVINGS Options



## HEALTH SAVINGS ACCOUNT (HSA)

An HSA is a savings account for the purpose of funding qualified medical expenses. It is used to supplement current insurance coverage. You may have access to an HSA through your employer. If not, banks, credit unions, insurance companies or other IRS-approved vendors offer them.

### Eligibility:

To qualify for an HSA, you must be enrolled in a high deductible health plan (HDHP), either through your employer or through the health care marketplace. In 2023, an HDHP is classified as having a minimum deductible of \$1,500 per year for an individual or \$3,000 for a family.

For more information on HSAs, visit  
[www.healthcare.gov/glossary/health-savings-account-hsa/](https://www.healthcare.gov/glossary/health-savings-account-hsa/)

### Advantages of an HSA:

- Money can be deposited on a pre-tax basis
- No taxes on any account withdrawals for qualified medical expenses
- Interest earned is not taxed
- You can carry over your account balance annually
- At age 65, you can begin using your HSA account balance for any expense, penalty-free (not just medical expenses)

### Qualified Expenses:

Typically you, your spouse, your children and any dependents claimed on your tax return can use HSA funds for:

- Doctor visits
- Medications
- Medical equipment
- Dental care
- Vision care

### Contributions:

In 2023, the maximum contribution for a single person to an HSA is \$3,850 and \$7,750 for a family. Those 55 and older can make additional contributions of \$1,000/year. Note that after you turn 65 and are enrolled in Medicare you can no longer make contributions.



## 457 SUPPLEMENTAL SAVINGS PROGRAM OVERVIEW

A 457(b) is a voluntary savings program in which a portion of your salary is deposited into an invested account that you manage.

- The benefit is based on the total amount of money in your account
- Employer adoption is necessary to enroll
- Pre-tax and Roth (post-tax) options may be available

### Contributions:

You decide how much to contribute and how to invest assets to meet your goals and personal risk tolerance. You can start, stop or change your contributions at any time without penalty.

- Both pre-tax and Roth contributions can be made as a flat dollar amount or a percentage of pay
- Pre-tax contributions are deposited into your individual account before taxes are calculated, reducing your taxable income
- The annual contribution limit for 2023 is \$22,500
- Visit [mersofmich.com](http://mersofmich.com) or contact our Service Center to learn more about additional contribution options as you approach age 50 or are within three years of retirement age.

### Calculators Can Help!

The MERS website offers several calculators to help you determine which options and contribution amounts will help you reach your goals.

[www.mersofmich.com/mers/resources/calculators/](http://www.mersofmich.com/mers/resources/calculators/)

### Rollovers:

457 programs provide an option to consolidate retirement savings under one plan. Eligible rollovers include:

- Qualified Plans (ex: profit sharing, 401(k), money purchase and defined benefit plans)
- 403(b)
- Other 457(b)
- IRAs (including traditional, SIMPLE and SEP)

### Hardship Withdrawal:

The MERS 457 Program does allow withdrawals from your pre-tax account in the event of a severe financial hardship. Your employer must provide final approval of all such requests.

Examples of qualifying hardships include:

- Sudden and unexpected illness or accident
- Loss or damage to your property due to an accident
- Disaster, destruction, theft or other severe and unforeseeable circumstances

For more information on the MERS 457 Program, visit [www.mersofmich.com/participant/programs/457-program/](http://www.mersofmich.com/participant/programs/457-program/)



# Supplemental Savings Options



## INDIVIDUAL RETIREMENT ACCOUNT (IRA)

An IRA is a tax-advantaged individual retirement account. There are two IRA options:

- A **Roth IRA** provides tax-free income in retirement
- A **Traditional IRA** allows tax-deductible contributions now

For more information on the MERS IRA, visit [www.mersofmich.com/participant/programs/mers-ira/](http://www.mersofmich.com/participant/programs/mers-ira/)

Both types allow withdrawals prior to retirement without penalty for qualified expenses. These can include:

- Education expenses for you, your spouse, your child or grandchild
- Buying or building your first home (up to \$10,000)
- Un-reimbursed medical expenses

In 2023, the contribution limit is \$6,500 for those under age 50, and \$7,500 for those 50 and older.

### Roth and Traditional Differences

	ROTH	TRADITIONAL
<b>Tax Advantages</b>	Contributions are made post-tax; qualified withdrawals provide tax-free income	All or a portion of contributions may be tax deductible; all withdrawals are subject to income tax
<b>Income Restrictions</b>	Yes, but income limits apply	Yes, no income limit
<b>Age Restrictions on Contributions</b>	No	No
<b>Early Withdrawal (Before Age 59½)</b>	Withdrawal of your contributions – no penalty any time Withdrawal of your earnings – 10% penalty and income tax	10% penalty and income tax on any amount you withdraw
<b>Taxes on Withdrawals (After Age 59½)</b>	No, if criteria for qualified distribution are met	Yes
<b>Required Minimum Distributions (RMDs)</b>	No	Yes
<b>Beneficiary Taxes (after IRA owner's death)</b>	No	Yes
<b>Rollovers</b>	Accepts rollovers from Roth 457 programs, Roth 401(k) plans, and Roth IRAs	Accepts rollovers from pre-tax 457 programs, 401(k) plans, and traditional IRAs



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## Benefits of a Roth IRA:

**Tax-free earnings:** Whether you make lump sum contributions to the account or establish a payroll deduction each pay period, you have already paid taxes on those dollars. That means you can withdraw your money without having to pay additional taxes on it or the investment earnings it makes over time as long as you meet requirements for a qualified distribution.

**Emergency savings:** The ability to withdraw contributions at any time to cover unplanned expenses makes a Roth IRA appealing if you are trying to build your retirement account and your emergency savings at the same time. You can withdraw your contributions from a Roth IRA tax-free at any time, without paying a penalty. Only your investment earnings need to remain in the account until you are 59½ to avoid paying a 10% penalty and income tax.

**Estate planning:** Traditional IRAs require you to begin taking Required Minimum Distributions (RMD) at age 73. However, a Roth IRA has no RMD requirement during your lifetime. That means your money can continue to grow in a Roth IRA and be passed down to your heirs.


## Benefits of a Traditional IRA:

**No income limit:** Anyone who is earning taxable income can open a Traditional IRA.

**Rollovers:** If you changed jobs and are requesting a refund of contributions into a non-vested pension plan, rolling them into a Traditional IRA provides a smooth transfer of funds without any additional tax consequences.

**Tax deduction:** You may qualify to deduct all or a portion of your contributions from your income taxes, thus lowering your tax liability. If you are in your peak earning years, you may be in a higher tax-bracket than you are likely to be in during your retirement years, which can make the pre-tax contributions of a Traditional IRA appealing.






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