The Convergence of Health & Wealth

Health Savings Accounts for Retirement and Health Care Planning
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What Would be the Outcome?

Left:
- Run
- Bike
- Swim

Right:
- Essential
- Lifestyle
- Health Care
Defined Benefit to Defined Contributions

Active 401(k) Participants

Source: “Facts from EBRI” – February 2005
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Progression of Consumer Responsibility

Defined Benefit Health Care
- Traditional Health Insurance (HMO-PPO)
- Employer Selects Coverage Options
- Growth of the FSA Flexible Spending Account

Consumer Driven Health Care
- Cost shift to employees via design and incentives
- Employees limited choice coverage options
- FSA, HRA & HSA

Defined Contribution Health Care
- Employer makes a fixed contribution
- Employee now has increased choice in coverage and responsibility for care
- FSA, HRA & HSA

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The Preferred Provider Organization plan is the most popular choice of employees with an adoption rate of 43%. The high deductible health plan is the second most popular choice at 36%.

60% of large employers offer at least the option of a high deductible health plan.

Source: Benefitfocus "The State of Employee Benefits – 2017"
Benefitfocus compiled and analyzed fall 2016 open enrollment data from more than 500 large employers – representing over one million employees – on the BENEFITFOCUS Platform.
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Ever-Rising Health Care Costs

- **3X** – Since 2001, health care costs for the typical American family of four has more than tripled

- **4.3%** - Annual increase to health care costs (2016-2017) was the smallest increase since inception of MMI (2001)

- **2.0%** - Median increase to household income between 2004 – 2014

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**Average Annual Health Care Cost**

(Family of Four w/ PPO Coverage)

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1. Milliman Medical Index – 2017
2. US Census Bureau, Income Data: Historical Tables by Household

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Prescription drugs are the fastest growing slice of the health care cost pie.

Specialty drugs are the main driver for the increase in prescription drugs.

There is no standard definition for a specialty medication, but drugs in this category typically share one or more characteristics.  

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1 Milliman Medical Index: 2017
Total Annual Health Care Expenses for Family of Four ($26,944)
Percentages do not equal 100% due to rounding

2 hcvshhealth.com/thought-leadership/whats-special-about-specialty

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The Employee Benefit Research Institute (EBRI) estimated that some couples could need as much as $350,000 at age 65 in 2016, assuming 90% chance of having enough savings.

Source: www.ebri.org/pdf/notespdf/EBRI_Notes_Hlth-Svgs.v38no1_31Jan17.pdf

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# Concerns about Retirement

Nationwide’s 2016 “Health Care Costs in Retirement” survey illustrated:

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerned they will not have enough money to cover unplanned medical expenses</td>
<td>72%</td>
</tr>
<tr>
<td>Concerned they will not have enough money to cover long-term care expenses</td>
<td>70%</td>
</tr>
<tr>
<td>Concerned that health care costs will deplete funds they planned to leave to children</td>
<td>52%</td>
</tr>
<tr>
<td>Terrified of what health care costs may do to their retirement plans (56% in 2014)</td>
<td>64%</td>
</tr>
</tbody>
</table>


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Health Care & Retirement

Health Savings Accounts

HSA Retirement Planning
What is an HSA?

▪ An HSA is a tax-favored trust or custodial account used to pay for qualified medical expenses in conjunction with a High-Deductible Health Plan (HDHP)

▪ Typically, an HSA is in the form of a checking, savings or other type of account used to pay medical expenses

▪ An HSA is owned by an individual and established under the individual’s social security number

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Attributes of the HSA

- Triple Tax Free for Qualified Medical Expenses
- No Income Minimums or Limits
- No Phase Outs
- HSA Contributions are In Addition to 402(g) and 415(c) Limits
- No Required Minimum Distributions
- Distributions for Qualified Medical Expenses are Not Included in MAGI
- Decreases Employer and Employee Income & Payroll Tax Paid
- Savings from FICA or FUTA = 15.3% +
- Allows for Employer Contributions

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HSA Eligibility

- Covered by a Consumer Driven Health Plan (HDHP)
- Not Covered by a Spouse’s or Other Person’s Non-Consumer Driven Health Plan
- Not Claimed as a Dependent on Another Person’s Tax Return
- Not Covered by a Spouse’s or Other Person’s General Health Flexible Spending Account nor Health Reimbursement Account

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### Annual Limits: HSA & HDHP

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum HSA Contributions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>$3,350</td>
<td>$3,400</td>
<td>$3,450</td>
</tr>
<tr>
<td>Family</td>
<td>$6,750</td>
<td>$6,750</td>
<td>$6,900</td>
</tr>
<tr>
<td>Catch-up Contribution (Age 55+)</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Add’l (Spouse) Catch-up Contribution*</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td><strong>Minimum Deductible (HDHP)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>$1,300</td>
<td>$1,300</td>
<td>$1,350</td>
</tr>
<tr>
<td>Family</td>
<td>$2,600</td>
<td>$2,600</td>
<td>$2,700</td>
</tr>
<tr>
<td><strong>Out-of-Pocket Maximum (HDHP)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>$6,550</td>
<td>$6,550</td>
<td>$6,650</td>
</tr>
<tr>
<td>Family</td>
<td>$13,100</td>
<td>$13,100</td>
<td>$13,300</td>
</tr>
</tbody>
</table>

* Contribution must be made into a separate HSA

** High Deductible Health Plan (HDHP)

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HSA-Qualified Medical Expenses

- Qualified medical, prescription, dental and vision expenses (Listed in IRS 213(d) & 502)
- Medicare Expenses
- Long Term Care Premiums

- Medigap Premiums
- Cosmetic Surgery
- Funeral Expenses
- OTC Medicines
- Expenses not listed in IRS 213(d) and 502

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HSA-Qualified Medical Expenses

- Acupuncture
- Ambulance Services
- Chiropractic Care
- Capital Expenses
- COBRA
- Dental Treatments
- Doctor Fees
- Eye Exams/Glasses
- Laboratory Fees
- Long-Term Care
- Nursing Homes
- Prescription Drugs
- Psychological/Psychiatric Care
- Surgery
- Vaccines
- X-Rays
- Medicare Deductibles, Premiums & Out-of-Pocket


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An HSA is a powerful triple tax free financial tool that provides one with the opportunity to save for future medical expenses in retirement, while at the same time paying today’s medical expenses tax free.
Contribution made pre tax or directly after tax

Balances used for qualified health care expenses are TAX FREE

Withdrawals of Non 213 (d) ORDINARY INCOME & 20% PENALTY

AGE 65

Withdrawals for non-213(d) expenses ORDINARY INCOME

Withdrawals made for 213 (d) expenses TAX FREE

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## HSA v. FSA & HRA

<table>
<thead>
<tr>
<th></th>
<th>HSA</th>
<th>FSA</th>
<th>HRA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contribution Limits</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$3,450 / $6,900 (Age 55+ - $1,000 catch up)</td>
<td>$2,650 / $5,300</td>
<td>No Limit</td>
</tr>
<tr>
<td><strong>Who Can Contribute?</strong></td>
<td>Employer / Employee / Other</td>
<td>Employer / Employee (payroll deferral)</td>
<td>Employer</td>
</tr>
<tr>
<td><strong>Who Owns It?</strong></td>
<td>Employee</td>
<td>Employer</td>
<td>Employer</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>Yes, Tax Free</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>ERISA</strong></td>
<td>No&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Rollover</strong></td>
<td>Yes – No Limits (Time or Money)</td>
<td>$500 Max</td>
<td>Possible</td>
</tr>
</tbody>
</table>

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1. 2018 limits for individuals / families
2. Generally an HSA is not covered under ERISA

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Mobility of Assets with an HSA

**TRANSFER**
- Unlimited Trustee to Trustee over your lifetime
- The most efficient & preferred method
- One can select the provider of choice

**ROLLOVER**
- May be executed once per calendar year
- "60 Day Window" for funds to be re-deposited
- Penalty of Income tax PLUS 20% on Day 61

**CONVERSION**
- Allowed once per lifetime
- Conversion allowed only from one IRA account
- Individual must remain HSA-eligible for 12 months after transfer or face tax + 10% penalty

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Legacy Planning

At Death
- Payable on Death
- No penalty for death during testing period
- If no beneficiary named, consult will or applicable state law

Spouse
- At death HSA balance transfers to spouse
- Spouse now owns the HSA and all benefits/balances
- No excess contribution penalty

Nonspouse
- Not allowed use of the HSA
- Full distribution in the year of death
- Must pay income tax but NOT 20% penalty

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A couple who utilizes the triple-tax-free characteristics of the HSA to pay the estimated $369,000 of out-of-pocket health care costs in retirement and is at 24% tax bracket
SAVES $116,526

A couple who utilizes the triple-tax-free characteristics of the HSA to pay the estimated $369,000 of out-of-pocket health care costs in retirement and is at 35% tax bracket
SAVES $198,692

For illustrative purposes only. Individual results could vary.
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Potential Flow of Assets in Accumulation

1. 401(k) Contributions to Employer Match
2. HSA Contributions to HSA Maximum
3. 401(k) Contributions to Maximum
4. After Tax Contributions to the Maximum

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# Potential Alternative Contribution Model

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>401(k) Contributions Only</th>
<th>401(k) &amp; HSA Combination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$65,000</td>
<td>$65,000</td>
</tr>
<tr>
<td>10% Employee Savings</td>
<td>$6,500</td>
<td>$6,500</td>
</tr>
<tr>
<td>Employee 401(k) Contribution</td>
<td>$6,500</td>
<td>$3,900</td>
</tr>
<tr>
<td>Employer 401(k) Match(^1)</td>
<td>$1,950</td>
<td>$1,950</td>
</tr>
<tr>
<td>Employee HSA Contribution</td>
<td>$0</td>
<td>$2,600</td>
</tr>
<tr>
<td>Employer HSA Contributions(^2)</td>
<td>$0</td>
<td>$1,300</td>
</tr>
<tr>
<td><strong>Total with Average Employer HSA Contribution</strong></td>
<td><strong>$8,450</strong></td>
<td><strong>$9,750</strong></td>
</tr>
</tbody>
</table>

\(^1\) Employer Match of 50% of the employee contribution up to 6% in this example  
\(^2\) Assuming a 50% contribution in this scenario  

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Potential Flow of Assets in Distribution

59 1/2 - 65  
401(k) & HSA (213 only)

65 - 70 1/2  
401(k) & HSA (213/General)

70 1/2 +  
401(k), HSA & Roth IRA

For Illustrative Purposes Only

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DC in Concert with the HSA

Defined Contribution Plans
- Long-Term Mindset
- Investment Oversight
- Higher Contribution Limits
- Lower Age Access to non HC Dollars

Health Savings Account
- Triple Tax Free HC Expenses
- Penalty free at age 65
- No RMDs
- No Income Limits

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Intuitive Tools

The Nationwide Personalized Health Care Cost Assessment

- Powered by calculations from one of the world’s leading actuarial firms
- Provides a personalized estimate of possible annual health care expenses
- Includes estimates for Medicare, out-of-pocket and long-term care expenses