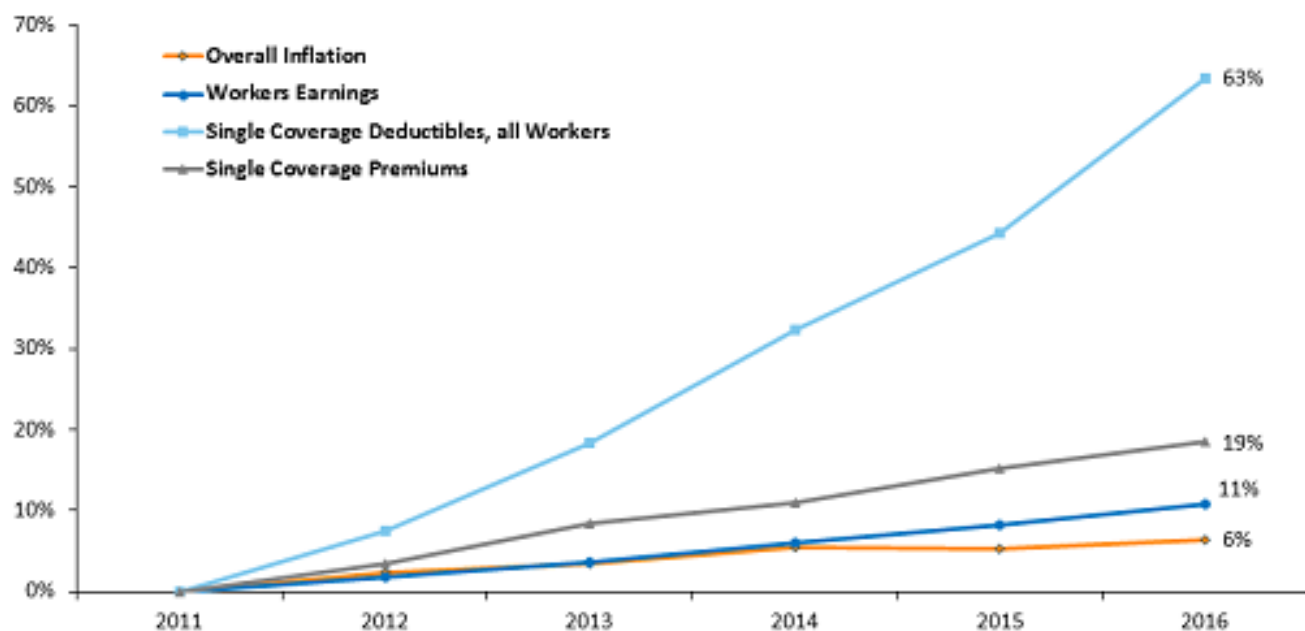


# Retirement Health Care Income Planning: Why the HSA is the best option

Robert DiMase and Ross James

# Historically speaking

## Cumulative Increases in Health Insurance Premiums, General Annual Deductibles, Inflation, and Workers' Earnings, 2011-2016



NOTE: Average general annual deductible is among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.

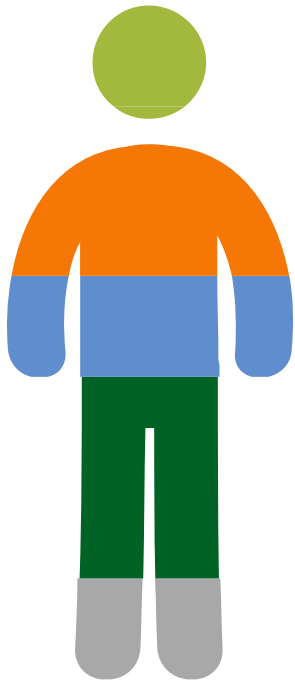
SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2011-2016. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2011-2016; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2011-2016 (April to April).



AND



# 2016 view from the top



29%

of all workers were enrolled in high-deductible plans compatible with Health Savings Accounts (HSAs) or tied to Health Reimbursement Arrangements (HRAs), up from 20% in 2014



83%

of covered workers face a deductible for single coverage, which averages \$1,478



\$\$\$

The average deductible in small firms (3 to 199) versus large firms (200+) is \$2,069 vs. \$1,238



51%

For the first time, the survey finds more than half (51%) of all covered workers face deductibles of at least \$1,000 annually for single coverage

# How does a plan become a “qualified high dollar deductible” plan?

- Minimum level of deductible
  - \$1,300 / \$2,600 – most products start at \$1,500 / \$3,000
- Deductible applies to all services except routine preventive care
  - Sick visits, pharmacy setting
- Collective deductible
  - If you have family coverage the entire family deductible will apply even if only one member of your family utilizes the benefits



# Interesting Stats & Ice Breakers - Employees

- What does the average American pay for annual healthcare costs in retirement?
- What is the inflation rate on Medicare and long term care costs?
- What is the total amount a Massachusetts retired couple will spend on Medicare premiums alone in retirement?



The research is based on a survey of 1,000 adults and focus groups held throughout the country, which required the participants to have a minimum household income of \$75,000 and investable assets of \$50,000 or more. <http://www.plansponsor.com/Participants-Want-Retirement-Planning-to-Include-Health-Care-Costs/>

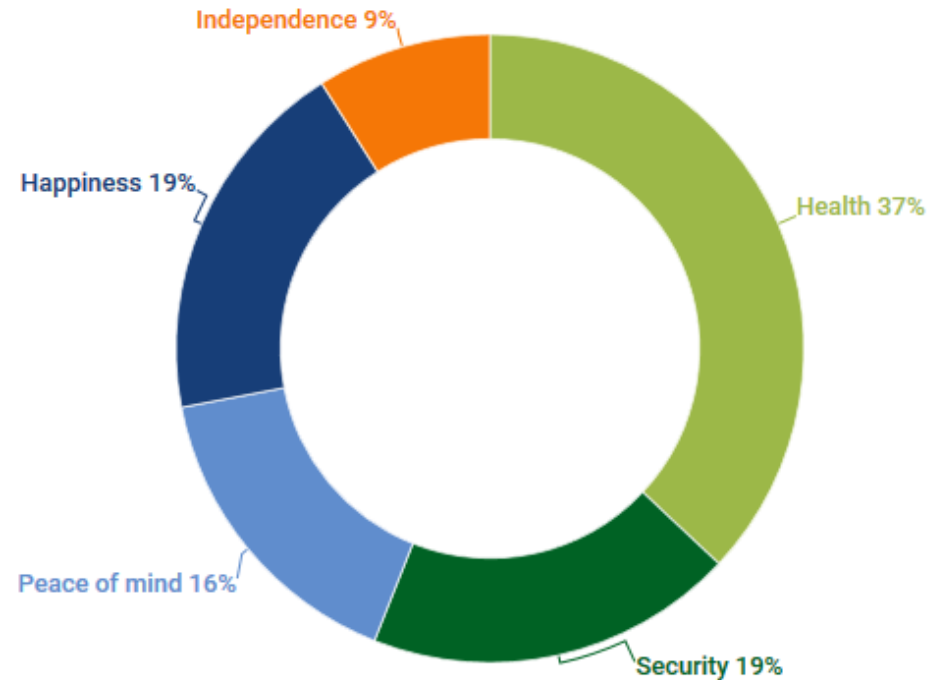
# Interesting Stats & Ice Breakers



81%

of Americans believe it would be very or extremely valuable for their financial adviser to include health care costs in their retirement planning, according to research by Transamerica and Luntz Global Partners

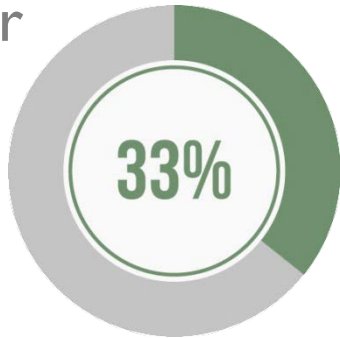
When asked what is the most essential for their financial future



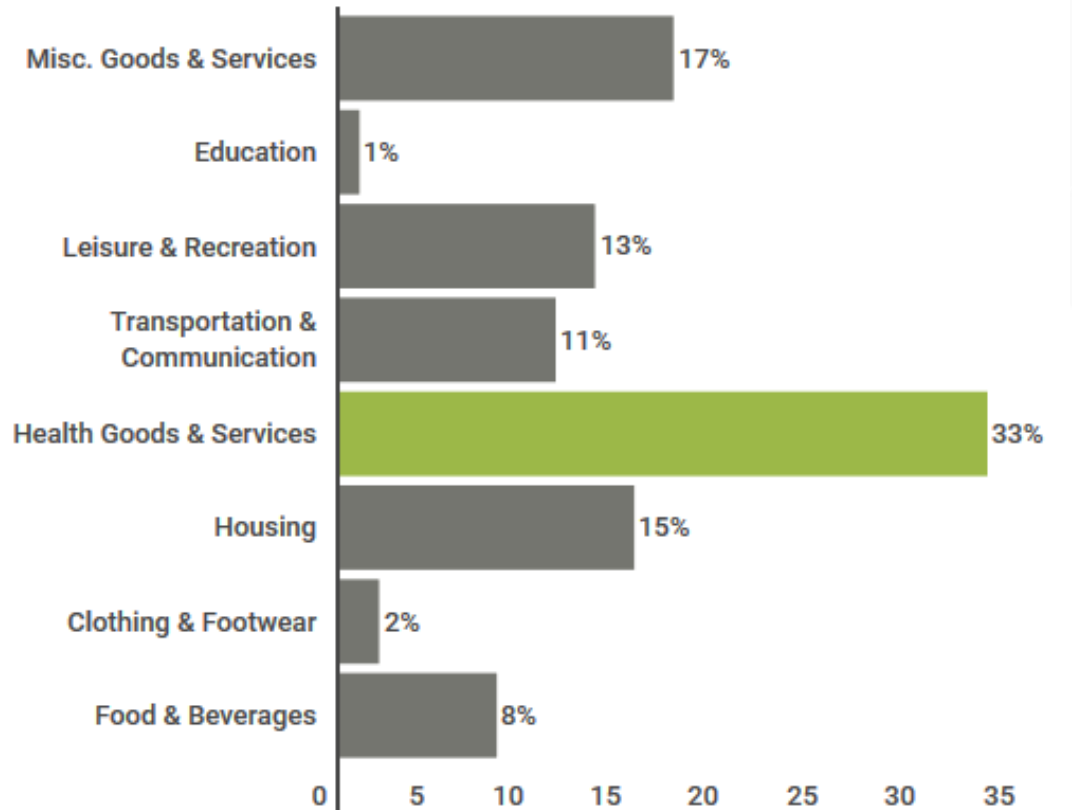
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# Healthcare in Retirement

Healthcare accounts  
for



of expenses for  
Americans



# Common myths about High Deductible health plans

1. My employees will revolt
  - We are actually seeing many employees ask for the option
2. It's too much financial burden on my employees
  - How is it any different than auto and home insurance?
3. They won't understand it
  - See #2, some of the plans are actually a lot easier to understand than many other products
4. They won't set aside money in the HSA account
  - True – but this shouldn't stop the employer
5. It unfairly penalizes the unhealthy employees
  - In any given year 4% of your covered population will incur 40% of the costs



# Why aren't the premiums lower?

## Normal delivery – BC/BS of MA cost estimator

- Sturdy Memorial - \$10,668
- Brigham & Women's Hospital - \$19,727
- Average **\$15,198**
- Typical \$2,000 deductible plan, the insurance company is paying 86.8% of the claim
- Under a \$2,000 HSA plan the insurance company is paying 86.8% of the claim

## Brain surgery - BC/BS of MA cost estimator

- Tufts Medical Center – \$32,125
- Massachusetts General Hospital - \$48,990
- Average **\$40,558**
- Typical \$2,000 deductible plan, the insurance company is paying 95% of the claim
- Under a \$2,000 HSA plan the insurance company is paying 95% of the claim

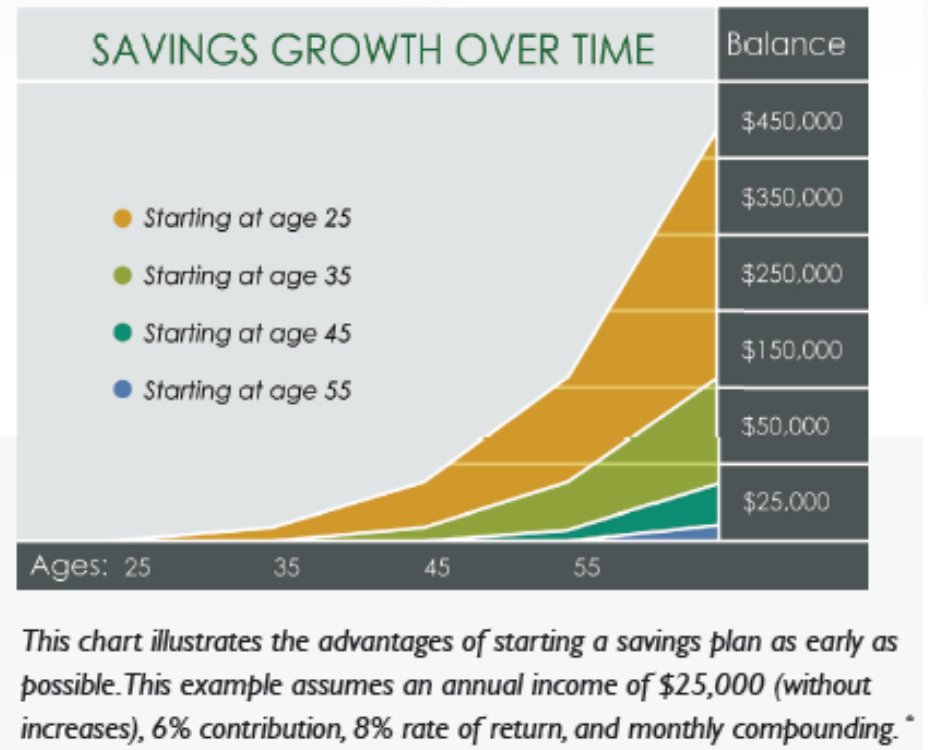
# Changing the Culture of the Employer health care delivery: From Today to Tomorrow

- Evolution of retirement plan delivery from Defined Benefit to Defined Contribution
- Why?
  1. Cost
  2. Unknown liability
  3. Mortality rates
  4. Transparency
  5. Workforce mobility
  6. Shifting core retirement responsibility from employer to employee



# Changing the Culture of the HSA: From Today to Tomorrow

- Healthcare in retirement can cost hundreds of thousands.
- Can we educate our colleagues to think long term?
- A little really adds up!



# How can I do better with a 401(k)/403(b) & HSA Combo?

## Save more:

- HSA Individual Limit: \$3,400 for 2017
- HSA Family Limit: \$6,750 for 2017
- Catch up (55+) \$1,000 for 2017

## Enhance/diversify my tax strategy:

- Realize an additional tax deduction of \$3,400/\$6,750 per year
- Earmark a portion of retirement savings specifically for healthcare expenses (AKA – The Healthcare IRA):
  - Retired couples are forecasted to spend \$245k - \$260k out-of-pocket throughout their retirement
  - You would need approx. \$350k in a taxable retirement account to access \$245k (pay \$105k in taxes)
- Health Savings Accounts are TRIPLE TAX FREE!



# Healthcare in Retirement

- Medicare is means tested
- The more you have in income the more you pay for your health coverage
- Your “bill” stems from YOUR income.
- Planning is Key!



# Examples of Income

Social Security

Wage

Pension Income

Rental Income

Capital Gain (including home)

Dividends (including Municipalities)

Certain Annuities

401(k)

Traditional IRA's

403(b)

457

SEP IRA



# Proposed Brackets (2018)

Income		Part B	Part D
Individuals MAGI	Couples MAGI		
\$60k <	\$90k	\$149 per person per month	\$53.26 per person per month
\$60k To \$82k	\$90k - \$123k	Premium + 60%	Premium + \$169
\$82k to \$135k	\$123k - \$202.5k	Premium + 120%	Premium + \$436
\$135kto \$189k	\$202.5k - \$283.5k	Premium + 280%	Premium + \$703
Over \$189k	Over \$283.5k	Premium + 360%	Premium + \$970

<b>Avg. Annual Cost (Today)</b>	<b>\$4,238 per person (2016)</b>
Per Couple	\$8,476 per couple (2016)

## What is not income



- **Health Savings Accounts!!!**



- Roth Accounts!!!



- Specific Annuities



- Home Equity



- Certain types of Life Insurance



# Healthcare in Retirement

The wrong income leads to:

- ↑ Higher Health Costs
- ↓ Lower Social Security
- ↑ More in “taxes” paid

Consider the HSA!





**Thank You**