



HEALTH SAVINGS ACCOUNTS: THE MEDICAL IRA

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What percentage of people said they were most concerned about paying for healthcare in retirement?¹

34%

22%

14%

1. The 2017 Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,013 adults comprising 1,009 men and 1,004 women 18 years of age or older. The survey was administered between January 5 and 18, 2017, by ORC International's Online CARAVAN[®], which is not affiliated with Franklin Templeton Investments. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the U.S. Census Bureau.

What percentage of people don't know **how** they will pay their medical expenses in retirement?¹

43%

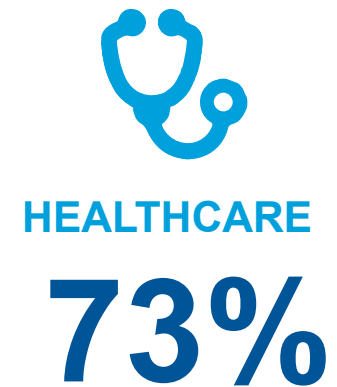
32%

24%

1. The 2017 Franklin Templeton Retirement Income Strategies and Expectations (RISE) Survey.

What are future employees looking for?

HR professionals think the benefits below will be increasingly important for recruiting talent over the next 3–5 years



Source: SHRM Survey Findings: 2016 Strategic Benefits – leveraging benefits to retain and recruit employees.

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The retirement big three



ESSENTIAL



LIFESTYLE



HEALTHCARE

Healthcare planning, or lack thereof, can directly impact participants' retirement outcomes.

Today's discussion

- Healthcare costs
- HSA and HDHP basics
- Evolution of HSAs
- Case studies
- Implementing solutions
- Q & A

Healthcare costs

Rising employer healthcare costs

The cost U.S. employers spend on employee benefits has risen **24% between 2001 and 2015¹**

That is almost exclusively due to the rising costs of healthcare, which more than **doubled during that time frame**

1. According to a separate report from Willis Towers Watson.

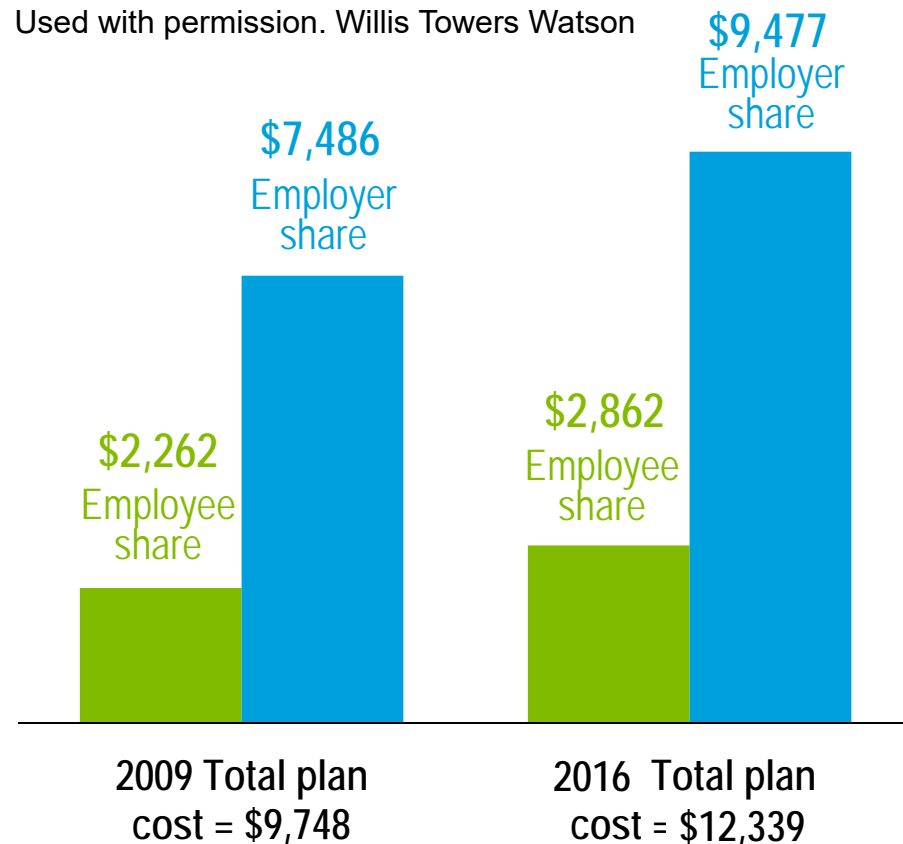
Source: Hallez, Emile, Ignites (US). "U.S. Falls in World Retirement Ranking: Report" July 201, 2017

http://ignites.com/c/1687623/198293/falls_world_retirement_ranking_report?referrer_module=emailMorningNews&module_order=3&code=WVhOaGVHVnVZVE5BZEEdWdGNHeGxkRz1TG1OdmJTd2dNekExTURRMU1Td2dNVGMwTIRrMU5qSTM

Rising concerns and rethinking strategies

Total Employee/Employer Healthcare Costs¹

Used with permission. Willis Towers Watson



- According to the 21st Annual Willis Towers Watson Best Practices in Health Care Employer Survey, total healthcare costs continue to grow well above the rate of general inflation¹
- More employers offering High Deductible Health Plans (HDHPs) in addition to traditional healthcare plans
- HDHPs provide upfront savings to the employer, with significantly lower premiums than traditional healthcare plans

1. 2016, 21st Annual Willis Towers Watson Best Practices in Health Care Employer Survey, <https://www.willistowerswatson.com/en/insights/2017/01/full-report-2016-21st-annual-willis-towers-watson-best-practices-in-health-care-employer-survey>

2. National Bureau of Economic Research, NBER Working Paper 21031: "Do 'Consumer-Directed' Health Plans Bend the Cost Curve Over Time?," March 2015, <http://www.nber.org/papers/w21031>. © 2015 by Amelia M. Haviland, Matthew D. Eisenberg, Ateev Mehrotra, Peter J. Huckfeldt, and Neeraj Sood. All rights reserved.

Living longer is expensive



Basic lifetime coverage for a 65-year-old couple? → \$321,994

Average lifetime retirement healthcare premium costs for a 65-year-old, healthy couple retiring in 2016 and covered by Medicare Parts B, D, and a supplemental insurance policy.

Plus dental, vision, co-pays and other expenses? → \$404,253

Average lifetime retirement healthcare premium costs including the couple's total healthcare (dental, vision, co-pays, and all out-of-pocket expenses).

Same costs for a couple planning to retire in 10 years? → \$498,962

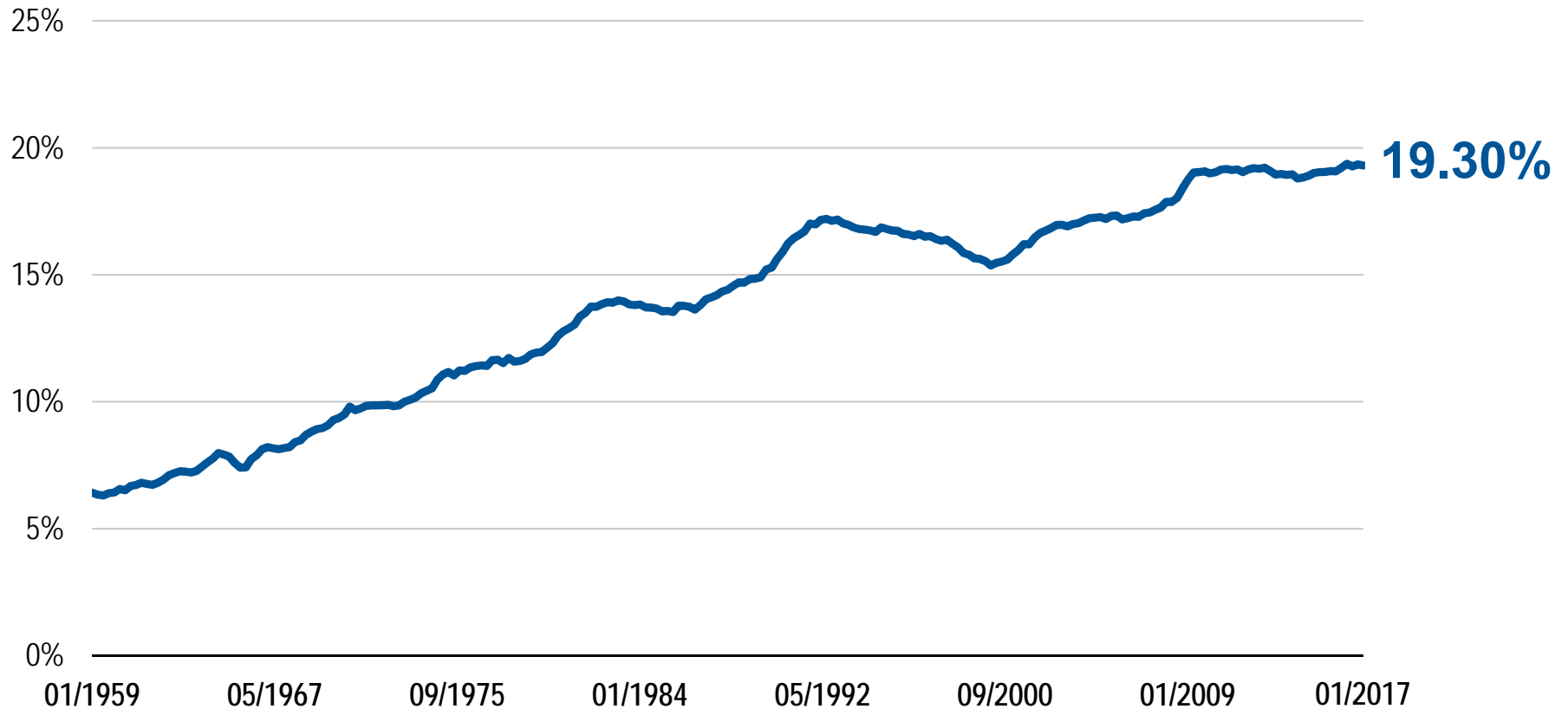
The same average lifetime retirement healthcare premium costs for a 55-year-old couple retiring in 10 years, total lifetime healthcare costs.

Source: HealthView Services, "2017 Retirement Health Care Costs Data Report,"

http://www.hvsfinancial.com/PublicFiles/2017_Retirement_Health_Care_Costs_Data_Report_FINAL_6.13_V2.pdf. All calculations are based on assumptions that the male and female have life expectancies of 87 and 89 respectively, and will have a combined modified adjusted gross income of under \$170,000.

No slowdown in healthcare inflation

U.S. healthcare as a percentage of personal expenditures 1959–2017



U.S. Bureau of Economic Analysis, Personal consumption expenditures: Services: Health care [DHLCRC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DHLCRC1Q027SBEA>, June 21, 2017.

U.S. Bureau of Economic Analysis, Personal consumption expenditures excluding food and energy [DPCCRC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DPCCRC1Q027SBEA>, June 21, 2017.

HSA and HDHP basics



The basics

What is an HDHP?

HIGH DEDUCTIBLE HEALTH PLAN

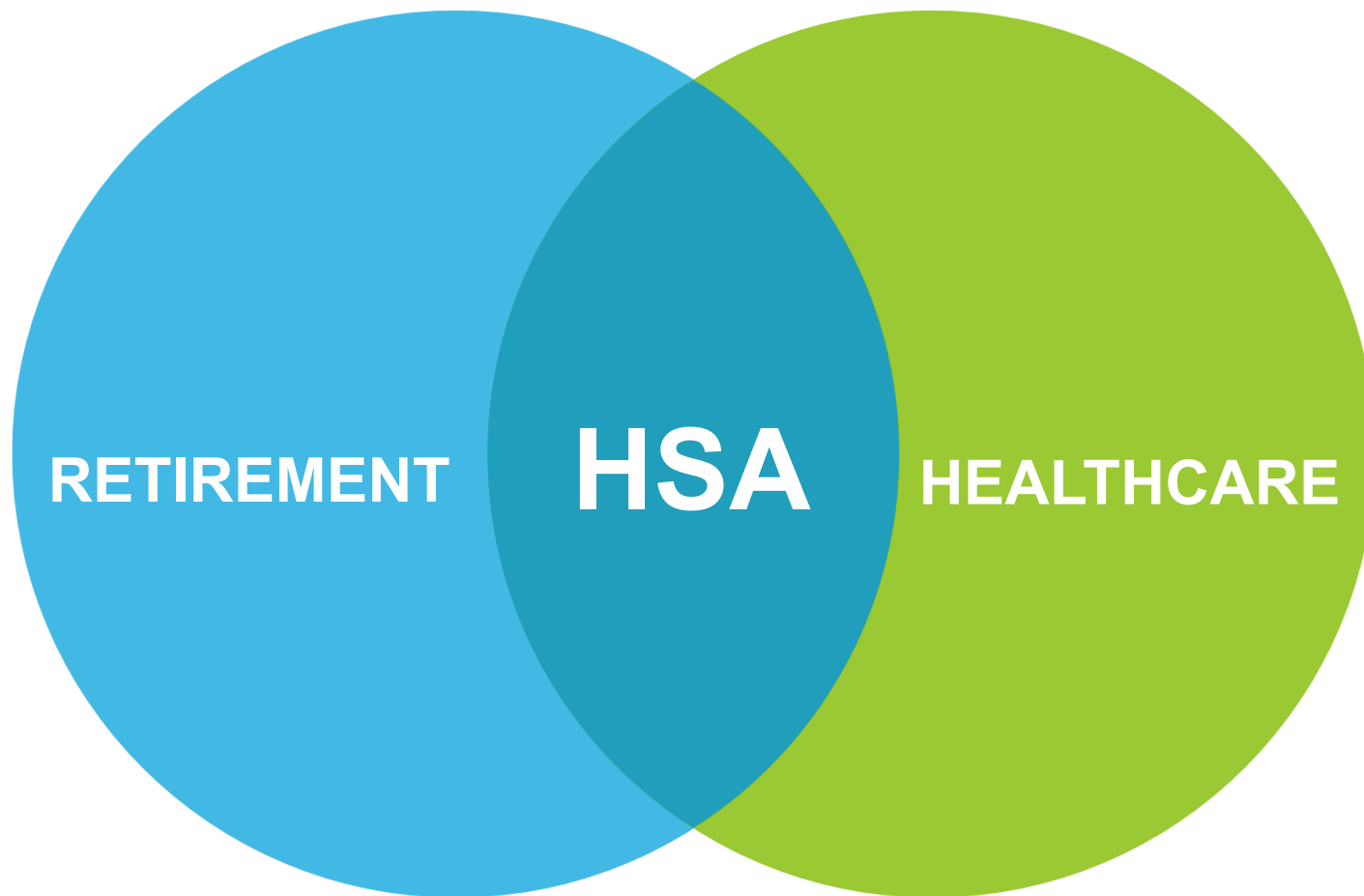
A health insurance plan with a **high minimum deductible** that the insurance holder must pay for medical expenses before insurance coverage kicks in.

What is an HSA?

HEALTH SAVINGS ACCOUNT

A savings account used in conjunction with an HDHP that allows users to **save money tax-free** to pay for qualified healthcare expenses.

The intersection of retirement & consumer-driven healthcare



Evolution of HSAs

The 401(k) model (this should seem familiar)

The shift from one-size-fits-all to employee flexibility and responsibility

“DB-like” Healthcare

- Traditional health insurance
- Employer chooses plan
- HMO, FSA

Consumer Driven Health Plans

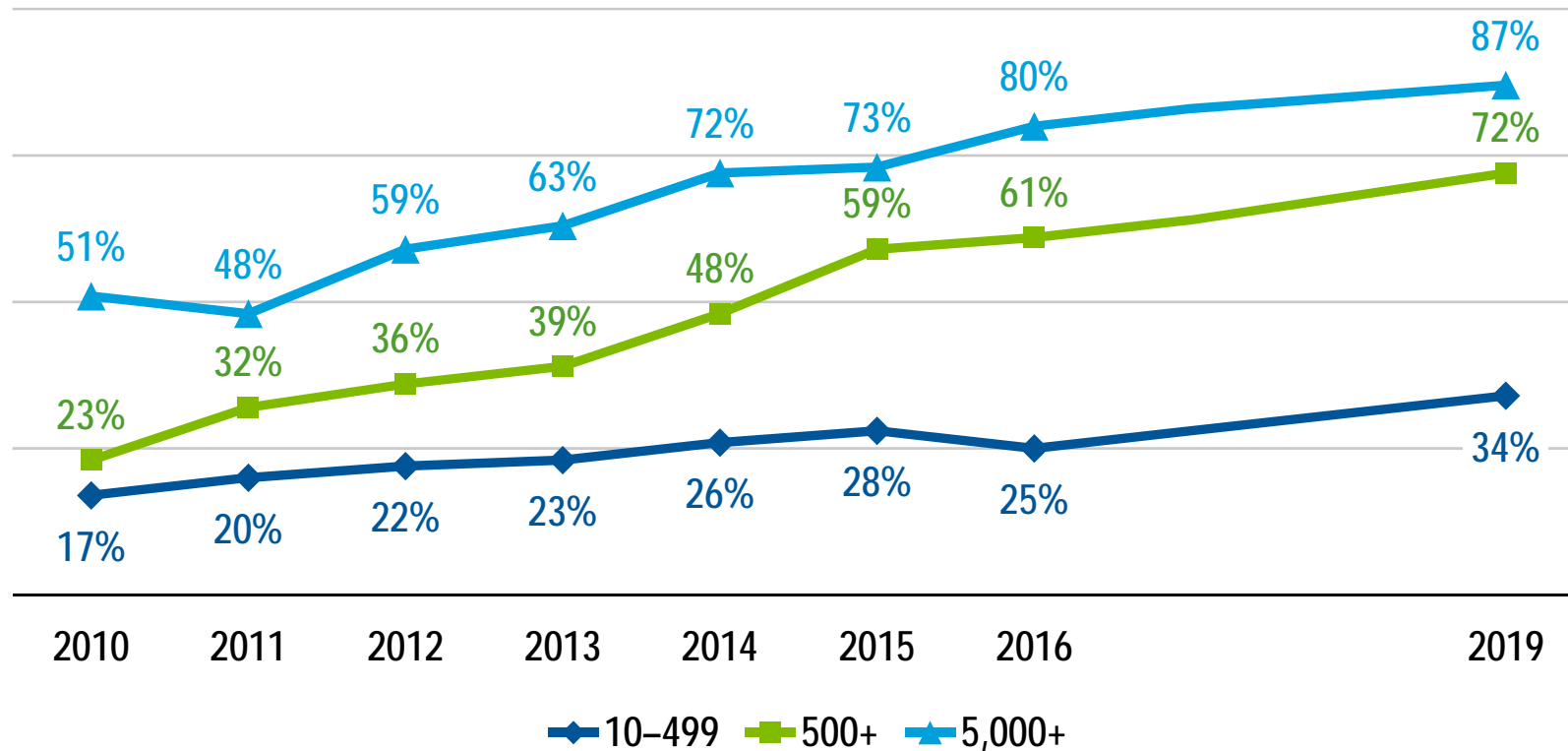
- Shifting of costs to employees
- More choices
- FSA, HRA, HSA

“DC-like” Healthcare

- Employer makes a fixed contribution
- Employee has increased choices and responsibility

Employer adoption

**Percentage of Employers Offering/
Likely to Offer HSA-Qualified HDHP, by Employer Size**
2010–2016, with projections through 2019

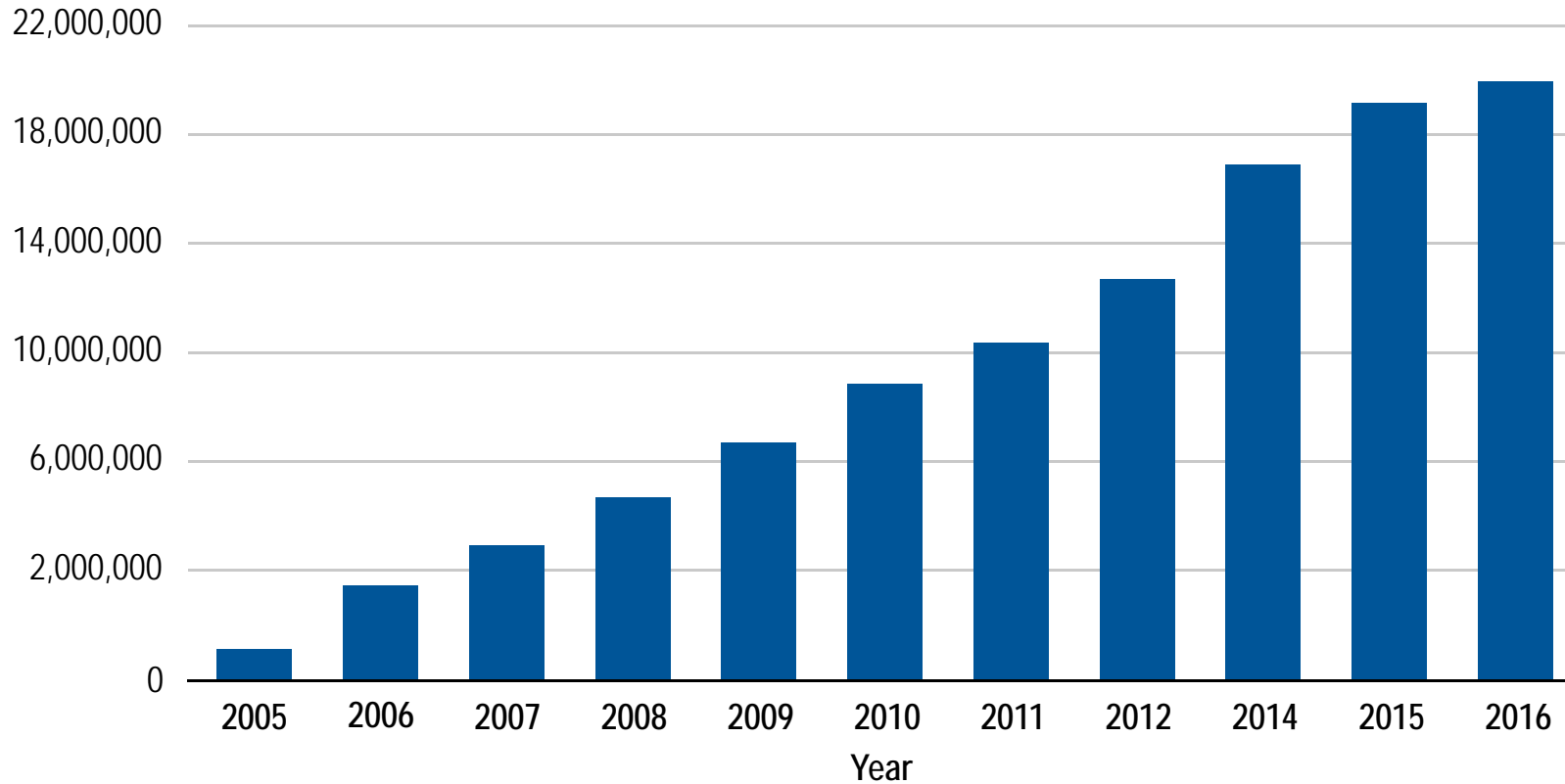


Source: Fronstin, Paul, Ph.D., Employee Benefit Research Institute Issue Brief, "Trends in Health Savings Account Balances, Contributions, Distributions, and Investments, 2011–2016: Statistics from the EBRI HSA Database." July 11, 2017, No. 434. Source: Mercer's National Survey of Employer-Sponsored Health Plans <http://www.mercer.com/newsroom/national-survey-of-employer-sponsored-health-plans-2016.html>.

Enrollment continues to grow

HSA-Qualified High Deductible Health Plan Enrollment March 2005–January 2016

HDHP/HSA Enrollees

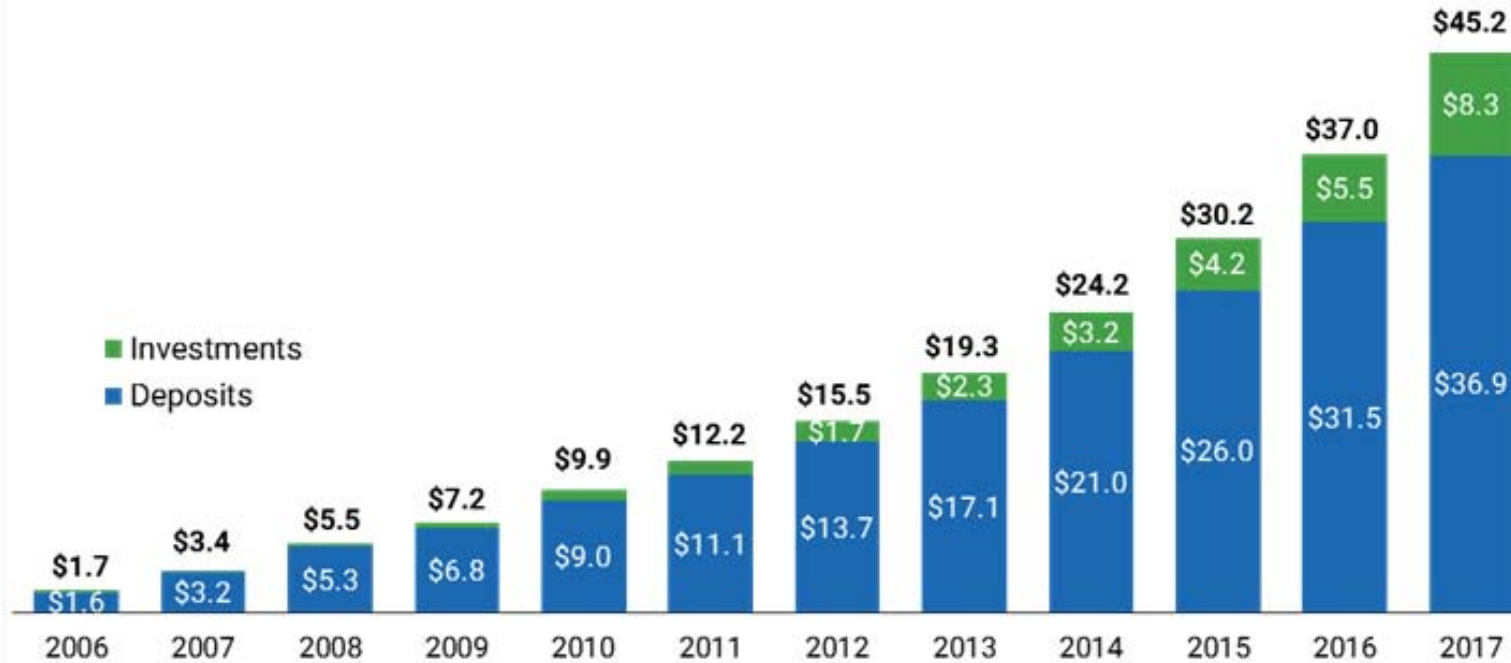


Source: AHIP 2016 Survey of Health Savings Account – High Deductible Health Plans.

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HSA Assets

Total HSA Assets (in billions)



Source: Devenir Research

HSA Industry Assets as of 12/31/17

Case studies

Allie the unmarried employee

Hypothetical Illustration



Allie

Age Occupation Salary
42 **Account Manager** **\$65,000**

Savings rate: 10%
\$6,500

Source of Funds	401(k) Contributions Only	401(k) & HSA Combination
Employee 401(k) Contribution	\$6,500	\$3,500
Employer 401(k) Match	\$1,800	\$1,800
Employee HSA Contribution	\$0	\$3,000
Employer HSA Contribution	\$0	\$1,000
Total with Average Employer HSA Contribution	\$8,300	\$9,300

Source: Access Point HSA.

Example is for illustrative purposes only and results are not representative of any specific investment program, strategy or vehicle.

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Will and Melissa, tax-efficient retirees

Hypothetical Illustration



Will and Melissa

Age Occupation
Both 65 Retired

How much can Will and Melissa estimate to spend on lifetime basic coverage?

\$288,400¹

Utilizing a 401(k) at their 25% tax bracket, what would the balance need to be to cover their healthcare costs?

\$385,000²

How much would Will and Melissa save if they take tax-free withdrawals from an HSA?

\$96,660

Example is for illustrative purposes only and results are not representative of any specific investment program, strategy or vehicle.

1. Average lifetime retirement healthcare premium costs for a 65-year-old, healthy couple retiring in 2016 and covered by Medicare Parts B, D, and a supplemental insurance policy. Calculations based on assumptions that the male and female have life expectancies of 87 and 89 respectively, and will have a combined modified adjusted gross income of under \$170,000. Source: HealthView Insights, "Retirement Health Care Costs Data Report," 2016, http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Data_Report.pdf.

2. Does not take into account any potential investment growth during retirement.

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Questions?

The hypothetical scenarios are estimates, based on certain simple assumptions, and designed to provide only a general understanding of HSAs. The hypothetical scenarios are estimates, based on certain simple assumptions, and designed to provide only a general understanding of HSAs.

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