FRANKLIN TEMPLETON

Topic Paper

THE INTERSECTION OF RETIREMENT & CONSUMER DRIVEN HEALTHCARE:

THE CASE FOR EMBRACING HEALTH SAVINGS ACCOUNTS

Employers and employees alike are feeling the pinch of increasing healthcare costs and both are looking for strategies to accommodate the impact of the rising tide. As a result, many companies are exploring ways to lower the cost of corporate-sponsored healthcare while still attracting and retaining talented employees. Healthcare planning and retirement saving are intimately connected and are key components of what participants consider successful retirement outcomes.

Employee Wellbeing & Re-thinking Strategies

As total healthcare costs continue to grow—significantly exceeding the rate of inflation—employers look for solutions to control health benefit expenses. At the same time, they remain focused on improving employee wellbeing.[1]

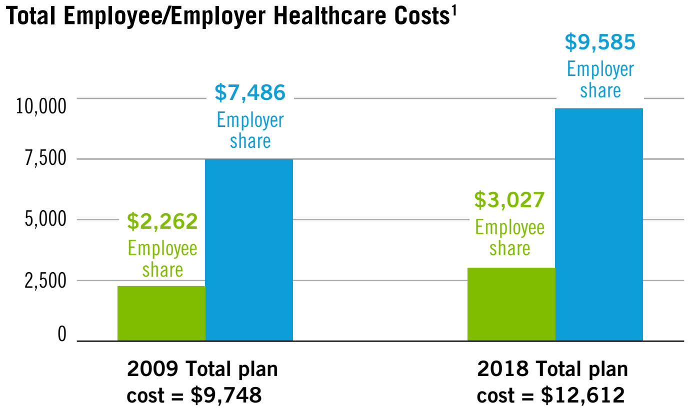
To address these rising costs and health engagement, a growing number of employers are offering High Deductible Health Plans ("HDHPs") in addition to traditional healthcare plans. HDHPs provide upfront savings to the employer, as they have significantly lower premiums than traditional healthcare plans. Enrollment in HDHPs in the employer-sponsored market has increased five-fold in the past several years.

According to a National Bureau of Economic Research working paper, for firms offering HDHPs, it has been found that total healthcare spending is reduced by approximately 5% in each of the first three years post-offering, relative to cost growth observed for non-offering employers. If these effects are due only to changes in healthcare spending among those enrolled in HDHPs, there is an approximate 15% decrease in total spending in each of the first three years. "These reductions are driven by spending decreases in outpatient care and pharmaceuticals, with no evidence of increases in emergency department or inpatient care."[2]

For many employers, a healthy workplace culture is a top priority. According to the 2018 23rd Annual Willis Towers Watson Best Practices in Health Care Employer Survey, "82% of employers are investing in wellbeing initiatives, or plan to over the next three years" as they aim to ease cost increases and align company culture with benefit programs.[1] HDHPs can help support this focus by indirectly encouraging better lifestyle and health choices, as employees have extra financial incentive to minimize expenses and maximize value. This can result in healthier workers, reduced absenteeism and a more productive and efficient workplace.

To help employees plan for the added responsibility of HDHPs, Health Savings Accounts (HSAs) provide a tax-advantaged way to meet existing healthcare expenses while also saving for future medical needs.

Total Employee/Employer Healthcare Costs[1]



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The 401(k) Model

Many plan sponsors in the United States are familiar with the transition in retirement savings that has taken place over the last 30 plus years. Increasingly, defined contribution (DC) plans—most often with some form of profit sharing or employer matching—have now become the standard in retirement savings, supplanting defined benefit (DB) or pension plans. In this transition, the U.S. has witnessed a shift of retirement responsibility from the employer to the employee. Along with this risk transfer, employees were also asked to take control of strategic investment decisions and the eventual creation of an income stream in retirement.

In a very similar fashion, we are now witnessing the transition from more traditional forms of health insurance—like the employer-sponsored HMO/PPO model—to one that is consumer driven. HDHPs coupled with HSAs aid employers in helping employees find an appropriate balance between cost and benefit, with employers often making contributions to the employees' HSAs. In return, employees are tasked with being more practical with their healthcare consumption, which can incentivize efficiency in healthcare spending and ultimately drive down costs for both the employer and the employee.

In fact, 90% of employers planned to offer a consumer-directed health plan in 2018. In addition, nearly 40% of employers planned to offer a consumer-directed health plan as the only plan option in 2018, compared with 35% in 2017.[3] Similar to the transition from defined benefit to defined contribution retirement plans, we may be witnessing an analogous evolution in healthcare delivery.

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Consumer Directed Healthcare

The consumer-directed healthcare model not only includes health insurance but can also include HSAs, which are most often facilitated by an employer and in conjunction with the employer's health insurance provider. This allows employers to potentially lower the cost of corporate-sponsored healthcare as well as to continue to attract and retain talented employees. By creating more informed and prudent consumers of healthcare, employers can reduce their healthcare costs and reward their workforce with contributions to HSA accounts.

HSAs are rising to the forefront of the consumer-directed healthcare model for a host of reasons, including individual ownership, portability, transparency and personal empowerment.

In addition, HSAs:

- **Allow for accumulated balances to be carried forward from year to year (no "use it or lose it" provisions).**
- **Can be used to substantially increase tax efficiency and better support healthcare savings.**
- **Often allow for employees to invest in mutual funds that provide the opportunity to grow savings over time.**
- **Have no income limits, minimums or phase-outs associated with account ownership.[4]**

However, to be eligible to open an HSA, the account holder must be covered by an HSA-eligible HDHP. In the formative years of the HSA, this was seen as a roadblock to adoption, but today nearly 22 million people are covered by HSA-eligible HDHPs.[5]

HSAs: Helping HDHPs Work for Your Employees

HSAs can provide many benefits to both employers and employees. Working together, HSAs can help employees plan for the added responsibility of HDHPs with tax-advantaged savings. Although premiums are low, employees who participate in HDHPs must cover their deductibles by paying out of pocket. However, employees can use the pre-tax proceeds from their HSA to pay for those deductibles.

Another benefit is that preventative care is covered by these programs, and employers should encourage their employees to seek preventative care in order to avoid future illness. This means that employees may remain healthier, which can benefit productivity and reduce sick time. In fact, the 2018 EBRI/Greenwald & Associates Consumer Engagement in Health Care Survey (CEHCS) found that those enrolled in HDHPs were more likely than those enrolled in traditional plans to take advantage

of various wellness programs, such as health-risk assessments and on-site clinics, as well as biometric screenings.[6]
The same survey found that those enrolled in an HDHP were more likely to exhibit cost-conscious behaviors such as checking whether or not the plan would cover care; asking for the generic drug instead of the name brand; talking to their doctors about other treatment options and costs; developing a budget to manage healthcare expenses; and using an online cost-tracking tool provided by the health plan. In other words, these participants are much more aware of what they are spending on healthcare and want to take preventative measures in order to stay healthy.

The HSA is another resource that can help pay for life's many expenses in retirement. Long-term accumulations in an HSA can—in coordination with 401(k) and other employer-sponsored retirement savings—bolster retirement security. Many people believe that Medicare will pay for healthcare once benefits become available after age 65, however this is not the case. There are several medical expenses encountered in retirement that are not covered by the government that employees must cover themselves.[7]

In fact, data shows the average healthy 65-year-old couple retiring in 2018 was projected to spend $281,847 in today's dollars on lifetime Medicare Parts B, D and supplemental insurance (Plan F) premiums. When dental, hearing, vision, and all other out-of-pocket expenses were included, the total retirement healthcare bill rose to $363,946. That was $82,099 of out-of-pocket expenses.[8] An HSA can help to cover those costs. Likewise, the HSA and the 401(k) are complementary saving tools. By contributing to both a 401(k) and an HSA, employees can maximize the money that they will have in retirement. Today, an HSA is the only way to save for retirement healthcare costs tax free. With an HSA, employees will be able to use pre-tax money to cover current healthcare costs while saving for future healthcare costs at the same time.

Average Lifetime Healthcare Premium Costs[8]

Basic lifetime coverage for a 65-year-old couple? → **$281,847**

Average lifetime retirement healthcare premium costs for a 65-year-old, healthy couple retiring in 2018 and covered by Medicare Parts B, D, and a supplemental insurance policy.

Plus dental, vision, co-pays and other expenses? → **$363,946**

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? → **$387,814**

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

Next Steps

Consider the current HR and benefits needs and goals of your organization. Common themes revolve around cost control, attracting and retaining top talent, employee wellness and helping employees find a path to a secure retirement.

While your company's DC plan is critical in efforts to address many of these pressing issues, leveraging an HSA partner can be an additional resource. Traditional benefits organizations and consultants typically do not focus on financial solutions, whereas DC-specialist financial advisors and consultants already do, and may be better positioned to help you evaluate HSA platforms and investments.

For more information, please contact your plan's DC-Specialist Financial Professional or Consultant.

1. 2018, 23rd Annual Willis Towers Watson Best Practices in Health Care Employer Survey, https://www.willistowerswatson.com/en-US/insights/2018/12/best-practices-in-health-care-employer-survey-2018-full-report.
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.
3. National Business Group on Health®, "Large Employers' 2018 Health Plan Design Survey."
4. There are annual HSA contribution limits set by the IRS. The maximum annual contribution limits for 2018 are $3,450 for self-only coverage and $6,900 for family coverage. Annual limits for 2019 are $3,500 for self-only coverage and $7,000 for family coverage. Additional annual catch-up contribution limit for individuals age 55 and older for both 2018 and 2019 is $1,000.
5. AHIP Center for Policy and Research, "Health Savings Accounts and High Deductible Health Plans Grow as Valuable Financial Planning Tools," April 2018, https://www.ahip.org/wp-content/uploads/2018/04/HSA_Report_4.12.18.pdf.
6. Employee Benefit Research Institute, "Findings from the 2018 EBRI/Greenwald & Associates Consumer Engagement in Health Care Survey," December 2018, https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_468_cehcs-20dec18.pdf?sfvrsn=effc3e2f_12.
7. Medicare.gov, "What's Not Covered by Part A & Part B," https://www.medicare.gov/what-medicare-covers/whats-not-covered-by-part-a-part-b.
8. HealthView Services, "2018 Retirement Health Care Costs Data Report," http://www.hvsfinancial.com/wp-content/uploads/2018/09/2018-Retirement-Health-Care-Costs-Data-Report.pdf.

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