Retirement Times

August 2019

## Four Reasons to Integrate Health Savings into your Retirement Plan

*Kameron Jones, Senior Advisor*

As Americans look into the future and towards retirement, many understand that maintaining their health will be an important part of their overall quality of life after they stop working. However, uncertainty around healthcare costs – both now and in retirement – is a major financial worry among Americans preparing for retirement. So how can you help your workers reduce financial anxiety about retirement preparedness and increase the likelihood that they will be able to meet their healthcare costs in retirement?

Health savings accounts (HSAs) present retirement plan sponsors a unique opportunity to address both the wealth and health of employees planning for retirement. HSAs are a popular way for individuals to save for medical expenses while reducing their taxable income – in effect, using their HSA as a long-term investment vehicle. And though HSAs typically are introduced to employees as part of their high deductible healthcare plans (these are the only plan types which currently offer HSAs), many recordkeepers are beginning to offer them in an integrated platform where that can be reviewed alongside retirement savings.

Here are four reasons to integrate HSAs into your retirement plan offering:

1. **Health Savings Accounts Address Concerns About Future Costs**
   In today's retirement plan marketplace, holistic approaches increasingly feature a multi-faceted program that offers numerous features, all aimed at improving retirement readiness. While in the

past it was sufficient to offer employees a straight-forward savings vehicle and trust that they would responsibly go about making contributions, today's plan sponsors have seen that the introduction of sophisticated plan design features such as automatic enrollment, automatic escalation and financial wellness consultation go a long way towards boosting outcomes for their employees. With healthcare being such an important factor in quality of life, we see HSAs as one more tool you can wield in improving overall plan health.

HSAs are designed to assist individuals in paying for healthcare expenses both now and in the future. Today, a healthy 65-year-old male retiree can expect to pay $144,000 to cover healthcare expenses during retirement, and many studies show that we can expect health costs to rise at a rate that outpaces inflation, meaning this number will only grow over time. As HSAs are designed to provide a savings vehicle dedicated to covering qualified healthcare expenses, their ability to grow contributions tax-free helps defray the effect of future cost increases.

2. **Health Savings are Triple Tax-Free Now and in Retirement**
   HSAs are unique in that they are designed specifically for healthcare expenses yet act more like an individual retirement account (IRA). HSAs are the only triple-tax advantaged savings vehicle of its kind. Participants with an HSA make contributions with pre-tax income, earnings and interest grow tax-free, and withdrawals are tax-free when used to pay for qualified medical expenses. Once in retirement, HSAs include no minimum required distributions and no Social Security or Medicare tax on contributions.

3. **HSAs Can be Easily Integrated into an Existing Plan**
   You may be concerned about the administrative burden of incorporating an HSA into an existing plan, but in reality it can be done with little added administrative effort. In fact, it is possible for you to reduce administrative complexities with a single platform for both defined contribution plans and HSAs (as mentioned previously, many major recordkeepers offer their own HSA programs). With one portal that handles enrollment, retirement plan management, financial wellness programs, and HSA management, participants and sponsors can enjoy the added benefits of having these additional features seamlessly incorporated into their existing accounts. To improve the overall implementation of HSAs into a plan, we also encourage plan sponsors to incorporate HSA education into the front end of employee training, alongside other educational efforts for defined contribution plans and healthcare benefits.

4. **Health Savings Accounts can Boost Employee Recruiting and Retention**
   If American workers are as anxious about medical expenses in retirement (and financial wellness in general) as surveys indicate, then a holistic retirement plan offering can be leveraged for marketing to potential new hires. A retirement plan that alleviates an employee's concerns about the future will help employers retain existing workers and help attract new talent. By integrating an HSA into a robust retirement plan, your company signals that it understands the challenges to retirement preparedness and is ready to offer benefits that do the most to prepare them. The HSA account also rolls over in the same way a retirement account does, even if they choose to change jobs later on, making the benefit to the employee portable.

**Conclusion**
With the ultimate goal of providing a holistic retirement plan that prepares participants for financial security in retirement, you may want to consider adding HSAs to your plan offering. As a unique vehicle designed to reward savers with triple-tax benefits, HSAs can be seamlessly integrated into existing retirement plans while helping employee recruitment and retention. With healthcare costs continuing to increase with each passing year, HSAs provide a welcome sense of financial preparedness for Americans planning for their retirements.

For more information on HSAs, please contact your plan advisor.

About the Author
Kameron provides extensive knowledge of the provider marketplace to help reduce plan-related costs and improve plan-related services. He has assisted hundreds of mid- to large-market 401(k), 403(b), 457(b), 401(a), NQDC, Cash Balance, and DB plans. Kameron was also voted as a National Association of Plan Advisors (NAPA) top advisor under 40. Kameron graduated from the University of Pennsylvania with a Bachelor of Arts in philosophy, political science and economics and played outside linebacker on UPenn's football team.

## Anthem Settlement Awards Participants More than $23M

Recently the Bell vs. ATH Holding Company, LLC (a subsidiary of Anthem, Inc.) lawsuit settled. This is frequently referred to as the "Anthem Settlement" (the "Settlement"). The Settlement received quite a bit of attention from both the industry and mainstream press for a number of reasons, not the least of which include the size of the 401(k) plan ($5.1 billion), the size of the monetary settlement ($23,650,000), as well as inclusion of somewhat unusual non-monetary terms.

The Anthem 401(k) is considered a "jumbo" plan with over $5.1 billion in plan assets. All but two of the plan's investments were Vanguard mutual funds. Vanguard mutual funds have a reputation for being low-cost investment alternatives.

Plaintiffs made the following allegations:

- The plan's fiduciaries breached their duties to the plan by using more expensive share classes of investments than was necessary. For example, the plan offered the Vanguard Institutional Index Fund with an expense ratio of 0.04%, but a lower share class was available at 0.02%.
- Less expensive vehicles should have been explored for the same investment strategies, for example utilization of collective investment trusts (CITs) or separate accounts (SAs).
- The plan should have offered a stable value investment instead of a low-yielding money market fund.

In discussing the Settlement it is important to remember that the case has not actually been adjudicated. In other words, no court has ruled on the merits of the allegations made against, nor the actions taken by, the plan's fiduciaries. Also, it would be incorrect to state that any inferences can be made about the prudence, or lack thereof, of the fiduciaries' actions or inactions in regards to any of the allegations. Rather, what may be gleaned from the Settlement are concepts that fiduciaries should understand to best protect themselves from similarly targeted lawsuits.

**Settlement Terms**

The following are monetary, and some of the more interesting non-monetary, settlement terms:

- $23,650,000 – split amongst two classes of participants. One class contains participants with account balances greater than $1,000 as of a certain date. The other class contains participants who would have experienced a reduction of their account at a rate of $35/year due to revenue sharing for a certain period of years.
- The plan's committee will provide a targeted communication to participants invested in the money market that includes a fund fact sheet (or something similar that explains the risks of the money market fund), the historical returns of the money market over the past 10 years, and the benefits of diversification.
- The plan's fiduciaries must conduct an RFP for recordkeeping services within 18 months of the Settlement period. The RFP must explicitly request a fee proposal based on total fixed fee and on a per participant basis.
- The fiduciaries must engage an independent investment consultant, review said consultant's recommendations, and make decisions based on those recommendations, taking into account the lowest-class share class available, whether or not revenue sharing rebates are available, and alternative investment vehicle (CIT or SA) availability.

**Takeaways**

Fiduciaries should take away the following concepts from the Settlement:

- Plaintiff's counsel seems to have a preference for per participant fee structures. This is not legally required, and in fact may not always be the most cost efficient fee design. Plaintiff's counsel's actions are a sober reminder that fiduciaries should, at a minimum, educate themselves regarding available fee structures and choose prudently among them.
- Pushing for the lowest share class seems to be a recurring theme in lawsuits and settlements. Again, this is not a requirement under the law.
- The desire to see more plans use investment vehicles that may be less expensive than their mutual fund counterparts is increasing. CITs and SAs are designed for institutional use, such as qualified retirement plans. Fiduciaries need to be educated on their availability and when it may be prudent to offer them in their plans.

As always, we will keep you abreast of significant industry developments and provide you with practical applications for your roles as a plan sponsor and fiduciary.


## Hey Joel! – *Answers from a recovering former practicing ERISA attorney*

Welcome to *Hey Joel*! This forum answers plan sponsor questions from all over the country by our in-house former practicing ERISA attorney.

Hey Joel,

**Is it okay to use the same company for my plan's recordkeeping, 3(38) advisory services, and administration?**

- *Consolidating in California*

Dear Consolidating,

It may seem logical to bundle all of your retirement plan's services with one provider – recordkeeping, 3(38) advisory services, and administration. How easy would it be to have a one-stop-shop for everything? However, this might not be as good of an idea as you would think.

Having an independent 3(38) or 3(21) adviser is critical in monitoring the providers that are working on your plan. Without an independent expert on your side, how will you know whether, 1) mistakes are being identified, and 2) if mistakes are identified, are they being properly dealt with? An independent adviser will ensure providers are taking proper actions even if it costs them money.

You wouldn't want the fox guarding the hen house, would you?

Expanding Horizons,

*Joel Shapiro*

*About the Author, Joel Shapiro, JD, LLM*
*As a former practicing ERISA attorney Joel works to ensure that plan sponsors stay fully informed on all legislative and regulatory matters. Joel earned his Bachelor of Arts from Tufts University and his Juris Doctor from Washington College of Law at the American University.*

If you have a question for Joel, please send it to your plan advisor. It may be featured in a future issue!

## Participant Corner: What's an HSA and is it Right for You?

This month's employee memo gives participants answers to common questions on HSAs. Download the memo from your Fiduciary Briefcase at fiduciarybriefcase.com and distribute to your participants. Please see an excerpt below.

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Health savings accounts (HSAs) have grown tremendously in popularity over the past few years. You've probably heard of them or maybe your employer offers one. This memo will uncover answers to common questions you may have about HSAs.

### What's an HSA?

A type of savings account that allows you to set aside money on a pre-tax basis to pay for qualified medical expenses.

### Can anyone get an HSA?

In order to open an HSA, an individual must first enroll in a qualified high deductible health plan (HDHP).

### I've heard HSAs have triple-tax advantages, what are they?

1. Contributions are tax free.
2. Contributions can be invested and grow tax free.
3. Withdrawals aren't taxed, if used for qualified medical expenses.

### If I change employers, what happens to my HSA?

HSAs are completely portable for employees, meaning you may take it with you if you change employers.

### Do I lose my HSA funds at the end of the year?

No. The balance can grow and carry from year to year and can also be invested.

### What can I pay for with my HSA?

Generally HSA funds can be used to pay for anything that your insurance plan considers a "covered charge," including charges not paid by your health insurance because they were subject to a co-pay, deductible or coinsurance.


## What's an HSA and is it Right for You?

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**For more information on HSAs, please contact our retirement plan advisor at (630) 330-6548 or info@partnerswealth.com.**