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## PRACTICE GROUP: EMPLOYEE BENEFITS

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### FUNDING HEALTHCARE AND RETIREMENT EXPENSES WITH HSAs

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Today's employers are faced with the monumental task of offering competitive benefits to a very diverse workforce in an extremely tight labor market (while keeping costs in check), promoting wellness and consumerism to its participants, and helping employees balance their needs for health and wealth management now and in the future. Whew! Oh, and this needs to be accomplished despite most studies showing that employees won't spend much time learning about their benefits. According to a report by benefits technology firm PlanSource, the average consumer spends 18 minutes a year on benefits open enrollment, far less time than the four hours they will spend studying mobile phone options before making a purchase<sup>1</sup>.

**Despite its continued growth, the HSA continues to be one of the most misunderstood benefits being offered.**

The purpose of this article is not to try to fully solve the above challenge. Frankly, anyone who knows my limited typing skills and patience to sit at the keyboard knows that would be more than ambitious, so I am choosing to

focus this discussion on an area that has my attention and I hope will catch yours as well: using health savings accounts to help employees save for their future healthcare needs and retirement.

#### THE GROWING NEED FOR HEALTHY SAVINGS HABITS

There is a real need for creative and innovative strategies to encourage Americans to save for both their retirement, and for potential health problems:

- According to the Fidelity Retiree Health Care Cost Estimate, an average retired couple, age 65 in 2019, will need approximately \$285,000 saved (after tax) to cover anticipated healthcare expenses in retirement<sup>2</sup>.
- According to a study released by Merrill Lynch and Age Wave, 42% of millennials have \$0 saved for retirement<sup>3</sup>.
- According to a survey from GoBankingRates, 58% of Americans have less than \$1,000 in their savings account<sup>4</sup>.
- According to a study released earlier this year by Gallup and West Health, 45% of Americans fear a major health event will leave them bankrupt<sup>5</sup>.

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Despite bleak statistics, there is some good news: an increasing number of employers offer their employees a benefit that can uniquely help alleviate each of the above financial challenges. Health savings accounts (HSA) can be an invaluable tool in helping people fund for near-term healthcare expenses, as well as help them save for retirement due to their unique tax advantages. Taxes for all other savings programs (such as 401(k)s or IRAs) are deferred, but the HSA money is never taxed when used to pay for healthcare expenses.



Unfortunately, we oftentimes see young employees shy away from electing an HSA-eligible plan because they only take stock of the high deductible medical plan and loss of copays. Granted, this can be a legitimate concern, particularly for people with chronic conditions and high prescription drug costs, but for those who are healthy, the HSA plan options are worth serious consideration and warrant the time doing some basic math. Oftentimes the employer sets the premium contributions for the HSA plan at a lower level that can allow for saving more in the HSA. If an employer contribution into the HSA is added, then many employees can quickly establish a very flexible financial resource.

An additional advantage for employees is that the HSA money is always theirs. They can take it with them from job to job. Considering a recent Gallup survey reports that 21% of millennials say they changed jobs in the past year<sup>6</sup>, this is a valuable feature for this generation as they navigate through their careers.

#### UNIQUELY SUITED FOR MILLENNIALS

Speaking of millennials (those born between 1981-1996<sup>7</sup>), this generation will make up half of the U.S. workforce in the next two years<sup>8</sup>. This generation is also not as young as many may presume. Many millennials are almost forty, have started families, and have already faced the reality of unexpected illnesses, healthcare expenses, and saving for retirement. This is also the first generation to have access and contribute to HSA accounts for most of their working years to fund healthcare expenses and build wealth.

ConnectYourCare, an administrator of HSA accounts, surveyed 40,000 HSA-eligible employees and asked them how they would characterize their HSA usage habits – do they spend or save their HSA money? Nearly 82% of the respondents across generations indicated they regularly spend their HSA dollars, while only 18% prioritize saving their funds. This did not surprise me, given the reportedly low average rate of overall savings (only 61% of individual-only limits in 2017) and the fact that you can now search for HSA-eligible expenses on Amazon. Plans, too, are making it easier and easier to spend your HSA dollars.

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At the same time, we are beginning to see the result of educating employees on the unique advantages of saving money in an HSA. The same ConnectYourCare study

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shows the youngest employees are the biggest HSA savers. Now it is up to us in the industry to better educate them on how to invest their HSA money to help it grow<sup>2</sup>.

#### AN EDUCATIONAL OPPORTUNITY

Leveraging HSA dollars by treating them as an investment can have a dramatic impact on HSA account balances. Devenir reports that the average account balance of a HSA held in an account allowing for investment is almost nine times larger than the average account balance for HSAs held in low interest bank accounts<sup>10</sup>. But most people are not taking advantage of this investment opportunity. According to the ConnectYourCare survey, 36% of those who do not invest within their HSA cite low account balances, but 43.5% cite lack of knowledge –

they said they were not aware of the opportunity to invest or not sure how to get started. It appears we have an opportunity to bridge this gap in knowledge and help our employees maximize this benefit and better plan for the future.

Despite its continued growth, the HSA continues to be one of the most misunderstood benefits being offered. But it is one that has so much potential to address employees' financial challenges and warrants continuing our health-to-wealth conversation with employees. Reach out to an experienced employee benefits broker to learn how you can better educate your employees about HSAs, and how to make better investment decisions when selecting one.

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