The Power of Two:
The Dual Savings Path of HSAs for Both Health Care and Retirement

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Today’s agenda

- Plan Sponsor challenges
- HSA 101
- Our latest learning
- Q & A
Challenges facing Plan Sponsors

- Health care costs continue to rise
- Retirement savings shortfall
- “Cadillac” tax looms (2018)

1Fidelity’s 2013 annual retiree health care costs estimate, a 65-year-old couple retiring in 2013 will need an estimated $220,000 to cover health care costs during their retirement. The estimate assumes no employer-provided retiree health care coverage and life expectancies of 17 years for men and 20 years for women.

2An estimated 20% of retirees will exhaust their savings within 10 years of their retirement. Source: The EBRI Retirement Readiness Rating™ Retirement Income Preparation and Future Prospects, July 2010. For more details on study please visit EBRI.org.
Cost of health care in retirement

Average Annual Increase (2002-2012): 6%

2013 Fidelity Retiree Health Care Cost Estimate. Based on estimate needed for the average couple retiring this year to pay for health care expenses in retirement. Assumes no employer-provided retiree health care coverage and life expectancies of 17 years for men and 20 years for women.

In Thousands

- $0
- $50
- $100
- $150
- $200
- $250

- '02
- '03
- '04
- '05
- '06
- '07
- '08
- '09
- '10
- '11
- '12

$220,000
Cost of health care in retirement

- Medicare Parts B and D premiums: 33%
- Prescription drugs (out-of-pocket): 23%
- Other out-of-pocket expenses, including co-payments, co-insurance, and deductibles: 44%

2013 Fidelity Retiree Health Care Cost Estimate. Based on estimate needed for the average couple retiring this year to pay for health care expenses in retirement. Assumes no employer-provided retiree health care coverage and life expectancies of 17 years for men and 20 years for women.
Retirement elephant in the room...

Estimated retirement health care costs (Fidelity) $220,000
Projected health care costs (EBRI) $283,000
What American couples expect to need $100,000

$183,000

1 Fidelity 2013 retiree health care costs estimate.
2 An estimated 20% of retirees will exhaust their savings within 10 years of their retirement. Source: The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects, July 2010. For more details, visit EBRI.org.
3 Fidelity sponsored HSA survey conducted by GfK Public Affairs & Corporate Communications, Feb. 2013.
Savings Factor: A Simplified Way to Determine Savings Goals

Achieving goals

Source: Fidelity Investments Viewpoints, February 2013. The chart above is a hypothetical example for illustrative purposes only. Please see next slide for Assumption information on Savings Factor.
Important information—Savings Factor

Savings Factor assumptions from previous slide:

• Begin saving 6% at age 25; increase by 1% a year to 12%.
• Retirement age 67; income estimates based on an 85% annual income replacement rate during retirement. Assumes systematic withdrawal of savings in retirement.
• 85% replacement rate is for a hypothetical average employee and may not factor in all anticipated future living expenses or needs, such as long-term care costs.
• Dollars expressed are in real dollars (all dollars in today’s 2012 dollars, not future value).
• Age 67 when workers born 1960 or later are eligible for full Social Security benefits.
Important information—Savings Factor
(continued)

• Starting at age 25 through age 67, maximum annual qualified retirement plan contribution limits in 2013 are $17,500 (or $24,000 if age is 50 or older) and for SIMPLE 401(k) plan annual contribution, the limit is $12,000 (or $14,500 if age is 50 or older).

• For purposes of this analysis, Fidelity utilized a flat rate of return in a deterministic model, not a stochastic model (such as “Monte Carlo”).

• Social Security data from SocialSecurity.gov. For example, for a hypothetical worker who at age 25 commences his or her career with a $40,000 annual salary with an ending salary of approximately $72,000 at age 67, the Social Security benefit would be about $1,920 per month.

• Past performance is no guarantee of future results.
Important information—Savings Factor (continued)

• An expected rate of return is highly dependent on asset allocation as well as the specific investment in the portfolio. In actuality a customer’s investments will have a range of potential outcomes due to market performance and other factors and may have a realized return that is substantially higher or lower than their expected return.
Important information—Savings Factor (continued)

- Our research shows that many individuals will need to save 10%-15% or more of their employment income to have a high probability of meeting their income needs through the end of retirement. The rule of thumb was developed with our financial planning engine and based on both “typical participant scenarios” and surveys of American workers. This rule of thumb is intended to be only a starting point in determining the actual savings needs for any individual. We realize there is a wide variation of savings needs, based on many factors such as desired retirement age, retirement income need, asset allocation, willingness to annuitize assets, employer contributions, potential pension income, expected Social Security income, expected part-time income in retirement, expected length of retirement, and other factors.
“Cadillac” tax—Don’t wait

Possible “Cadillac” Tax Scenario

- High Deductible Health Plan (HDHP)
- Preferred Provider Network (PPO)
- Health Maintenance Organization (HMO)

2018 Threshold for Employer Excise Tax (family coverage): $27,500

Fidelity Benefits Consulting. For illustrative purposes only. (Illustration assumes employer estimates the average enrollment in each of these options and allocates future expenses equally across all plans, adjusting for differences in plan design and vendor administration fees.)
What if?

- There were an account that could supplement other savings in retirement?
- And savings for retiree medical?
- And current health care spending (ER and EE)
- And with an HDHP, it helped avoid the "Cadillac" tax?
Introducing the HSA

Tax-favored account
- Only individual savings account with “triple tax” advantage\(^1\)
- Can be spent on current qualified medical expenses or invested longer term to pay for future medical expenses

Linked to a high deductible health plan
- Lower premiums, may help avoid or delay the “Cadillac” tax?
- $1,250 single/$2,500 family—minimum deductible for 2014

Account and information drive behavior change
- Wellness, consumerism, and, yes, retirement savings

Longer term opportunity to supplement retirement savings
- $3,300/$6,550 for 2014, plus $1,000 for catch-up contributions beginning at age 55
- No contributions after Medicare entitlement

\(^1\)Federal tax purposes only; state taxation may vary from state to state.
That sounds great, but…

- Adoption is low, though momentum is very positive
- Health plan (HDHP) is different than participants are used to
- Behavior change is necessary, and difficult
- Misunderstandings of features and benefits
Not just for the healthy

30% of HSA account holders say they have a chronic medical condition in their family.

38% of HDHP decliners say they have a chronic medical condition in their family.

Fidelity-sponsored online survey of 1,836 working Americans conducted by GfK Public Affairs & Corporate Communications in February 2013.
Not just for the wealthy

2012 Average Employee DC Deferral Rates by Income

- $20K–$40K: 6.0% (Both HSA and DC Plans), 9.0% (DC Plan Only)
- $40K–$60K: 7.0%, 8.2%
- $60K–$80K: 8.5%, 8.7%
- $80K–$100K: 9.8%, 9.7%
- $100K–$150K: 11.4%, 11.1%
- $150K–$250K: 12.1%, 13.1%
- > $250K: 14.4%, 14.5%
- Overall: 9.1%, 8.0%
Satisfaction with HDHP/HSA is high

89% Satisfied with quality of health care coverage

90% HDHP participants are likely to reelect

Fidelity-sponsored online survey of 1,836 working Americans conducted by GfK Public Affairs & Corporate Communications in February 2013.
Three kinds of HSA users

- Savers: 36%
- Spenders: 41%
- Hybrids: 23%

Fidelity Investments' analysis of nearly 121,000 HSA accounts, from January 1 to December 31, 2011.
Who saves? Who spends?

Fidelity Investments’ analysis of nearly 121,000 HSA accounts as of December 31, 2012.

- **Savers**: $5,400
- **Hybrids**: $3,000
- **Spenders**: $1,100
- **Overall**: $2,900

Fidelity Investments’ analysis of nearly 121,000 HSA accounts as of December 31, 2012.
Average DC assets by HSA market segment

2012 Average DC Assets by HSA Market Segment

- **Savers**: $206
- **Hybrids**: $170
- **Spenders**: $128
- **Overall**: $164

Fidelity Investments' analysis of nearly 121,000 HSA accounts as of December 31, 2012.
Three-year DC account balances

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Three-year HSA account balances

Fidelity Investments' analysis of nearly 121,000 HSA accounts as of December 31, 2012.
Inertia and misinformation drive low enrollment

- 55% of those not electing an HDHP simply chose (or defaulted into) last year’s plan.
- Two keys that HSA account holders are much more likely to understand
  - There is no “use it or lose it” rule.
  - You can invest and use to pay for qualified medical expenses now and in the future, including in retirement.

*Citie their employer as most trusted source of health care information*
Key takeaways

- Inertia and misinformation drive low HDHP enrollment and HSA adoption
- HSA account holders appreciate the benefits
- HDHP with an HSA is a significant benefits opportunity for many employers and employees
- Dual crises of retirement savings and health care spending
Questions and Answers
Important information

For Plan Sponsor, investment professional and consultant use only. Not for use with employees or plan participants.

Source: Fidelity Benefits Consulting, 2013. Based on a hypothetical couple retiring at age 65 years or older, with average (82 male, 85 female) life expectancies. Estimates are calculated for “average” retirees, but may be more or less depending on actual health status, area of residence, and longevity. Assumes individuals do not have employer-provided retiree health care coverage, but do qualify for Medicare. The calculation takes into account cost sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

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