Health Savings Accounts for Retirement
Maximizing Retirement Savings Options

Preparing for an Audit by the Department of Labor
Adding Scrutiny to Auditing & Enforcement Programs
The cost of health care is arguably one of the largest expenses in retirement. For baby boomers expecting to retire in 10 years, their health care costs may exceed their Social Security benefits. For members of Generation X and for Millennials, the picture is even more bleak.

Retirees expecting to cover their health expenses with Medicare may be unpleasantly surprised, as Medicare covers on average only 62% of expenses. With this dire outlook, employees need a solution now to help them cover the growing gap between retirement savings and expected expenses, and ultimately, to help achieve a secure retirement.

Expected Health Care Costs as % of Average Social Security Benefits

<table>
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<th>Years to retirement</th>
<th>1</th>
<th>10</th>
<th>20</th>
<th>32</th>
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<tbody>
<tr>
<td>69%</td>
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<td>98%</td>
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<tr>
<td>127%</td>
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As employees have picked up a greater share of their health care costs, they are feeling pressure on their ability to contribute to their retirement savings. In addition to the squeeze on their current income, they also have to look forward and be prepared for the enormous potential impact that health care expenses will have on their retirement income. While the 401(k) plan is the predominant savings vehicle for employee retirement savings, the health savings account (HSA) is commonly becoming the preferred choice for health savings. The HSA can be viewed as somewhat of a bridge between health and retirement – a health savings vehicle for current expenses that can also be carried to fund health care expenses in retirement.
While not a replacement for retirement savings in a 401(k) plan, HSAs can be a supplement, and the benefits they provide make them an important piece of the retirement planning landscape.

**HSA Basics and Trends**

HSAs offer participants a unique opportunity to fund health care expenses through a tax-preferred account. Contributions can be made by employers and employees (up to the IRS maximum), and the HSA provides a triple tax advantage:

- Contributions are pre-tax (in most states)
- Earnings grow tax-free
- Distributions are tax-free if used for qualified medical expenses

In addition, HSA balances carry over from year to year, and are completely portable when participants leave their employers. To qualify for an HSA, an individual must be enrolled in an HSA-compatible high deductible health plan (HDHP) that meets requirements for a minimum annual deductible and a maximum out-of-pocket expense.

HSA enrollments have grown substantially since their inception in 2004, more than doubling in the last 5 years, and are expected to reach almost $25 billion by year-end 2014, and $40 billion by 2016.4

A more recent trend with HSAs is growth in the investment of assets. Many HSA providers have investment options available for participants, ranging from a set menu of mutual funds, to a self-directed brokerage window. As balances continue to grow, and more participants build up sufficient funds to cover their maximum out-of-pocket exposure under their high deductible health plans, this trend is also expected to continue. According to Devenir, the percent of HSA assets that are invested is projected to grow to 17% by 2016, up from only 7% in 2006.4

**Maximizing Retirement Savings Options**

Both HSAs and 401(k) plans offer distinct advantages to participants, and strategic use of both can provide a powerful combination to help meet the challenges of funding a secure retirement. Communications to participants should be targeted toward helping them to take advantage of all available resources to maximize their chances of success.

### All participants should be encouraged to follow a few basic guidelines:

- Start saving early and contribute as much as possible from the start
- Invest appropriately according to your retirement timetable and your risk tolerance (note: availability of investment options varies by HSA provider)
- Take advantage of available tax shelters
- Maximize any matching contributions offered by your employer
- Utilize any planning tools and resources offered by your employer, or your HSA and 401(k) vendors
- Recognize that health and wealth are linked, and success in each can be impacted by the other – either positively or negatively

More specific messages can be targeted to participants at different life and career stages, such as reminding those who are nearing retirement to make sure they are taking advantage of the catch-up contributions available with both HSAs ($1,000 starting at age 55) and 401(k) plans ($6,000 starting at age 50).

Now more than ever, health and retirement are linked, and participants are looking for help. Taking a holistic approach to benefits planning can give them a greater chance of success in both. The HSA is one of the more powerful tools available to help them become better prepared for a healthier and more secure retirement, offering a triple tax advantage, the ability to accumulate savings early for retirement health care needs, and lower premiums associated with a high deductible health plan. With health care costs for a married couple in retirement estimated to be well into the six-figure range, strategic use of a health savings account can play a critical role in successful retirement planning.

For more details on Health Savings Accounts and how they can help you advise your clients,

**Download our Health Savings Account Guidebook:**

[www.manning-napier.com/convergence](http://www.manning-napier.com/convergence)
Preparing for an Audit by the Department of Labor
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The Department of Labor (DOL) has recently stated that it intends to focus additional scrutiny on health plans in its auditing and enforcement programs. Some guidance was recently provided at the Annual Meeting of the International Foundation of Employee Benefit Plans in Boston. In particular, it was noted that EBSA auditors have routinely been requesting documents relating to both health and retirement plans.

What can a plan sponsor do pro-actively to prepare for a DOL audit and avoid penalties? Here are some tips to get started.

Assess.
Work with your advisor and consultant to ensure that the required documents are up-to-date, and that they accurately describe the current operations of the plan. (NOTE: The time to accomplish this task is before the auditor’s letter arrives!)

Have a system.
Work with your advisors to organize the records subject to audit in a way that will make retrieval and production efficient. The last thing a plan sponsor needs is to suspend operations while the staff hunts for documents under the gaze of a DOL auditor.

Document participant communications.
DOL will commonly request evidence that required notices have been distributed to participants. If notices are sent electronically, be sure you are following the required procedures for electronic delivery.

Start a self-auditing program.
Many advisors and consultants can assist with an internal compliance review. The EBSA website has self-audit tools that plan sponsors can use to check their own compliance in advance of an audit.

When it comes to preparing for a DOL audit, advance preparation is key. Self-auditing gives the plan sponsor an opportunity to learn the details of their plan and resolve any deficiencies before the DOL comes calling.

1 “Retirement Health Care Cost Index,” HealthView Services, 2014. Total costs include all Medicare premiums, including Parts B and D, Medigap premiums, as well as out-of-pocket costs, including co-pays not covered by Medicare. The Index assumes that the primary income earner will generate the Social Security average of $1,294 per month in today’s dollars and their spouse will generate $817 per month. While health care costs tend to increase as retirees age, the Index measures the lifetime average of health care costs.