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Health, Retirement Benefits Link is Strong

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Retirement benefit decisions can no longer be made without factoring in health care, according to a source at Manning & Napier.

"Health and wealth are converging," Shelby George, practice leader, benefits solutions at Manning & Napier, said during a company webinar. For employers, plan design strategies have been converging as both health and retirement plans have moved to more of a defined contribution (DC) approach. Employers are capping their contributions to the plans, and in turn employees are bearing responsibility for funding a larger portion of both their health care expenses and their retirement income, according to a white paper by Manning & Napier, "Helping Employers and Employees Navigate the Health/Wealth Convergence."

A strong example of the increasing connection between health and wealth decisions is the impact of current health care costs on participants' ability to save for retirement. As employers have shifted more of the costs for health insurance to employees, employees have found it more difficult to sustain or increase their retirement plan contributions, the white paper explained.

According to the Bank of America Merrill Lynch 2012 Workplace Benefit Report, when asked what would encourage them to save more in their 401(k), 73% of employees said more affordable health care. This was second only to increasing the company match. The growth in consumer-driven health plans suggests that, for many participants, as well as employers, deciding how to allocate savings dollars between retirement accounts and health savings accounts will be an important consideration going forward, the white paper said.

The Affordable Care Act (ACA) offers a chance for plan sponsors to evaluate their objectives both for their health care and retirement plans, according to George. The year 2014 will change the way employers approach benefits, and retirement and health regulations will travel on a parallel path. As health care reform takes shape, the retirement industry has a responsibility to help plan sponsors understand the retirement plan implications to health decisions, she added.

The ACA will bring many changes, among them a new benchmark with a lower baseline that may prompt companies to provide "less rich benefits," George said. These changes will call for a holistic look at benefits that includes health care considerations and their implications on retirement plans.

If a company elects to provide "less rich" health care benefits, for instance, will employees perceive this as a cutback? The plan sponsor may then want to consider enhancements to the retirement plan offering to offset the health changes, George said. The ACA may also prompt employers to move workers from full-time to part-time status, which George emphasized would have immediate retirement implications.

Another intersection between health and wealth is the employer impact of an aging workforce that is unable to retire due to a lack of savings and/or the need to retain employer provided health care insurance (see "Older Employees Delaying Retirement"). Employers should be aware of rising costs related to an aging workforce. Medical claim costs generally rise with employee age, and for employees age 60 to 64, average per-employee costs are more than double the costs of employees age 35 to 39. Employees who are not able to retire on time due to insufficient retirement funding may be adding costs to the employer's health plan, the white paper said.

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