MANNING & NAPIER

Unlocking the Potential of Your

HSA

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Shelby George is a Senior Vice President, Advisor Services at Manning & Napier. In this capacity, she is responsible for understanding the diverse needs of employers, individuals, their advisors and consultants, as well as identifying how Manning & Napier can help to provide holistic solutions to meet those needs. Shelby has 10 years experience in the financial services industry, working as an ERISA attorney and consultant.

Shelby is a frequent speaker at numerous industry events including: NAGDCA, fi360, Cambridge Ignite, RBC Wealth Management Managed Solutions Symposium, and the ASPPA Benefits Council of Central Florida. In addition, Shelby is frequently quoted for her expertise in retirement and financial planning topics in national industry publications including U.S. News & World Report, PlanSponsor, PlanAdviser, Bloomberg Businessweek, WealthManagement.com, SHRM, WSJ Digital, 401kWire.com, Ignites, and BenefitsPro.

Shelby earned her BA in Political Science from Westmont College. She earned her JD from the University of California Hastings College of the Law and is licensed to practice law in New York State. She has also earned her Certified Employee Benefit Specialist (CEBS) designation through the International Foundation of Employee Benefit Plans.

A "New Retirement" is Coming

- Living longer in retirement = need for greater savings and better understanding of available options
- Health care costs may consume a large portion of retirement income/savings
- Many intend to continue to work in some capacity beyond age 65
- Preparing for the unexpected:
  - Support parents
  - Support adult children
  - Death of a spouse
  - Long-term care
  - Other life transitions

Don't Underestimate Health Care Costs in Retirement

62%

Retirees expecting to cover their health expenses with Medicare may be unpleasantly surprised, as Medicare covers on average only 62% of expenses.

122%

A 45 year-old couple retiring in 20 years will need 122% of their social security benefit to cover health care costs.

3x

Annual retirement health care inflation rate will average 5.47% for the foreseeable future, almost triple the U.S. inflation rate of 1.9% between 2012 and 2016.

Traditional Medicare is not free

Traditional Medicare covers only 62% of medical costs in retirement

Glasses, hearing aids, and dental work are not covered by Traditional Medicare

Retirees can expect to spend most, if not all, of their Social Security check on health care expenses throughout their retirement

Sources: EBRI, Family Wealth News.

A Health Savings Account Can Preserve Retirement Savings

21%

of cash-outs from retirement plans held at a former employer were used to pay medical expenses.

15.8%

of hardship withdrawals from 401(k) plans went to pay medical expenses.

20% to pay off debt — **58%** — 10% health care costs

of respondents to a T. Rowe Price survey have taken money out of a retirement account to pay for something else.

Sources: T. Rowe Price 2015 Family Financial Trade-Offs Survey and Aon Hewitt.

Tools to help prepare:

HSA

401(k)

Together your Health Savings Account (HSA) and your 401(k) can be a powerful combination to help ensure a secure retirement.

HSA

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

HSA balances carry over from year-to-year, and are completely portable if you leave your employer.

If you don't need to spend your HSA dollars, you can invest them and they can grow tax-free.

Maximum Annual Contribution for 2017
- Self-only health coverage: $3,400
- Family health coverage: $6,750
- Catch-up contribution (age 55+): $1,000/year

- No Required Minimum Distributions (RMD)
- 20% penalty for non-medical withdrawals
- At 65, can use for any expenses without penalty

401(k)

Tax Savings
- Contributions are pre-tax (in most states)
- Earnings grow tax-free

401(k) balances carry over from year-to-year, and are completely portable if you leave your employer.

Your account is invested and can grow tax-free.

Maximum Annual Contribution for 2017
- Employee Contribution: $18,000
- Catch-up contribution (age 50+): $6,000
- Employer and employee contribution limit: $54,000

- RMD at age 70 ½
- Significant penalty for early withdrawals

Data as of 05/02/2016.
Sources: Society for Human Resource Management, IRS.

HSAs Offer An Excellent Tax Shelter

Tax-preferred savings account for qualified medical expenses
Can be used for current and future health care expenses – even in retirement

1

Pre-Tax
Contributions

2

Tax-Free
Earnings

3

Tax-Free
Distributions for Qualified Medical Expenses

A Triple Tax Benefit

The Trend to High Deductible Health Plans

1 Must be enrolled in a qualified high deductible health plan (HDHP) with:

Minimum deductible
$1,300 single/$2,600 family

Maximum out-of-pocket expenses
$6,550 single/$13,100 family

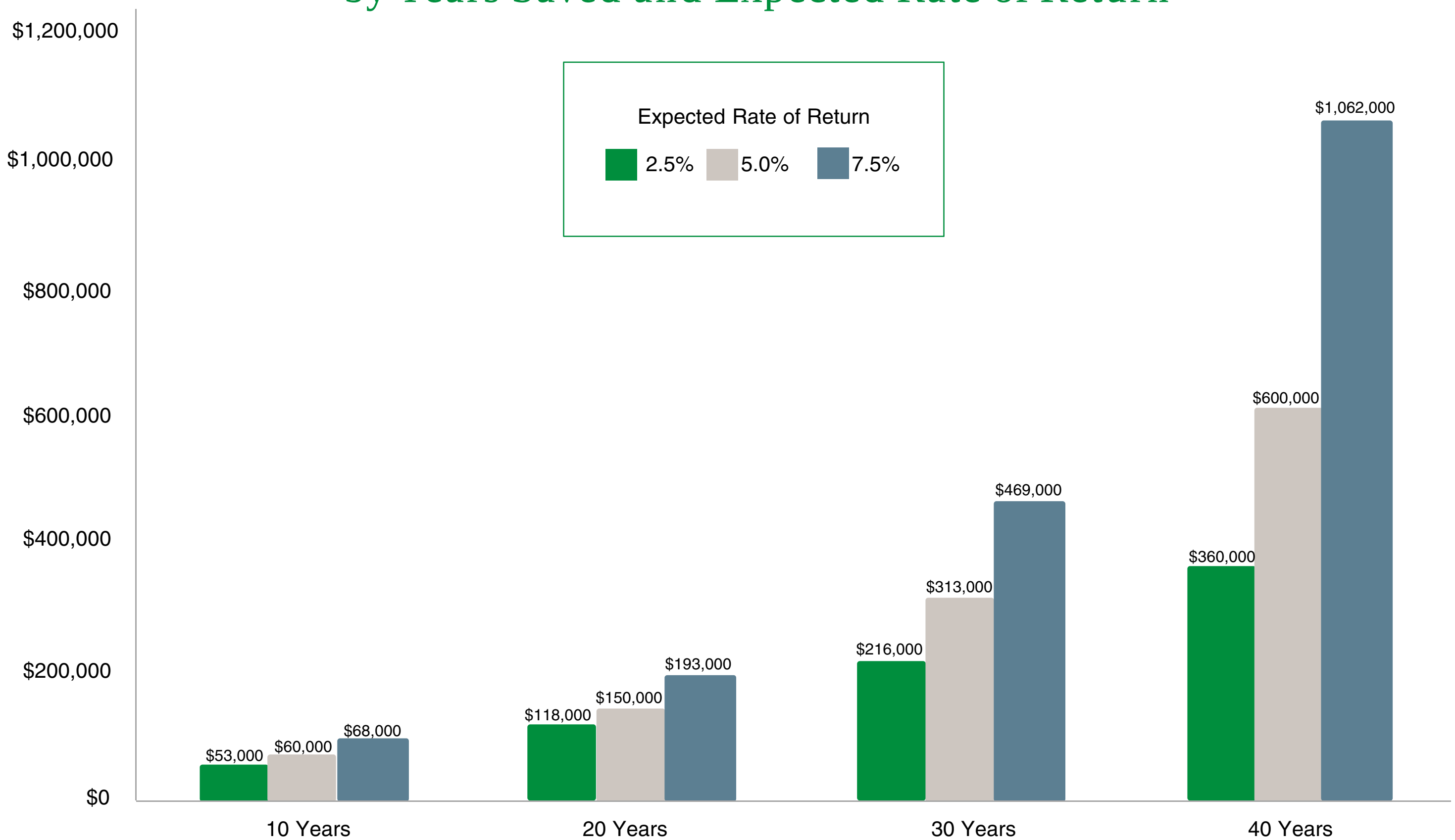
2 Allows annual contributions – from employee and employer combined

Up to IRS limits:
$3,400 single/$6,750 family in 2017
(based on HDHP enrollment)
$1,000 catch-up contribution for age 55+

65% of employees may be financially better off in a HDHP*

Data as of 05/02/2016.
*Based on: (i) case study in "The case for CDHPs...", Change Healthcare, December 2012, and (ii) statistics showing that 80% of individuals in the U.S. account for only 18.30% of total health spending, "Concentration of Health Care Sending in the U.S. Population, 2010," Kaiser Family Foundation.
Sources: Healthcare.gov, IRS, Society for Human Resource Management.

Potential Savings in a Health Savings Account, by Years Saved and Expected Rate of Return



Find Your Age

\+ -

55 45 35 25

Source: EBRI. For illustrative purposes only.

A number of assumptions were made to generate the potential savings: 1) It was assumed that the maximum contribution was made each year. Contributions were assumed to have been made monthly, where the monthly contribution was one-twelfth of the maximum annual contribution. The maximum contribution thresholds were increased 2.5 percent each year. 2) Individuals eligible to make catch-up contributions (those ages 55 and older) were assumed to have made those contributions. As a result, in the 10-year savings estimates, catch-up contributions were assumed to have been made in each of the years. In the 20-, 30-, and 40-year savings estimates, catch-up contributions were assumed to have been made during the final 10-year period. In other words, the 10-year savings estimates represent the amount a 55-year-old could save by the time he or she reached age 65. The 20-year savings estimates represent the amount a 45-year-old could save by the time he or she reached age 65. The 30-year savings estimates represent the amount a 35-year-old could save by the time he or she reached age 65. And the 40-year savings estimates represent the maximum amount a 25-year-old could save by the time he or she reached age 65. The maximum catch-up contribution was not indexed to inflation.

Should you Invest your HSA?

Talk to your HSA Trustee to determine:
Minimum balance requirements in your HSA
Minimum Trustee investment requirements
Minimum fund-specific investment requirements

Estimate your out-of-pocket health costs
Determine if you need to keep enough in cash to cover your health plan deductible and out-of-pocket maximum or if you have sufficient funds outside your HSA to cover these amounts

Talk to a financial planner if you need help

Determine Your Investment Style

Do you want your investment decisions made for you by a professional?
"Multi-asset class" options adjust between stocks, bonds, and cash so that you don't have to. All you have to do is pick an option that fits with your risk tolerance and the investment manager does the rest.

Do you want to make your own asset allocations?
"Single asset class" options are available if you want to make your own decisions about how much of your account is invested in stocks, bonds, and cash.

Determine Your Investment Selection

Determine which investment options are available from your HSA Trustee.
Options vary by trustee.

Work with your financial planner to make your investment elections.

Save
Start saving early and contribute as much as possible from the start

Maximize
Maximize any matching contributions offered by your employer

Utilize
Utilize any planning tools and resources offered by your employer

Ask for Help
Speak to a financial advisor if you need help planning for retirement

Invest
Invest appropriately according to your retirement timetable and your risk tolerance

Access more resources through our Participant Education site: www.manning-napier.com/ParticipantEducation

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