


# Rocky Mountain

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# THE PAST PRESENT & FUTURE

## Health Insurance in Retirement

Look into HSAs, make a commitment today to begin improving your health and well-being and finally – increase your retirement (or HSA) savings.

# The Past, Present & Future

## Health Insurance in Retirement

Health Savings Accounts allow you to contribute pre-FICA, state and federal taxes into an investment account for future health care costs or savings.

By Jim Edwards, Mountain West Benefits



Happy New Year to our many friends in the banking industry and best wishes for a healthy, happy and prosperous 2008. While we have visited personally with many of you and held employee meetings at many of your banks, we are committed to focusing our energies for this year on communicating to you the realities of "health insurance in retirement." If you think its expensive now, just wait till you are retired!

**T**ODAY, WHILE WORKING, THE LIONS SHARE OF MEDICAL INSURANCE PREMIUMS FOR YOUR employees are picked up by the bank. At Mountain West Benefits (MWB), because we are a benefits consulting company, we pay 100% of our employee's premiums, regardless of what enrollment category they enroll in. For a company of only six employees, our annual premiums run almost \$50,000.

We went to a High Deductible Health Plan (HDHP) over two years ago, not only to save premium, but, more importantly, to address what we're going to talk about in the rest of this article. I had my assistant, Sue Garrison, do some research so we could advise our clients using actual figures, as to what they can expect to pay for their medical insurance coverage in retirement. This is after we (you) are on Medicare coverage.

Remember, each of us will need to purchase Medicare Part B coverage. Part A is provided automatically, but Part B, the physician side, is at our own expense. The same is true for Medicare Part D insurance, coverage for prescriptions. We believe Part D is a necessary coverage, as both the cost and utilization of pharmaceuticals continues to increase at a high rate. Finally, it is prudent to purchase a Medicare Supplement or "gap" coverage. The Blues, New West Health Services and AARP market a number of supplemental policies – there are many good options to consider.

Now consider "The Past, Present & Future" of these coverage's from a cost perspective. We looked back 10 years, then at today's premiums and projected premiums 10 years forward. (See chart on page 17.)

If you (or your employees) haven't factored this cost into retirement planning – begin today to do so! These costs are real, and each of us will be faced with how to finance them, as each of these three insurance coverage's will be needed.

We believe a partial solution is to change our thinking about health insurance, our thinking about wellness and our thinking about saving. Accepting some additional

## A Retired Individual's Monthly Insurance Premiums – over and above Medicare

	1998	2008	2018 (Projected)
Medicare Part B Premium*	\$43.80	\$96.40 (+ 120%)	\$212.08 (+120%)
Medicare Supplement Policy Plan C**	\$57.18	\$133.45 (+ 133%)	\$310.94 (+133%)
Medicare Supplement Policy Part D (average of all 3 options) ***	Not available	\$60.06	\$135.74 (126%)
<b>Monthly Total</b>	<b>\$100.98</b>	<b>\$289.91</b>	<b>\$658.76</b>
<p>* Based on average annual income ranging anywhere from \$20,000 - \$82,000 Individual or \$40,000 - \$164,000 if filing joint tax return</p> <p>** Based on the entry age of 65-66</p> <p>*** The Part D coverage is for prescriptions – for anyone purchasing \$2,510 of prescriptions – they will be subject to what is called the “doughnut hole” and will have additional annual out of pocket (OOP) prescription costs of \$1,540 after which further prescription costs are covered at 100%.</p>			

out of pocket cost for medical care today, in exchange for the opportunity to save, tax advantaged, in a Health Savings Account (HSA), can make sense for many of us. We want to limit our maximum out-of-pocket exposure (cost) for healthcare expenditures, to something that provides adequate financial protection, say \$2,400, and the federal government requires that in order to have a Health Savings Account (HSA) we must first be covered by a qualified High Deductible Health Plan (HDHP). The feds have said that in order to be a qualified HDHP, the only benefits that can be paid before the deductible are preventive or wellness benefits; other services are covered, including prescriptions, but they must be subject to the deductible. After meeting the deductible (in our example of \$2,400) all covered services, including prescriptions, are paid at 100% for the remainder of the plan year. The IRC guidelines allow for a wide range of acceptable deductibles for qualified HPHPs. The higher the deductible, the lower the premium.

Now to revisit “wellness” and “saving.” It is amazing how differently we view using the healthcare system, when we will be spending our own money versus paying only the co-payment at the pharmacy when buying a prescription. You see, the co-payment isn’t the actual cost of the prescription, it’s just my/your small share.

When covered by a HDHP, you actually call around to see where you can get your prescription for the least cost. Coincidental with becoming a more conscientious health care shopper, you begin to give thought as to what you might do personally to eliminate, change or minimize the medical situation you are dealing with that is precipitating your need for the prescription in the first place. In my case, it was a simple matter of a lack of physical activity (oh yes – coupled with the extra 30 pounds I was carrying). Today, the prescription, cholesterol reducing medication, is no longer needed.

A fact, hard to believe but none the less true, is that approximately 70% of healthcare costs are attributable to modifiable behaviors; or in other words, lifestyle choices.

Finally – saving! A Health Savings Account allows you to contribute pre-FICA, state and federal taxes into an account for future

health care costs. Funds in the HSA are yours (your employees), they grow tax deferred, and if used at any time, including in retirement, for medical care expenses, can be taken out tax free. Yes, paying for your Medicare Part B and D premiums can be paid for with tax free dollars versus paying those premiums with taxable 401k retirement funds.

Here is how the math can work. Assume a 40-year-old person has family HDHP qualifying coverage. While the tax laws say you can contribute up to \$5,800 per year into your HSA (\$6,700 if 55 or older) this 40-year-old determines that that contribution amount is not affordable, yet commits to saving \$4,000 per year - \$333 per month. On a tax deferred (pre-tax) basis this comes out to about \$233 per month or \$116.50 per semi-monthly pay period. In many cases, the \$233 per month savings will be close to what the actual premium difference is between the current family premium and the premium on the new HDHP coverage. Assuming a five percent rate of return, if this 40-year-old commits to treat the HSA as a savings account, it will grow to over \$200,000, available to spend on medical care in retirement (tax free) or simply to help supplement income in retirement (taxed – but no withdrawal penalty).

Let’s be realistic – each year our 40-year-old and his family will have some healthcare expenses – let’s say they average \$1,500 per year from age 40-55, and \$1,000 per year thereafter (when the children have grown up). The balance in the HSA at age 65, after paying the medical costs as illustrated, will still exceed \$140,000!

For my first 18 years in the employee benefits business, I stressed benefits, benefits, benefits – “my benefits are better than his benefits – buy mine.” Statistics don’t support that approach any longer. One percent of the membership in the State Bankers Association Group Benefits Trust plan accounts for 35% of the groups total annual claims, 9% account for 40% of annual claims, and the majority, 90%, account for only 25% of the groups annual claims costs. Too many employers are purchasing more medical insurance for their employees than is in their own financial best interests, paying too much in premiums and limiting employees from being able to save, no “use it or lose it” exposure, in a tax favored Health Savings Account (HSA) because their plan is not a qualified HDHP.



## Health Savings Accounts — Continued

In other words, most of us aren't saddled with chronic medical conditions. There is a likelihood we can pay for our medical care "out-of-pocket," same as we do oil changes and new tires for our car.

But we do want to know we have protection should something unforeseen happen, if we have a "car wreck."

Mountain West Benefits works with over 70 different financial institutions who are part of the State Bankers Association Group Benefits Trust. In 2008, we saw a number of our banks move to the HDHP plan, some making it the only option, with other banks offering their old traditional plan alongside of the new HDHP, Health Savings Account (HSA) option.

The State Bankers Trust HDHP has an enhanced preventive care benefit that pays for wellness benefits up to \$625 at 80%, no deductible. Most financial institutions offering the HSA option have altered their Flex plans to include the HSA in their Flex, allowing employees to defer salary into their HSAs pre-tax (including FICA so both employees and the bank save FICA expense). Additionally, most of the banks elected to match employee deferrals, rewarding employees who choose to contribute to their HSA. One bank matched deferrals

at 150% up to a maximum bank contribution of \$600. A teller would need to contribute only \$33 per month pre-tax, a net cost of only \$12 per semi-monthly pay period, to garner an annual contribution of \$1,000. Another bank did a 100% match to employee deferrals up to \$1,200 – employees could fully fund their \$2,400 maximum out-of-pocket exposure and if they stay healthy, can begin saving for their health insurance costs in retirement.

**"Paying for our health insurance costs in retirement is looking like it will be no less onerous than it has been in our working years."**

At MWB, we provide a 200% match to the employee elective deferral. We have employees who have accumulated over \$10,000 in their HSA. It's also safe to say our employees are 100% focused on their health and well-being. After all, we know that much of our exposure to illness and sickness is a bi-product of the lifestyle choices we make on a daily basis.

In closing, look into HSAs, make a commitment today to begin improving your health and well-being, and finally, increase your retirement (or HSA) savings. Paying for our health insurance costs in retirement is looking like it will be no less onerous than it has been in our working years. Lastly, if you would like to visit on HDHPs and HSAs, give us a call at 1-877-343-1060 and we will be happy to come and visit with you to see if this idea makes sense for your bank. ▀



From left to right: Sue Garrison, Jim Edwards, Mary Kay Puckett, Richard Miltenberger, Sara Harne. Missing: Dara Anderson.

