# Employee Benefits Report

FINANCIAL NETWORK LIMITED

**Employee Benefits, Investments & Insurance**

26 Cherry Street | Milford, CT 06460 | (203) 878-8194 ext.204 | mjhoyt@fnlonline.com

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# Health Savings Accounts – One Key to a More Comfortable Retirement

## Here's what your employees need to know about health savings accounts

Most people know that a 401(k) plan is a valuable retirement tool. It's less well-known that a health savings account (HSA) also is a valuable retirement tool. Not only is an HSA a great way to save for medical expenses while employed, but the same savings account also can be used during retirement.

An HSA is a tax-advantaged savings account that employees can use to pay for out-of-pocket medical expenses. HSAs always are paired with qualified high-deductible health plans (HDHPs). Qualified HDHPs have low premiums but high deductibles and when HSAs are used for qualified medical expenses, HSAs have a triple tax free benefit: pre-tax contributions; tax-free growth; and tax-free withdrawals for qualified medical expenses.

If you offer an HDHP at your company, make sure your employees understand that HSAs also have some great retirement benefits. According to Fidelity Investments' Retirement Health Care Cost survey, the cost of health care for the average couple throughout retirement is $280,000. Even with Medicare coverage, retirees should expect to pay for premiums, co-pays, some drugs and other expenses not covered by insurance. Money deposited in an HSA and saved for retirement can help cover these costs.

Here's what your employees need to know:

**Who Can Open an HSA?** Any employee may open an HSA if they participate in a company HDHP and have no other health insurance; are not enrolled in Medicare; and cannot be claimed as a dependent on someone else's tax return.


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# Women Not as Likely to Enroll for Disability Insurance

**Disability insurance can be a boon to workers, but not everyone takes advantage of this employment benefit.**

**Twenty-five percent of today's workforce—approximately 32 million unmarried females — is underinsured for a disability, according to a new study by the Council for Disability. In addition, the Council estimates that than one in four working women aged 20 to 65 will experience a serious disability at some point in her career.**

**Disability insurance can help with expenses when employees miss work because of illnesses such as cancer, injuries, back disorders, or pregnancies. Without coverage, single women may experience greater financial difficulty than those in two-income households.**

**If you offer disability insurance, one way to ensure your employees are covered is through auto-enrollment. The practice of auto-enrollment is supported by the U.S. Department of Labor and is similar to what many companies follow with their retirement plans. Employees are enrolled into the plans by default, but are given the choice to opt out. The Vanguard Group, an investment advisor, reports that when auto-enrollment is used with retirement plans, it doubles the number of participating employees.**

# Genetic Testing Protections and Limitations

**When the federal government passed the Genetic Information Nondiscrimination Act (GINA) in 2008, the law provided a starting point and baseline to prevent insurance carriers from using genetic testing information to determine rates.**

Today, as genetic testing kits have become even more popular, experts are uncertain how these changes could affect the law.

Health providers often order genetic testing when they need certain information to reach a diagnosis. The patient goes to a lab where the technicians take a DNA sample. With direct-to-consumer genetic tests, individuals purchase a test online or in a store and send the company a DNA sample. They receive their results directly from a secure website or in a written report. Individuals order these tests for a variety of reasons, ranging from making predictions about health to discovering a person's ancestry.

The question many people have is whether insurance carriers can use the information from the tests to set rates or deny coverage.

There are two parts to GINA. Title I makes it illegal for health insurers to use the results of any genetic test when making decisions about an individual's eligibility for health insurance, coverage terms or how much they'll pay in premiums. Title II makes it illegal for employers to use a person's genetic information when making decisions about hiring, promotion and other terms of employment.

GINA does not apply when an employer has fewer than 15 employees, and it does not cover people in the U.S. military or those receiving health benefits through the Veterans Health Administration or Indian Health Service. GINA also does not protect against genetic discrimination in life, disability or long-term care insurance. These insurance carriers can legally request medical information, including the results of any genetic testing, when making decisions about coverage and rates. The law is unclear whether genetic information, including the results of direct-to-consumer genetic testing, will become a standard part of the risk assessment process when making coverage decisions.

Another situation where GINA does not apply is when someone develops symptoms of a disease or is diagnosed with a medical condition that results in a doctor ordering genetic tests. However, the Affordable Care Act (ACA) prohibits health insurers from denying coverage or charging higher rates because of a pre-existing condition. Short-term plans and self-funded plans are allowed to underwrite policies, meaning that the health insurance carriers can conduct research and assess the degree of risk before deciding to offer coverage.

## The Future of Genetic Testing Privacy

When GINA was passed, genetic testing was just beginning to gain popularity. Regulating the use of genetics by health insurance carriers seemed like a good start. Now consumer advocates would like to see its protections expanded to cover discrimination in life, disability, and long-term care insurance.

Many states already have enacted genetic non-discrimination laws. These laws vary widely in their approach, application and level of protection. For instance, California passed CalGINA in 2011 which expanded protections to employees of smaller employers and added housing and education protections.

The primary purpose of many of these laws is to ensure that the public feels comfortable in participating in genetic testing and can benefit from medical breakthroughs without losing their right to privacy ■

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**Benefits of an HSA.** An employee's account balance grows tax-free and any interest, dividends or capital gains earned are nontaxable, unless withdrawn for non-medical expenses. Also, any contributions you make to an employee's account are not counted as part of their taxable income.

Unlike a flexible spending account (FSA), the balance can be carried over from year to year. Employees also take their HSA with them if they accept a position with another company or when they retire.

**How HDHPs Work.** In 2019, a qualified HDHP must have a deductible of at least $1,350 for self-only coverage and $2,700 for family coverage. Depending on the type of coverage offered, an employee's annual out-of-pocket expenses in 2019 could run as high as $6,750 for individual coverage — or $13,500 for family coverage.

High health care expenses are one reason HSA plans are most popular with healthy individuals who can afford the risk and would receive benefits from the tax breaks. However, a low-deductible plan such as a PPO could cost individuals more than $2,000 annually in higher premiums regardless of whether they need medical attention. With an HDHP, spending more closely matches actual health care needs. In addition, HDHPs usually cover some preventive care services.

**HSA Contributions.** There are limits to how much individuals can contribute. For self coverage, the 2019 limit is $3,500 annually while the family coverage limit is $7,000. Account holders who are 55 or older at the end of the current tax year can contribute an additional $1,000 annually as a "catch-up contribution". If you are married and both you and your spouse have separate HSA accounts, each of you are eligible for the $1,000 catch-up contribution. Contribution limits are adjusted annually for inflation.

**Investing is Easy.** Employees can contribute up to the maximum regardless of their income through payroll deduction or from their own funds until they reach age 65, even when they're self employed or not working.

While the employer chooses the administrator, the decision of where to put the money is the employee's. Encourage your employees to shop around for high-quality, low-cost investment options. Some providers only offer low interest-bearing investments, such as money market funds, that generally are very safe: while some HSAs offer multiple mutual funds that may provide higher expected returns over time but are more risky. In addition, some HSAs require a minimum contribution before investing the contributions into mutual funds within the HSA.

Here's an example of how saving money in an HSA and getting a good rate of return can pay off. If a 21-year-old makes the maximum allowable contribution every year to a self-only plan until age 65 and they earn an average annual return of eight percent on a plan with no fees, they will have $1.2 million by the time they retire. For those who start saving later in life, a 40-year-old who saves $100 per month and earns an average annual return of three percent could have as much as $45,000 by retirement.

**Qualified Expenses.** Employees can take distributions from their HSAs before or during retirement. After retirement, HSA withdrawals get taxed in a way similar to Traditional IRA withdrawals, if retirees take distributions for non-medical expenses, but income tax-free if for medical expenses before retirement. If they take distributions on qualified medical expenses, the proceeds are not taxable. If they spend the money on anything else before they turn 65, they will pay a 20 percent penalty and also will pay income tax.

Qualified payments for which tax-free HSA withdrawals can be made include:

- Doctor office-visit co-payments
- Health insurance deductibles
- Dental expenses
- Vision care (eye exams and eyeglasses)
- Prescription drugs and insulin
- Medicare premiums
- A portion of the premiums for a tax-qualified long-term care insurance policy
- Hearing aids
- Hospital and physical therapy bills
- Wheelchairs and walkers
- X-rays

When an employee retires, they also can use their HSA funds to pay for expenses that will help with their long-term needs, such as in-home nursing care, retirement community fees, long-term care services and nursing home fees. Withdrawals also can be taken for the cost of meals and lodging when seeking medical care away from home and modifications to a home, such as ramps, grab bars and handrails.

For more information about HSAs, please contact us. ■

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and length of coverage differ.

Short-term disability insurance helps employees who do not have sufficient savings to cover 13 to 26 weeks of lost wages. Short-term disability also is used to fill the gap between the time someone becomes disabled and the time long-term benefits kick in. Long-term disability coverage pays a portion of the disabled employee's income after he or she runs out of both sick leave and short-term disability benefits, typically after 90 to 180 days.

The cost of long-term disability insurance is determined by employee demographics and industry classification. The program can be structured so that the premiums are deducted as a business expense, but benefits can be received on an income tax-free basis.

For more information about implementing group life, group disability or both, contact your insurance broker to find the plans that meet your budget and your employees' needs. ■

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# When Life Insurance Isn't Enough

**Disability, not death, is much more likely to cause someone to lose their home.**

If you only offer life insurance as an employee benefit, consider adding disability insurance if you want to provide more complete financial protection for employees and their families.

According to the Million Dollar Round Table, an association of financial professionals, nearly half of all foreclosures on conventional mortgages are caused by a disability, compared to only two percent resulting from the homeowner's death. Disability insurance benefits provide income replacement if employees no longer can work due to a disability.

### The Benefits of Life Insurance

Employers usually pay all or part of the monthly premium and for many employees, group life insurance is the only life insurance they have. The policy pays a death benefit to the employee's beneficiaries if they die. Beneficiaries then can use the money to pay their expenses, including mortgage payments, medical bills, funeral costs, school tuition, personal loans, student loans and other debts. These benefits usually are tax-free.

Group life insurance often is easier for employees to qualify for than an individual policy. This is especially beneficial for employees who are older or in poor health because they don't have to go through the underwriting process or a medical exam.

The downside of group life insurance is that it usually doesn't provide the level of coverage most people need, and coverage expires after the employee leaves the company.

Depending on your plan's design, your employees may be able to buy additional life insurance without answering health questions. Some plans also allow employees to purchase coverage for a spouse and/or dependent children. If they leave your employment, they may be able to maintain coverage if they continue to pay the premiums.

### The Benefits of Disability Insurance

According to the Council for Disability Awareness, every seven seconds an illness, injury or accident keeps a U.S. citizen out of work for more than one month. For individuals out of work three or more months, the average time off because of a disability is more than two and a half years. Imagine having to go 136 weeks without a paycheck!

There are two types of disability plans — short-term and long-term. Both replace a portion of an employee's salary —usually up to 60 percent — if the employee suffers from disabilities or illness, but the amounts

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## Access to Preventive Care Eased for Some HDHPs

The Internal Revenue Service (IRS) has made it easier for people who have high-deductible health plans (HDHPs) with health savings accounts (HSAs) to get preventive care services to treat chronic diseases even if the insured hasn't yet met the deductible.

In the past, the Treasury Department and the IRS generally did not allow any preventive care services or benefits to be used to treat an existing illness, injury or condition. Health agencies argued that many individuals with chronic conditions often failed to get treatment because of the high cost of care. As a result, the "cost" of not getting proper care often was amputation, blindness, heart attacks or strokes — all of which require considerably more extensive medical intervention and costs.

This year, in response to these concerns, President Donald Trump issued Executive Order 13877 — "Improving Price and Quality Transparency in American Healthcare to Put Patients First." The order directs the Secretary of the Treasury to issue guidance expanding certain patients' ability to get care for chronic conditions.

The Treasury Department and the IRS worked with the Department of Health and Human Services (HHS) and issued IRS Notice 2019-45. The notice allows certain medical care services, including prescription drugs, to be classified as preventive care for someone with certain chronic conditions. These services can be obtained by insured members who have an HDHP without a deductible or with a deductible below the applicable minimum deductible (self-only or family) for an HDHP.

For a service to be classified as a chronic condition and needing preventive services, the service or item must be low-cost, and there must be medical evidence that the service prevents the chronic condition from getting worse or developing into a secondary condition. ■