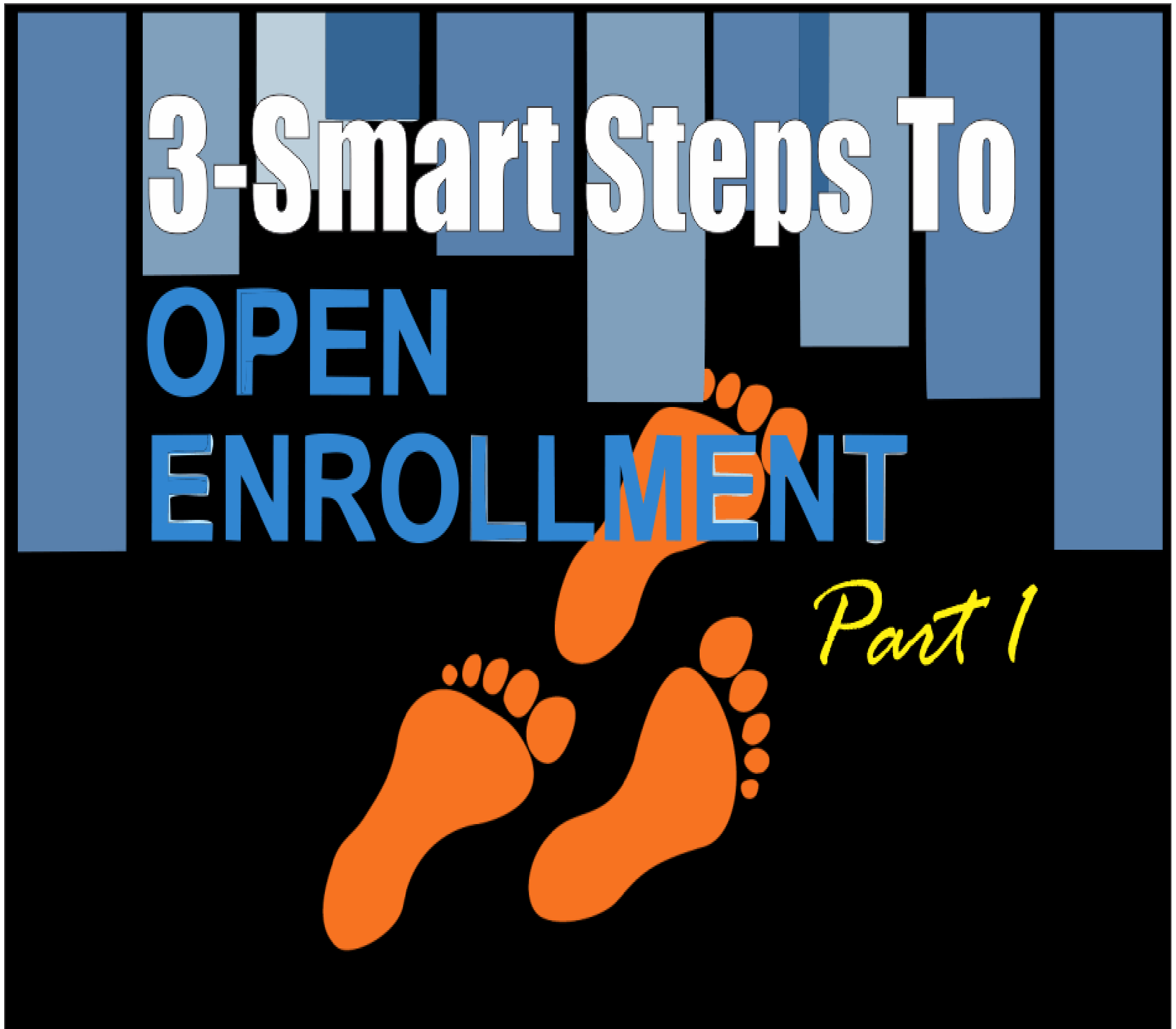
RIA Advice

# 3-Steps To A Successful Open Enrollment - Part 1




It?s almost that time again. Another year, another window of opportunity to select employer benefits options for the upcoming new year. How do American workers feel about open enrollment season? According to the latest *Aflac Workforces Report*, 67% of the 5,000 employees who participated in the study described benefit enrollment as complicated, long or stressful. Amazingly, 83% of respondents spend less than hour researching available options; 20% do no research at all. An overwhelming 92% are on enrollment auto-pilot, simply choosing the same benefits year after year. Employees tend to minimize the importance of employer-provided benefits; they rush through the process to ?get it over with,? instead of taking time to seek professional advice, whether from a financial planning partner or in-house human resource staff. Thankfully, over the years I?ve been able to assist workers with making the most of their benefits options. The goal is to perceive open enrollment period as an annual window of opportunity to save money (Aflac found that 55% of

workers waste up to $750 by making mistakes during open enrollment), minimize the financial impact of potential catastrophic risk and explore new options especially as employers increasingly shift the burden of rising healthcare insurance costs to employees. **Remember: Your first line of defense against financial fragility is the benefits offered to you by your employer.** November is customarily enrollment month. Before you submit your selections for 2019, take into consideration the following three money-savvy steps: **Embrace a high-deductible health insurance option.** Most likely, your employer has or will offer a high-deductible plan coupled with a Health Savings Account. A high-deductible healthcare plan is defined by the IRS as one with a deductible of at least $1,350 for an individual, $2,700 for a family. A HDHP limits total annual out-of-pocket expenses to $6,650 for an individual and $13,300 for families. Based on data from the National Health Interview Survey which is conducted by the National Center for Health Statistics, enrollment in high-deductible health plans along with Health Savings Accounts increases with education and income level. Highly educated and affluent adults are more likely to enroll in high-deductible plans with an HSA and less likely to enroll in traditional healthcare plans. Per the long-term financial benefits of HSAs, this statistic makes perfect sense to me. Unfortunately, future costs of healthcare including that of employer-provided coverage will continue to increase as a result of health insurer losses due to the Affordable Care Act. A growing number of companies are adding high-deductible plans along with health savings account options that need to be considered this enrollment season. This isn?t a trend that?s going away; it?s inevitable, you?ll have a high-deductible plan option if not now, then in the future. **A Health Savings Accounts is a powerful savings vehicle that allows triple tax benefits.**?Contributions are tax deductible, and if an employee, they?re funded pre-tax from payroll contributions. Growth or income is tax-free*?(yes, you should have mutual fund investment selections like in a company retirement plan.)* Finally ? distributions for qualified medical expenses are tax free. HSA contribution limits?*(employer and employee total),*?for 2019 are $3,500 for a single filer, $7,000 for a family. Those over 55 may contribute an additional $1,000 as a ?catch-up? contribution. If you only see a doctor once or twice a year, it may be beneficial to switch to your employer?s high-deductible plan offer with employer match (hopefully available) and save as much as possible in a Health Savings Account. **If you don?t have a high-deductible with HSA option yet, it?s coming. Over time, your employer is going to shift the burden of healthcare premium costs to you, the employee.** *Think of a HSA as healthcare retirement plan.*?It?s not a ?use or lose it? account, either like a Flexible Spending Account. In other words, in a HSA, you can stockpile money, allocate across investments, usually mutual funds, allow the money to grow tax-deferred, then withdraw at retirement to subsidize rising healthcare costs or even pay Medicare premiums. For a couple retiring in 2019, lifetime healthcare costs are estimated to be $280,000 based on Fidelity?s latest report. A third of the expenditures will be Medicare Part B premiums. In my opinion, healthcare costs are difficult to assess but one thing is certain ? the healthcare cost burden is rising. A study published in the Journal of The American Heart Association outlines that making time for exercise pays off. Literally. Researchers discovered how walking 30 minutes five days a week can save people $2,500 a year. A positive, monetary outcome of reduced medical expenditures. **There are documented benefits of fully funding a HSA as a priority. Even over a company retirement account as HSA benefits may be pre-tax, grow tax-deferred, and withdrawn tax free.**?A strong combination that does not exist in other savings and investment vehicles. *At Clarity, we advise workers to prioritize HSA contributions over retirement plan contributions, especially when employer 401k matches aren?t provided*. According to healthcare account investment expert Devenir, an increasing number of employers are contributing to their workers? HSAs. Per the Devenir Midyear HSA Research Report, nearly 32% of all HSA dollars contributed to an account came from an employer with the average contribution at $658. This is going to sound counterintuitive, however, consider paying out-of-pocket health insurance deductibles and as many medical expenses as possible with after-tax dollars thus leaving savings in an HSA to accumulate long-term for medical, dental (Medicare doesn?t cover dental FYI), and vision treatments in retirement. Health Savings Account dollars may be allocated across mutual funds; accounts can?t be lost in the case of job loss and transportable

to another HSA custodian or rolled over to a new HSA provider every 12 months. **Thoroughly understand your Flexible Spending Account options.** For comparison purposes, consider FSAs the ?smaller sibling? to the HSA. A Flexible Spending Account or FSA permits the accumulation of pre-tax dollars (although not to the extent allowed in HSAs) and allows tax-free distributions for healthcare, dental or vision expenses. Unlike an HSA, FSA balances must be used by December 31 every year. Now, an employer may allow a grace period or carry over of $500 for 2 ? months into a new year, however the general mandate is use it or lose it by the end of the calendar year. October is a good month to assess healthcare spending for the new year as to not overcontribute. Currently, an employee may sock away $2,650 annually that may be used for an individual or family. Generally, employees are not offered both a HSA and FSA. Employers may compliment a HSA with a limited-purpose FSA, a type of Flexible Spending Account which allows tax-free withdrawals based on specific types of healthcare expenses like dental and vision. A dependent care FSA is a pre-tax account that may be used to pay or reimburse for services such as child day or dependent adult care services. Employees eligible to claim disabled family members, elderly parents and children for tax purposes, can take advantage of this employer-offered benefit. The current maximum contribution is $5,000 a year *per household*. With average national in-center child care costs running $9,589 annually according to Care.com, the ability to cover more than half these expenses tax free is a tremendous advantage. **What about employer long-term disability coverage?** Statistics outline that one out of four workers will become disabled before they retire. Long-term disability insurance provides a level of income protection during extended periods if sidelined from working, especially at an employee?s own occupation. It?s one of the most inexpensive, comprehensive benefits employers provide yet I find many forgo signing up as they believe a long-term disability will never occur or healthcare insurance takes higher priority in the family budget. I observe this behavior especially with Millennial employees who ironically, haven?t yet built the financial stability necessary to withstand a long-term disability. Without long-term disability coverage, a household is going to need to prepare to shoulder the financial burden of making up a gap in household cash flow for as long as a long-term disability exists. Or until the wage earner can return to his or her own occupation or at the least, any occupation, depending on how severe the disability may be. In some cases, LTD insurance payouts will last until the insured reaches age 65. On average, a long-term disability lasts two years. Employer long-term disability generally offers varying levels of coverage, from a minimum of 20% of monthly salary, to the maximum which is closer to 65%. Keep in mind, these benefits if paid with after-tax dollars, would be paid received tax free, so receiving 60% of income isn?t as austere as believed. **At Clarity, we advise every employee to take advantage of maximum coverage**. **No excuses.** Unless you have a decade?s worth of emergency cash for living expenses or invested enough for large expenses like a child?s college education, it isn?t worth passing on coverage. In Part 2, I?ll review several of the lesser-known employer benefits workers should consider for 2019.