

NATIONWIDE RETIREMENT INSTITUTE®

The Convergence of Health & Wealth

Health Savings Accounts for Retirement and Health Care Planning

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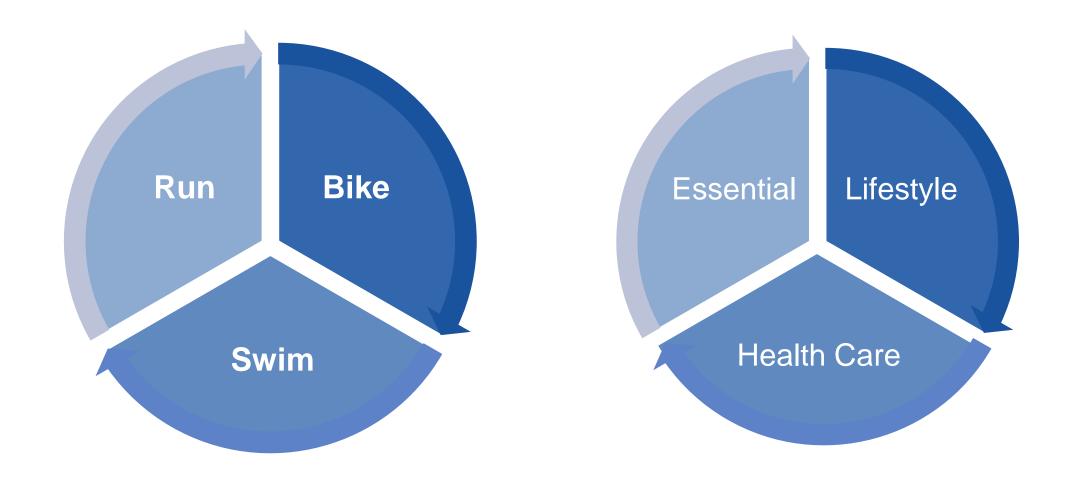
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What Would be the Outcome?





Health
Care &
Retirement



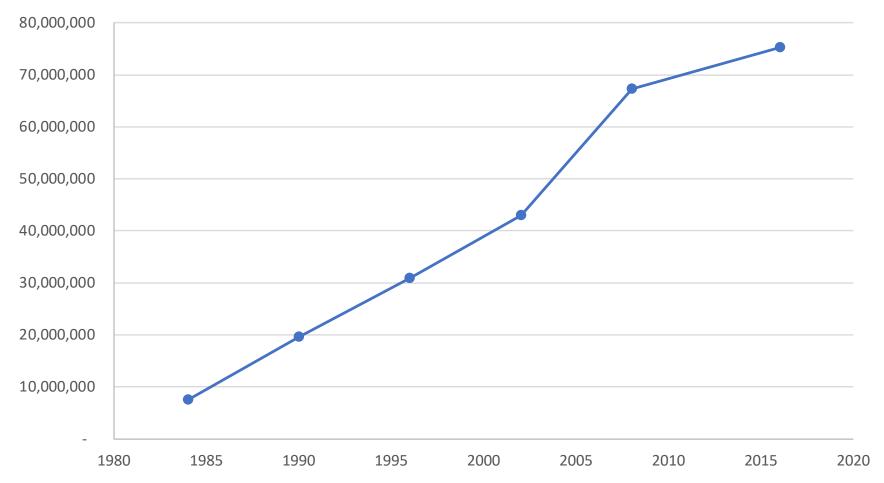
Health Savings Accounts



HSA Retirement Planning

Defined Benefit to Defined Contributions

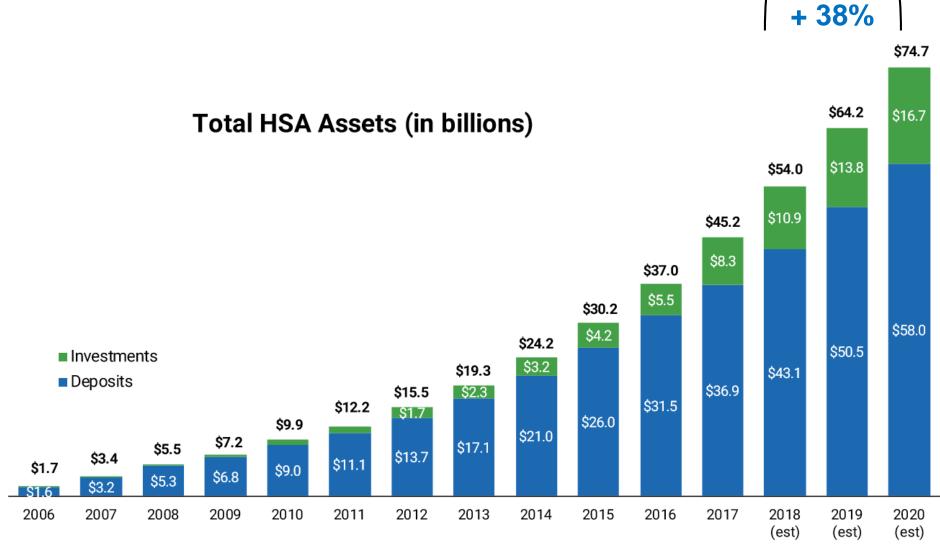
Active 401(k) Participants



Source: "Facts from EBRI" – February 2005

DOL – "Private Pension Plan Bulletin" March 2012 & September 2016

Growth of HSA Assets



Source: 2018 Midyear Devenir HSA Research Report

Progression of Consumer Responsibility

Defined Benefit Health Care



- Traditional Health Insurance (HMO-PPO)
- Employer Selects Coverage Options
- Growth of the FSA Flexible Spending Account

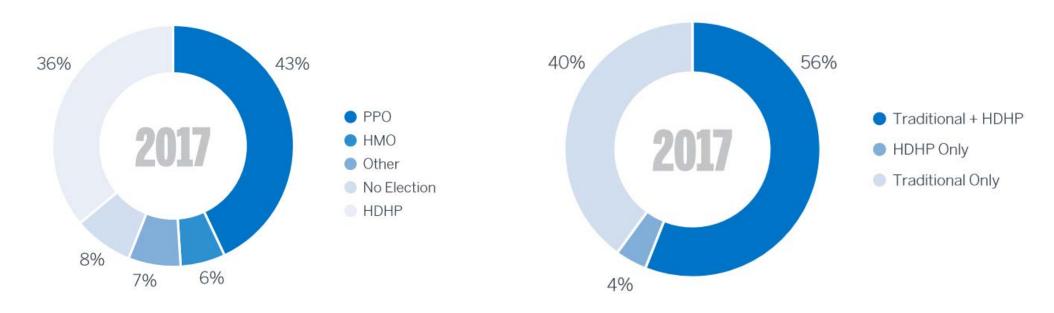
Consumer Driven Health Care

- Cost shift to employees via design and incentives
- Employees limited choice coverage options
- FSA,HRA & HSA

Defined Contribution Health Care

- Employer makes a fixed contribution
- Employee now has increased choice in coverage and responsibility for care
- FSA, HRA & HSA

Progression of Consumer Responsibility



The Preferred Provider Organization plan is the most popular choice of employees with an adoption rate of 43%. The high deductible health plan is the second most popular choice at 36%.

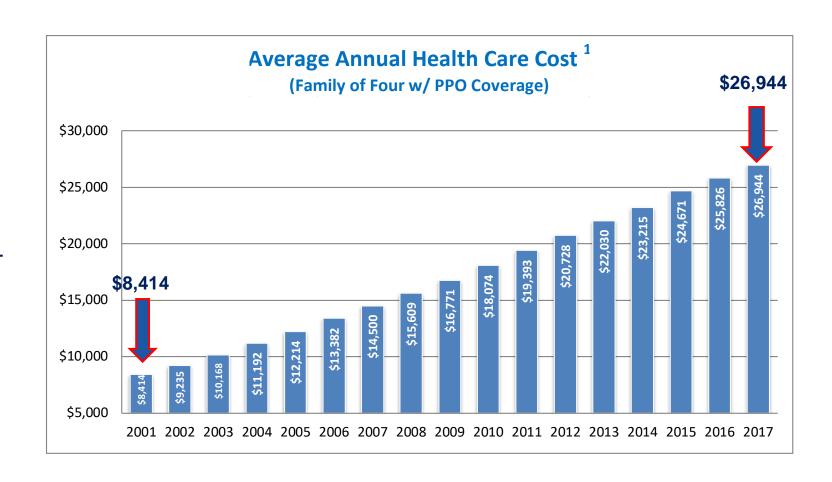
60% of large employers offer at least the option of a high deductible health plan.

Source: Benfefitfocus "The State of Employee Benefits – 2017"

Benefitfocus compiled and analyzed fall 2016 open enrollment data from more than 500 large employers – representing over one million employees – on the BENEFITFOCUS Platform.

Ever-Rising Health Care Costs

- 3X Since 2001, health care costs for the typical American family of four has more than tripled
- 4.3% Annual increase to health care costs (2016-2017) was the smallest increase since inception of MMI (2001)
- 2.0% Median increase to household income between 2004 – 2014²

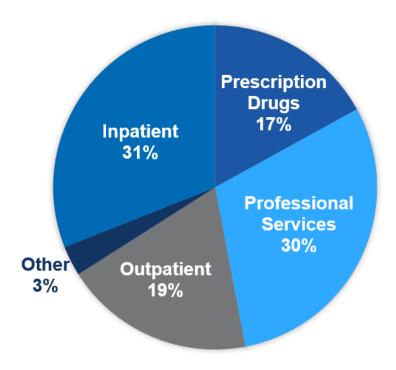


¹ Milliman Medical Index – 2017

² US Census Bureau, Income Data: Historical Tables by Household

Health Care Expenses

COMPOSITION OF ANNUAL HEALTH CARE EXPENSES¹



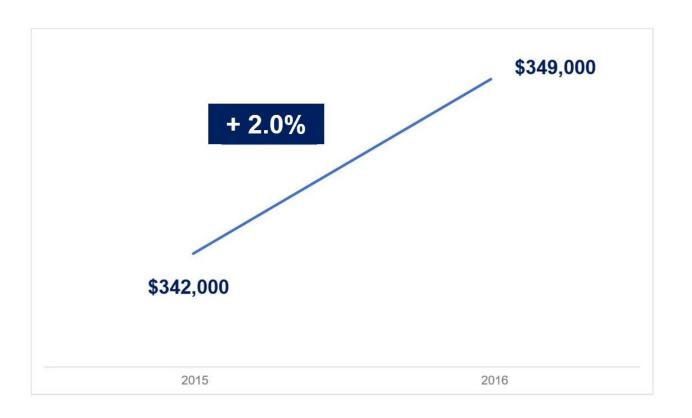
Milliman Medical Index: 2017
 Total Annual Health Care Expenses for Family of Four (\$26,944)
 Percentages do not equal 100% due to rounding

- Prescription drugs are the fastest growing slice of the health care cost pie.
- Specialty drugs are the main driver for the increase in prescription drugs.
- There is no standard definition for a specialty medication, but drugs in this category typically share one or more characteristics.²

² hcvshealth.com/thought-leadership/whats-special-about-specialty

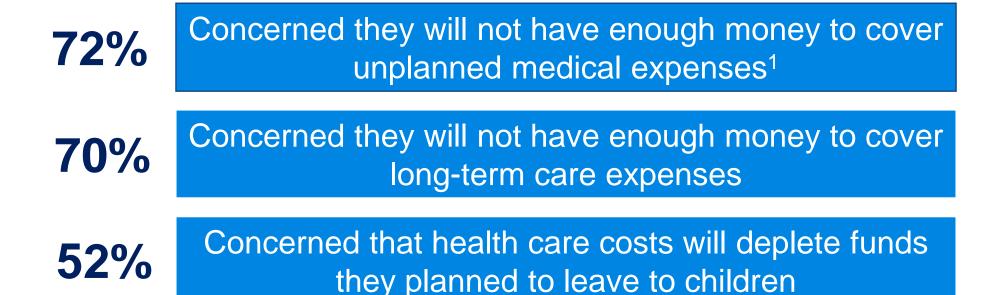
Health Care Costs in Retirement

The Employee Benefit Research Institute (EBRI) estimated that some couples could need as much as \$350,000 at age 65 in 2016, assuming 90% chance of having enough savings.



Concerns about Retirement

Nationwide's 2016 "Health Care Costs in Retirement" survey illustrated:



64%

Terrified of what health care costs may do to their retirement plans (56% in 2014)

^{1.} Health Care Costs in Retirement Survey – Harris Poll – Nationwide (October 2016)



Health
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Health Savings Accounts



HSA Retirement Planning

What is an HSA?

- An HSA is a tax-favored trust or custodial account used to pay for qualified medical expenses in conjunction with a <u>High-Deductible Health Plan (HDHP)</u>
- Typically, an HSA is in the form of a checking, savings or other type of account used to pay medical expenses
- An HSA is owned by an individual and established under the individual's social security number

Attributes of the HSA

- Triple Tax Free for Qualified Medical Expenses
- No Income Minimums or Limits
- No Phase Outs
- HSA Contributions are In Addition to 402(g) and 415(c) Limits
- No Required Minimum Distributions

- Distributions for Qualified Medical Expenses are Not Included in MAGI
- Decreases Employer and Employee Income & Payroll Tax Paid
- Savings from FICA or FUTA = 15.3% +
- Allows for Employer Contributions

HSA Eligibility

- Covered by a Consumer Driven Health Plan (HDHP)
- Not Covered by a Spouse's or Other Person's Non-Consumer Driven Health Plan

- Not Claimed as a Dependent on Another Person's Tax Return
- Not Covered by a Spouse's or Other Person's General Health Flexible Spending Account nor Health Reimbursement Account

Annual Limits: HSA & HDHP

	2016	2017	2018
Maximum HSA Contributions			
Individual	\$3,350	\$3,400	\$3,450
Family	\$6,750	\$6,750	\$6,900
Catch-up Contribution (Age 55+)	\$1,000	\$1,000	\$1,000
Add'l (Spouse) Catch-up Contribution*	\$1,000	\$1,000	\$1,000
Minimum Deductible (HDHP)**			
Individual	\$1,300	\$1,300	\$1,350
Family	\$2,600	\$2,600	\$2,700
Out-of-Pocket Maximum (HDHP)			
Individual	\$6,550	\$6,550	\$6,650
Family	\$13,100	\$13,100	\$13,300

^{*} Contribution must be made into a separate HSA

^{**} High Deductible Health Plan (HDHP)

HSA-Qualified Medical Expenses

Qualifie

- Qualified medical, prescription, dental and vision expenses (Listed in IRS 213(d) & 502)
- Medicare Expenses
- Long Term Care Premiums

- Medigap Premiums
- Cosmetic Surgery
- Funeral Expenses
- OTC Medicines
- Expenses not listed in IRS 213(d) and 502

Not Qualified

Items shown do not represent all HSA-qualified and non-qualified medical expenses. A full list is available at https://www.irs.gov/publications/p502.

HSA-Qualified Medical Expenses

- Acupuncture
- Ambulance Services
- Chiropractic Care
- Capital Expenses
- COBRA
- Dental Treatments
- Doctor Fees
- Eye Exams/Glasses
- Laboratory Fees

- Long-Term Care
- Nursing Homes
- Prescription Drugs
- Psychological/Psychiatric Care
- Surgery
- Vaccines
- X-Rays
- Medicare Deductibles,
 Premiums & Out-of-Pocket

Items shown do not represent all HSA-qualified and non-qualified medical expenses. A full list is available at https://www.irs.gov/publications/p502.

Triple Tax Free

An HSA is a powerful triple tax free financial tool that provides one with the opportunity to save for future medical expenses in retirement, while at the same time paying today's medical expenses tax free.

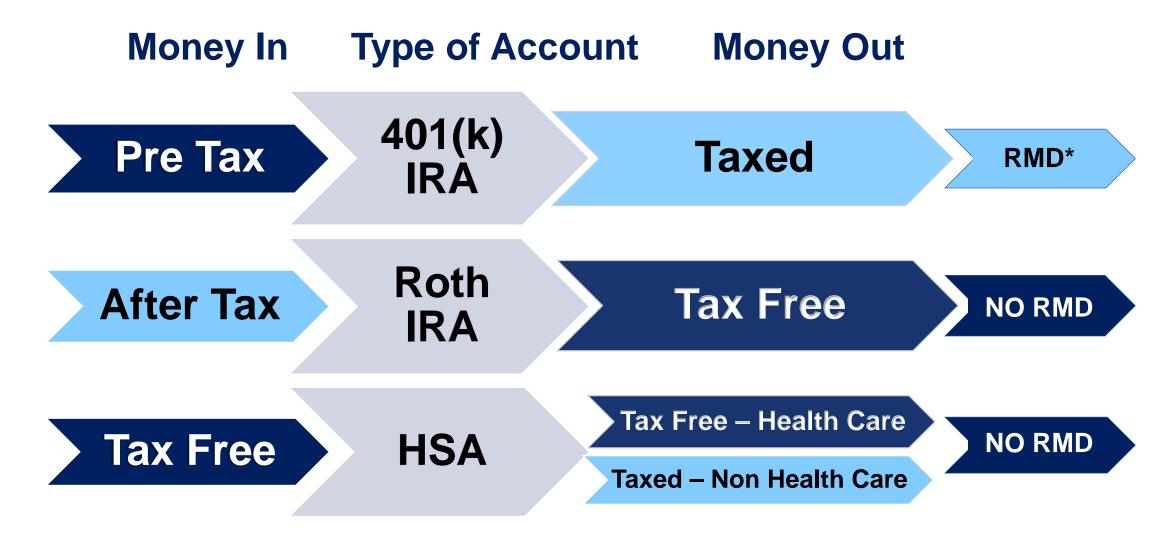


Investing involves market risk, including the possible loss of principal.

Life of an HSA Dollar

Balances used Withdrawals of AGE Contribution for qualified Non 213 (d) **ORDINARÝ** made pre tax or health care 65 directly after tax **INCOME &** expenses are TAX FREE 20% PENALTY

Tax Treatment Comparison



^{*} Required Minimum Distribution (RMD)

HSA v. FSA & HRA

	HSA	FSA	HRA
Contribution Limits ¹	\$3,450 / \$6,900 (Age 55+ - \$1,000 catch up)	\$2,650 / \$5,300	No Limit
Who Can Contribute?	Employer / Employee / Other	Employer / Employee (payroll deferral)	Employer
Who Owns It?	Employee	Employer	Employer
Investments	Yes, Tax Free	No	No
ERISA	No ²	Yes	Yes
Rollover	Yes – No Limits (Time or Money)	\$500 Max	Possible

^{1 2018} limits for individuals / families

² Generally an HSA is not covered under ERISA

Mobility of Assets with an HSA

TRANSFER

- Unlimited
 Trustee to
 Trustee over your lifetime
- The most efficient & preferred method
- One can select the provider of choice

ROLLOVER

- May be executed once per calendar year
- "60 Day Window" for funds to be re-deposited
- Penalty of Income taxPLUS 20% on Day 61

CONVERSION

- Allowed once per lifetime
- Conversion allowed only from one IRA account
- Individual must remain HSAeligible for 12 months after transfer or face tax + 10% penalty



Legacy Planning

At Death

- Payable on Death
- No penalty for death during testing period
- If no beneficiary named, consult will or applicable state law

Spouse

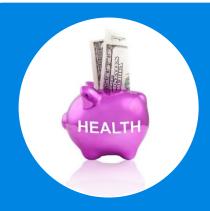
- At death HSA balance transfers to spouse
- Spouse now owns the HSA and all benefits /balances
- No excess contribution penalty

Nonspouse

- Not allowed use of the HSA
- Full distribution in the year of death
- Must pay income tax but NOT 20% penalty



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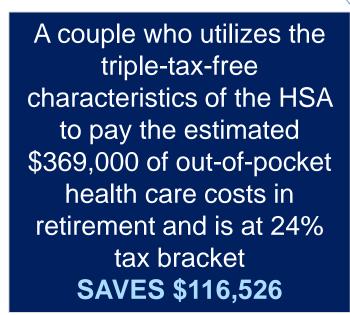


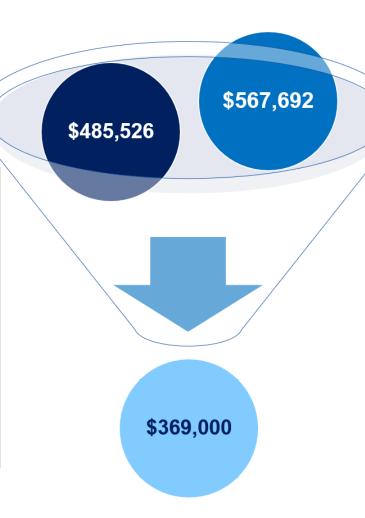
Health Savings Accounts



HSA Retirement Planning

Savings Efficiency



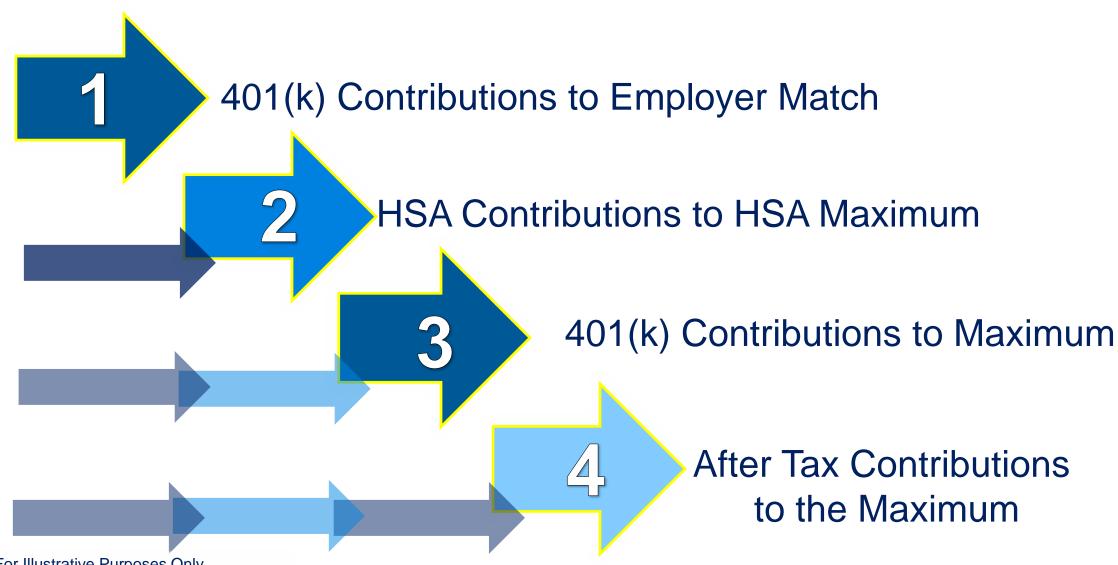


A couple who utilizes the triple-tax-free characteristics of the HSA to pay the estimated \$369,000 of out-of-pocket health care costs in retirement and is at 35% tax bracket SAVES \$198,692

For illustrative purposes only. Individual results could vary.

Federal tax laws are complex and subject to change. Neither Nationwide nor its representatives give legal or tax advice. Please consult with an attorney or tax advisor for answers to your specific questions.

Potential Flow of Assets in Accumulation



For Illustrative Purposes Only

Potential Alternative Contribution Model

Source of Funds	401(k) Contributions Only	401(k) & HSA Combination
Salary	\$65,000	\$65,000
10% Employee Savings	\$6,500	\$6,500
Employee 401(k) Contribution	\$6,500	\$3,900
Employer 401(k) Match ¹	\$1,950	\$1,950
Employee HSA Contribution	\$0	\$2,600
Employer HSA Contributions ²	\$0	\$1,300
Total with Average Employer HSA Contribution	\$8,450	\$9,750

¹ Employer Match of 50% of the employee contribution up to 6% in this example

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For Illustrative Purposes Only

² Assuming a 50% contribution in this scenario

Potential Flow of Assets in Distribution



For Illustrative Purposes Only

DC in Concert with the HSA

Defined Contribution Plans



Long-Term Mindset



Investment Oversight



Higher Contribution Limits



Lower Age Access to non HC Dollars

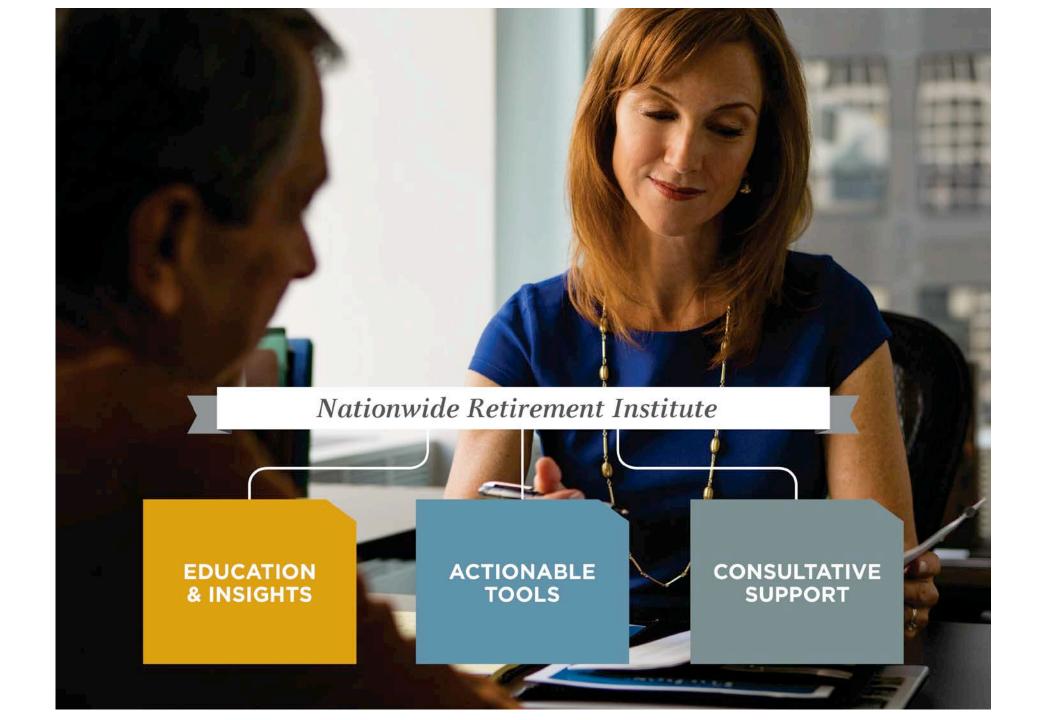
Health Savings Account











Intuitive Tools



The Nationwide Personalized Health Care Cost Assessment

- Powered by calculations from one of the world's leading actuarial firms
- Provides a personalized estimate of possible annual health care expenses
- Includes estimates for Medicare, out-of-pocket and long-term care expenses