Health to Wealth:
Millennials to Retirement

The Role of Consumer-Driven Health Care in Shaping a Generation for the Future
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>3</td>
</tr>
<tr>
<td>A Generational Understanding</td>
<td>4</td>
</tr>
<tr>
<td>The Millennial Struggle is Real</td>
<td>5</td>
</tr>
<tr>
<td>Hope...in the Form of a Health Savings Account</td>
<td>8</td>
</tr>
<tr>
<td>The Health Care Stack</td>
<td>11</td>
</tr>
<tr>
<td>Retirement Outlook</td>
<td>15</td>
</tr>
</tbody>
</table>
Despite financial struggles, the Millennial generation continues to place high values on technology and health. Having been born into innovation, Millennials feel the need to be connected to get information—everything from price comparisons, product reviews, peer opinion via social platforms and message boards, and even health options.

But the Millennial definition of “health” is different from past generations. This age band is a study in contradictions; for example, Millennials prioritize preventative measures such as nutrition and exercise, but are less inclined to commit to routine checkups or even establishing relationships with a primary physician.

Today, many work beyond age 65 and delay retirement to continue to receive employer-sponsored health insurance. Some say they will never retire. And Americans living longer, as studies are showing, mean more years of health care coverage and costs. Fast forward to...

Of more than 14,500 employees surveyed by ConnectYourCare, 63% indicated health care expenses (such as insurance premiums and prescription costs) as their primary concern is when it comes to retirement, over lifestyle expenses (paying for housing, vehicles, vacations, etc.)
A Generational Understanding

The journey to health care savings begins…

**Millennials (1980 – 1990s)**
- Largest living generation
- Live paycheck to paycheck
- Luxuries over practicalities
- Not a future planner – or investor
- Prioritize bank account over health care options
- Likely to enroll in High Deductible Health Plan (HDHP) for lower premium, but does not see long-term benefits

**Gen X (1965 – 1979)**
- Small but financially powerful generation – more spending power than any other generation
- First generation of true health care consumers
- Actively seek info and shop for care

45-year-old couple will require 116% of their Social Security to cover total health care costs in retirement

**Boomers (1946 – 1964)**
- 71 million boomers in 2029, huge demand on nation’s health care
- Retirement focused
- More frequent user of health care
- Trusts physician but researches options
- Lower adopter of new technology

55-year-old couple will require 88% of their Social Security to cover total health care costs in retirement

Whether new to the working world, looking to unwind from years of service, or already down the retirement road, no one is alone in trying to carve out savings for rising health care costs…

*Source: HealthView*
The Millennial Struggle is Real

Today’s economic landscape presents some very real, right-out-of-the-gate challenges to the Millennial generation. Sure, they’re considered the “most educated” generation of all time, but the intelligence isn’t necessarily bringing in the dollars and cents.

How does this translate for health care?

Medical care does not make the cut when it comes to top priorities for Millennials facing financial uncertainties. Let’s not mistake that with the importance of overall health and well-being, however; the generation believes there are more affordable opportunities for healthiness—“nutrition” and “preventive health measures” to name a few. “Eating right” and “exercising regularly” are popular nomenclature, far outweighing “not getting sick” and “regular health care appointments” when it comes to important components of well-being.
Gym memberships are also an integral part of the health and wellness perspective, while not always an affordable option. But keep in mind, Millennials will spend on luxuries that they come to trust—items that they believe in. A major component of this category is technology. Having been born into innovation, Millennials depend on technology—everything from the latest devices to social/peer-sharing platforms—to track things like training data and conduct online price comparisons for the healthiest foods.⁸

To sum this up, 35% of Millennials indicated physical health as their absolute top priority in a recent survey. But only 13% and 16% of Millennials surveyed considered obtaining affordable health insurance and access to quality health care as their highest priorities, respectively.⁹

Paradox...?
The ability to consume and review information from the convenience of a smartphone, tablet or laptop, coupled with financial struggles and rising health care costs, has rendered traditional health care a foreign concept for the Millennial generation.

As a result, Millennials have inevitably removed themselves from the “routine checkup.” Moreover, many Millennials do not have a personal relationship with their primary care physician\(^\text{11}\) (that is, if they even have a primary care doctor in the first place). This is in stark contrast to generations preceding them, who place a high value on customary physicals and the doctor-patient relationship.

\textbf{Many Millennials remain uninsured.} 34\% of younger Millennials and 27\% of older Millennials are uninsured — higher than the overall average of 25\%.\(^\text{10}\)

47\% of those who do not plan on having insurance in 2017 said being unable to afford insurance was the main reason.\(^\text{9}\)

About one in three Millennials say any monthly premium over $100 is unaffordable.\(^\text{9}\)

Around a quarter have not gathered information about health, health insurance, and health care providers in the past 12 months.\(^\text{9}\)
Hope...in the Form of a Health Savings Account

For the Millennials who are insured, there has been a major shift toward the less expensive HDHP to avoid high, upfront premiums.¹² (Most premiums saw a slight 5% increase over the course of a year; that rate exceeds average wage increases.) This HDHP adoption boost is mainly based around the notion of “give me the plan that will cost the least.”

But what is more cost prohibitive? The higher monthly premiums that come with a non-HDHP plan, or being hit with a high deductible as part of an HDHP? Safe to say a vast portion of the population, regardless of age, are not financially prepared for an unexpected medical expense—only 37% say they can afford to pay for a $1,000 emergency from their savings account¹³ – and that’s quite a burden to bear for the cash-strapped Millennial generation.

Fortunately, an HDHP can be paired with an underutilized savings tool that carries sky-high potential for stashing away tax-advantaged, interest-bearing funds for the future...
Critics have long argued that Health Savings Accounts (HSAs) are designed with the wealthy in mind—those whose incomes allow pre-tax contributions to build up year over year—but the latest data is proving otherwise.

Across the board, HSA contributions are up, but all ages saved less than allowable amount. Sure, Millennials are still the lowest contributors to HSAs when compared to other age groups (well under IRS limits), but what’s eye-opening is the fact that for 2017, Millennials increased their contributions at a higher rate than all other age groups. Case in point: the average 25-year-old employee is contributing approximately 20% more year over year.12

There is hope. And with the right balance of awareness and education from employers, Millennials will embrace the HSA as a vehicle for future savings, with a sound retirement strategy in mind.

20%

The average 25-year-old employee is contributing approximately 20% more year over year.12
Good Things Come in 3’s

The triple tax savings advantages of an HSA:

1. Contributions are tax-deductible.
2. Assets grow tax-free.
3. Distributions are tax-free for qualified medical expenses.
The Health Care Stack

Tax advantages from multiple accounts can add up, especially if employees maximize every benefit opportunity available to them. We call this the Health Care Stack.¹⁵

The Health Care Stack is all about understanding the near- and long-term financial benefits and savings one can achieve by leveraging certain tax-advantage savings accounts made available by the IRS.

Annual Contribution Limits on Tax-Advantaged Accounts
– Pre 50 (Family)

According to current IRS guidelines, the average American under the age of 50 could set aside up to $24,750 each year pre-tax for retirement to cover their health care and living expenses. Let’s look at how those savings stack up.

The Health Care Stack analysis illustrates the pre-tax dollars consumers can contribute for both their health and lifestyle expenses in retirement.
In addition to the long-term retirement goals, the yearly pre-tax savings may be even greater if notional accounts are factored in, with approved IRS limits of a $2,600 per year maximum for Flexible Spending Accounts, $5,000 per year maximum for Dependent Care FSA (also known as Dependent Care Assistance Program), and $6,120 per year maximum for commuter/parking reimbursement plans. This currently equals $38,470 of pre-tax contributions that consumers could save by offsetting the tax burden and could invest towards retirement.

For those consumers over the age of 50, the savings potential is even greater. They can make a post-retirement catch up contribution for their 401K plans, equaling a total of $24,000, plus take advantage of the $6,750 HSA savings and an additional $1,000 catch up. Across the board, pre-tax savings could be greater if the current administration passes legislation to increase the HSA contribution limits to match the maximum out-of-pocket expenses included in HDHPs. This allocation would not only cover average medical expenses, but also provide a triple-tax advantage for consumers from now through retirement.

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<th>HSA Contribution Limits</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td>Single contributor under age 55:</td>
<td>$3,400</td>
<td>$3,450</td>
</tr>
<tr>
<td>Single contributor age 55 and above: (inclusive of allowable $1,000 catch up)</td>
<td>$4,400</td>
<td>$4,450</td>
</tr>
<tr>
<td>Family coverage, contributor under age 55:</td>
<td>$6,750</td>
<td>$6,900</td>
</tr>
<tr>
<td>Family coverage, contributor age 55 and above: (inclusive of allowable $1,000 catch up)</td>
<td>$7,750</td>
<td>$7,900</td>
</tr>
<tr>
<td>HDHP out-of-pocket maximum, single coverage:</td>
<td>$6,550</td>
<td>$6,650</td>
</tr>
<tr>
<td>HDHP plan out-of-pocket maximum, family coverage:</td>
<td>$13,100</td>
<td>$13,300</td>
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Health and Wellness in the Moment: A Stepping Stone to Strategic Savings

While the Health Care Stack illustrates maximum contribution limits across health and lifestyle accounts, it can also serve as a foundational, real-time savings model for the Millennial generation.

The variety of pre-tax options available not only go a long way toward building a nest egg for the future, but allow for Millennials to truly afford—and embrace—present-day health care.

From the Millennial perspective, the Health Care Stack analysis demonstrates the following savings and investment opportunities:

1. A conservative-but-effective 401(k) contribution right out of the gates

2. An HSA to cover eligible medical expenses, pre-tax, with total ownership of the account and room to roll over unused funds year after year, for additional savings.

3. An HSA-compatible Flexible Spending Account (FSA) – If an individual maintains both an HSA and an FSA, then the FSA becomes “limited purpose,” meaning that it can be used to cover eligible dental and vision expenses only, albeit tax free. If an individual elects for an FSA without an HSA, they can use their annual pre-tax allotment to pay for a wide variety of eligible medical expenses, including many over-the-counter drugs, such as cold and allergy medicines, pain relievers and antacids.
Dependent Care – As Millennials plan for marriage and children, the dependent care tax break (pre-tax contributions of up to $5,000 per year) can certainly come in handy for eligible expenses like pre-school, daycare, before/after school programs, summer day camp, etc.

Commuter and Parking Programs – A Millennial can put pre-tax dollars toward work-related transportation and parking. By doing so, an individual can realize more than $1,300 in annual savings (assuming a combined tax rate of 30%). Eligible means of transportation include trains, buses, subways, ferries, bicycle, and vanpools (including Uber and Lyft vanpool transportation in major cities).
Retirement Outlook: HSAs Shaping the Way

With just the right amount of planning, the road to retirement can be stacked with pre-taxed benefits.

One of the main draws of an HSA is that it enables individuals and families to set pre-tax dollars aside—along with any employer contributions—to help offset high deductibles stemming from their current health plan. But more and more, HSAs are being recognized as a tax-advantaged way to save for health care costs in retirement.

As it stands, Millennial employees are predicted to be working into their 70s. When factoring in student loan debts, median starting salaries, and the rising costs of home ownership, they are putting less into savings. Additionally, they are more likely to keep their savings in cash value, as opposed to exploring investment opportunities.

By future-proofing funds in an HSA, however, individuals could theoretically save enough to meet their retirement investment needs by the age of 60 for both lifestyle and health care expense coverage, if they started making careful investments in their 20s (assuming the worker is making $50,000 per year with a 3% annual increase).

As earnings increase over time, so can contribution levels and investments, creating a financial cushion to cover individual and family medical expenses—and to enjoy life comfortably.

Investing for the Future

This following chart estimates HSA growth potential at different ages if an employee contributes $3,000 a year to their HSA each year until retirement, uses $1,500 a year for medical expenses, earns 6% a year in interest and investments, and reinvests all earnings. (Estimates do not include potential employer contributions.)

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<th>Starting Age</th>
<th>HSA Value at 65</th>
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<tr>
<td>25</td>
<td>$246,072</td>
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<tr>
<td>35</td>
<td>$125,703</td>
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<td>45</td>
<td>$58,489</td>
</tr>
<tr>
<td>55</td>
<td>$20,957</td>
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</tbody>
</table>
Reference List

4. “Student Debt Is About to Set Another Record, But the Picture Isn’t All Bad,” Wall Street Journal, May 2016.
8. “Millennials Coming of Age” (Infographic/Study), May 2016.
17. ConnectYourCare Calculator: HSA Growth Estimator. This calculator was created by ConnectYourCare to be illustrative of typical results of typical participants in similar type benefits programs, and does not take into account specific situations such as filing status or variances in state tax law. The accuracy of the results are predicated upon the input provided by the user, and as such, ConnectYourCare disclaims the accuracy of any results shown. This calculator is intended merely as a planning tool and is not meant as tax or investment advice.
About ConnectYourCare

As one of the largest and most responsive providers of health care savings accounts and award-winning solutions, our approach to consumer-directed health care is rooted in creating better, more efficient connections among the people who provide benefits, the people accessing services, and the people who deliver services. Blue chip organizations across the country turn to ConnectYourCare for our highly rated customer service and best-in-class member experience, advanced educational tools for better-informed choices, acceleration of savings with ROI efficiencies and simplification of processes with brilliant customer-focused solutions. There is a unique solution for every company and employee, and we won't stop working until we connect you with the perfect one. For more information, visit ConnectYourCare.com or follow us on Twitter @ConnectYourCare.

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