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Are High-Deductible Health Plans Right For Your Older Clients?

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Reaching age 55 appears to be a pivotal year when it comes to making critical decisions about finances, retirement planning and health care. Clients can see the future a little more clearly at this stage, and prospects for retirement are coming into sharper focus. Turning points often are the time when we help people with complicated decisions about their health-care insurance coverage. One trend we see receiving more consideration is the use of high-deductible health plans (HDHPs) across the insurance spectrum for those over 55 -- in employer-provided coverage, the Health Insurance Marketplace and Medicare.

Frequently paired with HDHPs are health savings accounts (HSAs) designed to ensure clients can meet their cost obligations now and manage their health-care costs in retirement.

Advent Of High-Deductible Plans

Employers and the passage of the Affordable Care Act already are changing the landscape for HDHPs. The amount of participating covered employees increased from 13 percent to 17 percent from 2010 to 2011, and reached 20 percent in 2014, according to the Kaiser Family Foundation's annual survey of employer health benefits. In comparison, only 4 percent of covered workers were enrolled in high-deductible plans in 2006.

While preferred provider organizations still make up the most common health insurance plan that employers offer to workers at 58 percent, high-deductible plans that have savings options have surpassed health maintenance organization (HMO) plans, which had 13 percent of the market in 2014.

At the same time Allsup's certified application counselors are helping individuals and their families evaluate the HDHPs they have on the Health Insurance Marketplace. A number of low-premium, high-deductible offerings in the bronze and silver categories are available on the exchanges and, of course, those younger than 30 have access to a high-deductible plan.

In addition, many Medicare-eligible seniors are considering high-deductible plans available in some states. One of the most popular supplemental plans, Medigap Plan F, now has a high-deductible option. Premiums for Medigap Plan F are lower with the high-deductible option, yet still offer full coverage post-deductible.

Savings Options With High-Deductible Health Plans

Employers may offer HDHPs with two forms of supplemental account: health reimbursement arrangements (HRAs) or health savings accounts (HSAs). Typically, an HRA is an employer-funded reimbursement plan that employees cannot take with them when they leave. An HSA may be funded by only the employee, or both the employer and employee, and it's generally portable. For the purposes of retirees examining their savings opportunities for retirement—our focus is on HSAs for a number of reasons.

Tax advantages for HSAs include that funds are deposited pretax, contributions are tax deductible and the deposit grows tax free in the account. Once needed, that money can be withdrawn tax-free for qualified medical expenses.

Many employers also contribute funds toward employees' HSAs. The average annual employer contribution in 2014 was \$769 for single coverage and \$1,347 for family coverage, according to Kaiser's Employer Health Benefits survey.

HSAs may be a method of funding some of your health-care costs in retirement. If someone age 55 contributed the maximum amount per year (\$3,350 in 2015), and the annual catch-up contribution (\$1,000), over 10 years and with an interest rate of 2 percent, they could amass more than \$50,000 over 10 years. This assumes funds weren't necessary for health expenses.

Medicare And HSAs

Funding an HSA is possible until someone enrolls in Medicare Part A. At that point, contributions no longer can be made, but those funds can be used to pay for qualified health-care costs that include Medicare expenses such as premiums, deductibles, coinsurance and co-pays. It's important to note that Medigap premiums are not considered qualified medical expenses for HSA funds.

Aging Into 50s And Health-Care Decisions

Many investors are already aware of the tax advantages of HSAs and how savvy use of this financial tool can help with retirement planning. The fumble more retirees make when transitioning from their 50s into their 60s is the health-care dilemma: What plan to choose? Even knowing the financial advantages of choosing a high-deductible health plan through an employer or the public marketplace does not mean that is the right plan for a person, whether or not he or she is gearing up to build their retirement stash.

Pressure is building on individuals to become more informed and navigate through the complexities of benefits like:

Social Security and decisions on when each spouse should take benefits,

The Health Insurance Marketplace and how to meet income rules for subsidies and tax credits, and

Medicare and choices about plan packages and costs, just to outline a few of the entanglements.

Financial advisors and their clients can gather a lot of detailed information but still experience the crisis of making the actual choices that are right for them. There may be one choice, or there may be several over a period of time and transition. Clearly, not everyone is going to be the right candidate for a high-deductible health plan. Some would argue that those age 55 and older may be a bad match for HDHPs and HSAs considering that this group accounts for more than 50 percent of the health-care spending in the U.S., according to Kaiser.

Income and health characteristics aren't the only elements that factor into this calculation. There may be concerns about health-care coverage for a spouse and dependents, tax implications of making certain decisions, and financial ramifications and penalties incurred with mistakes. The complexity of coordinating private-employer benefits and public-government benefits available to your clients and their families just adds to the opportunity for miscalculation.

Weighing Benefits and Disadvantages

Stepping in for a closer look at high-deductible health plans and HSAs alone illustrates the intricacies of this option, especially as Medicare eligibility approaches.

Timing is critical. Once you enroll in Medicare, you can no longer contribute to an HSA. But you may choose not to enroll in Medicare at 65 because you want to continue working. Variables here include when to stop your HSA contributions, how to coordinate your employer healthcare with Medicare, and when to take Social Security benefits (see No. 2).

Social Security benefits trump everything. Once you sign up for Social Security benefits, you automatically are enrolled in Medicare Part A. That means you can no longer contribute to an HSA. In addition, the Social Security Administration provides you with six months of back-pay on your retirement benefits, which could lead to tax penalties on your HSA contributions—unless you stopped those contributions six months ahead of your Medicare enrollment.

Consider your spouse's situation. If you continue to work but your spouse takes Medicare, he or she can use the funds from your HSA. If your spouse has been contributing to an HSA but is joining Medicare, you may still be able to use a high-deductible health plan but need to open an HSA in your name to contribute funds. Variables here include decisions about Medicare enrollment and the size of your employer (see No. 4).

Employers are still in the picture. You may continue working even when you are Medicare eligible, but if you have a small employer or their coverage is not creditable—that may limit your options to postpone Medicare.

Tax penalties to consider. The potential for tax penalties are numerous when charting muddy HSA, Social Security and Medicare waters. Qualified medical expenses can be withdrawn from HSAs until reaching age 65. At that point, there is no penalty to use your HSA funds for other expenses, like a second home in a warm weather locale. Those funds are subject to normal income tax. Other variables that could lead to penalties include timing retirement from your employer, ensuring you access your seven-month Medicare enrollment window, and prorating your HSA contributions correctly.

Financial advisors increasingly are navigating more elaborate rules and regulations that factor into retirement planning decisions. The health insurance world is changing rapidly, so it's important that financial advisors ensure they and their clients use these numerous alternatives and options to their benefit. Quite simply, it's becoming progressively more difficult to find a one-size-fits-all approach that is effective for every person. Individualized needs assessment and personalized evaluation are the new map for this terrain.

Mary Dale Walters is senior vice president of Allsup Inc. Allsup and its subsidiaries provide nationwide assistance for individuals and business navigating the complexities of private and public health insurance benefits before and after retirement. Financial advisors may contact (888) 220-9678 or visit FinancialAdvisor.Allsup.com for more information.

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