September 9, 2014

DOUBLE YOUR DC PLAN ASSETS & SOLVE THE CFO's BIGGEST PROBLEM

UNPRECEDENTED CHALLENGES, OPPORTUNITIES & SOLUTIONS

As noted in the recent CFDD Interview with Fiduciary News, the retirement plans industry is maturing and evolving. Needs, outcomes, priorities and pain points are all being redefined. While limiting liability and reducing administrative burdens are important drivers of growth,**nothing is more important to CFOs than controlling the escalating cost of health care**. This concern has elevated the importance of retirement readiness to a new level.

Workers at retirement age will total almost 70 million by 2020. To put this in perspective, note that the ten years ending 2020 will witness **a near doubling of the retirement age workforce**.

Due to rising costs and inadequate savings, **the percentage of retirement age workers planning to delay retirement has increased by almost 50%**.

The demographics, insufficient savings and rising cost of health care have created a toxic environment that threatens corporate competitiveness and viability, something CFOs are keenly aware of. At the same time, **the new dynamics provide an unprecedented opportunity for retirement plan advisors with a solution**.

In This Issue

Updates

In addition to the rising cost of overall health care, **the cost of health care for older workers is 3-4 times higher** than younger workers. As you can see, **there won't be an employer solution to the rising cost of health care until retirement age workers have the wherewithall to retire**.

As a major Win-Win situation, the differentiating solution will help:

- **Solve The Sponsor's Health Care Dilemma**
- **Increase Existing DC Plan Savings & Assets**
- **Foster Tax Advantaged Health Care Solutions, Savings & Investment**
- **Improve Retirement Plan Readiness At Two Levels**
- **Develop HSA Investment Opportunities**
- **Acquire New Retirement Plan Sales & Assets**

The HSA market is evolving, but given the opportunity, the CFDD will spearhead the solution and facilitate the early adopter advantage. Advisors don't have to become health plan experts to provide the solution, but **advisors without a solution to the rising cost of health care will NOT be able to compete**. Fidelity is gaining traction, but as with most new trends, the rest of the DC industry is behind the curve. You don't, however, have to be among them.

ADVISORS & HSA SOLUTIONS

To control the rising cost of health care, the use of High Deductible Health Plans (HDHPs) has increased significantly, including the ability to fund health care expenses on a tax-favored basis and accumulate tax-favored wealth in Health Savings Accounts (HSAs).

HDHPs provide big savings in health care premiums and upwards of a 10% reduction in employment taxes (FICA, FUTA & SUTA) on money contributed to HSAs via payroll deduction. Combining HDHPs with HSAs and other plan design strategies, advisors can **improve retirement readiness and outcomes at both the employer and employee level while adding value, differentiation and capturing plan sponsor attention in an unprecedented manner**.

Leveraging their unique background, retirement plan advisors could play an important HSA role, including implementation, education, communication, enrollment, analysis, strategy, plan design, investments and distribution.

To help determine what advisors need before and after the HSA sale, including sales, marketing, education, training, support, resources, integration, revenue tracking, reporting and compliance, **the CFDD is partnering with Health Savings Administrators and LeafHouse Financial Advisors**. While positioned as a plan level solution via payroll deduction, it is important to note that HSAs are individual accounts with assets held-away.

HDHPs residing with insurance carriers are subject to ERISA. However, based on FAB 2004-1 and 2006-02, the DOL concluded that**voluntary and individually held HSA accounts not controlled by the employer are not subject to ERISA**. HSA contributions and compensation are also not subject to 5500 reporting.

According to Marcia Wagner (Managing Director, The Wagner Law Group), "While HSAs are not traditional ERISA plans, disclosure rules, prohibited transactions, exemptions, plan documentation, revenue sharing parameters/legalities, appropriate investment of the HSA assets (IPS), VEBAs and compliance audits for Obamacare issues should be considered." As noted by Ms. Wagner, "HSAs present a unique opportunity for advisors to service clients while building the scope of their practice in other areas of employee benefit programs."

Formed in 1997, Health Savings Administrators is well positioned as the leading independent administrator of HSAs. Behind Fidelity, they appear to be the second largest investment HSA. Bluff Point Associates, the prior owner of Matrix and the current owner of fi 360, acquired Health Savings Administrators earlier this year.

Unlike their competitors, Health Savings Administrators is **positioning the HSA as a savings and investment vehicle rather than a transactional type of checking account**. In addition to targeting savers, they have changed their business model and are now seeking to distribute their open architecture program through retirement plan advisors, particularly those with their own investment solutions. Consistent with this initiative, they are building new tools, modules, upgrades and a new trading platform. While still under development, the firm can support RIAs and B-Ds today.

LeafHouse Financial Advisors is a fast growing Texas-based 3(38) focusing on the retirement plans business. While the firm manages about $500 million in legacy 3(38) business, they may be consulting on five times as much 3(38) business sold through advisors in their Retirement Advisor Management Partnership program (RAMP). Recognizing the HSA investment opportunity, the firm's RAMP partners include RIAs/IARs, registered reps, dually registered advisors, hybrid advisors and insurance/benefit brokers.

LeafHouse Financial Advisors and Asset Strategy Capital Partners (ASCP), a division of Asset Strategy Advisors, LLC, were the first advisory firms to become members of the CFDD's new HSA Investment Advisor Council's steering committee. As large RIAs looking to distribute through other advisors, both firms have developed their own investment strategies and support. ASCP's management also played a role in the recently launched Envestnet retirement plans initiative.

HSA INVESTMENT ADVISOR COUNCIL & NEW PRECONFERENCE PROGRAM

In conjunction with the expanding HSA role already referenced, the CFDD is developing an HSA Investment Advisor Council. Unlike the existing HSA Council which focuses on banks, insurers and technology firms, the HSA Investment Advisor Council will provide support **and guidance, including compliance, for retirement plan advisors seeking to develop new HSA business**.

Compliance guidance is particularly important and may require pioneering some new ground. To avoid jeopardizing the HSA's ERISA exemption, advisors need to be aware of the sponsor limitations on influencing investment decisions, employee behavior, endorsing HSA administrators and aggressive marketing.

To be successful and mitigate risk, advisors should also be aware of the welfare benefits and prohibited transaction rules applicable to health plans. From a value add standpoint, employee profiles and account holder metrics will be particularly important.

The first HSA Investment Advisor Council meeting will be held at the CFDD's October 15-17, 2014 Advisor Conference in San Antonio. To learn more about joining, becoming a steering committee member and new growth opportunities, email CFDD@TheCFDD.com.

The CFDD '14 agenda includes a breakout session on: *Turning Health Savings Accounts Into Tax-Free Retirement Plans*. Given the opportunity, we are organizing a second preconference program on HSAs. While the three back-to-back preconference sessions will focus on the employer, the participant and the advisor, the emphasis will be on the advisor's role and how to develop HSA business.

The preconference program will be populated by the CFDD, Health Savings Administrators, LeafHouse Financial Advisors, HSA Consulting Services and other key contributors. To register for CFDD '14 and see the shrinking silhouette of your competitors in the rear view mirror, click HERE.

A recent article by Morningstar, *An Overlooked Vehicle for Retirement Savings*, produced a long string of comments by individual advisors. HSA Administrators was mentioned favorably numerous times, but consistent with our own observations, **not one advisor picked up on the plan level sales opportunity**. They also confused their own individual HSA account with the HSA umbrella.

HSAs GROWING FAST

According to the Kaiser Family Foundation, the cost of employer-sponsored family health coverage exceeded $16,000 during 2013. Ignoring absenteeism and performance issues, the **health care cost for older employees can be 3-4 times higher than the cost for younger workers**.

Compared to a few years ago, the number of workers reaching retirement age will come close to doubling by the end of the decade. Given that a growing percentage of these older workers can't afford to retire, the increased healthcare costs facing employers without a solution is unnerving.

Looking for ways to reduce health care costs at the employer and employee level, companies are increasingly offering High-Deductible Health Plans (HDHPs) in conjunction with Health Savings Accounts (HSAs).

HDHPs are growing fast and many believe they will dominate the health care market in the years ahead. According to the *2014 Consumer & Employer Healthcare Benefits Survey* commissioned by Alegeus Technologies, 47 % of employers now offer HDHPs and 42% of those employers offer HSAs. When offered, **30% of the employee population enrolled in the HDHPs**. The HSA percentage uptake is, however, harder to determine.

The gap has narrowed in recent years, but in addition to the employment tax savings, these consumer-driven health plans are about **20% less costly than traditional plans**. Given that health care costs are rising much faster than the cost of living, this dynamic will become significant when the 40% excise tax on high value coverage kicks in during 2018, one of the top concerns associated with ACA implementation.

According to key mid-year findings by Devenir - an early investment advisor & consultant entrant to the HSA market - **HSA assets held by the top 100 providers reached $26 billion as of 6/30/14**, a 26% increase from the prior year. There are more than 2,000 HSA providers, but Devenir's "top one hundred" no doubt reflects 75% of the market.

Based on the mid-year data, **HSA accounts, not enrollees, rose to 11.8 million**, up 29% from the prior year. The year-end 2014 carry forward was estimated at $6.6 billion while the investment assets were estimated at $3.2 billion. The average "investment" account had a total balance (deposit & investment account) in excess of $12,000 and earned a 10.6% return over the trailing five year period.

Looking forward, Devenir predicted that **HSA accounts will grow to 20 million by the end of 2016 and assets will approach $40 billion**, including almost $7 billion in investment accounts.

HSA TAX ADVANTAGES

Offering immediate and long term advantages, HSAs are one of the best ways for eligible employees to prepare for the rising cost of health care. In addition to the lower premiums associated with HDHPs, HSAs allow users to fund the cost of health care services on a tax favored basis.

Annual HSA contributions for both employers and employees are currently capped at $3,300 for individuals and about $6,500 for families. Those over age 55 can make an additional $1,000 per year catch-up contribution. HSA contributions are generally made through payroll deduction, but they could also be funded with after-tax dollars and subsequently be taken as a personal tax reduction.

As noted, participants in HDHPs allow users to establish an "individual" tax-exempt trust or custodial HSA, including the ability to pay medical expenses on a tax favored basis. The savings can be used to pay current medical expenses or accumulate tax free and pay for qualifying medical expenses during retirement, including Medicare premiums.

Often called the "health care 401k," HSAs offer a triple tax-free retirement saving opportunity. Contributions are tax deductible, earnings are tax-deferred and **distributions used for qualified medical expenses are tax free**. Distributions used for non-qualified medical expenses would be subject to taxation and a 20% penalty if under age 65. Excess contributions could also be subject to taxation and a 6% yearly excise tax until the excess is removed. While state taxation varies, most follow the federal tax rules.

Account holders can **roll over** unused funds from year to year. The accounts are **portable** for those who change jobs and they **pass to spouses** without losing their fax-favored status. HSAs could also offer **investment flexibility** comparable to other retirement plans and **minimum distributions are not required**.

Funding health care cost on a tax-favored basis is extremely important because even without considering nursing home care, **health care will be one of the largest expenses incurred during retirement**, something many planners fail to consider. Given the triple tax advantage and no minimum distribution requirements, **HSAs may be a more advantageous way for some individuals to save for health care when compared to a 401(k)** or other retirement plans.

HSAs FUEL HIGHER DC PLAN SAVINGS

According to a news release, Fidelity administered 269,000 HSAs for over 100 companies at the end of 2013, a 48% increase from the prior year. Assets held in these HSAs totaled $653 million, a 39% increase from the prior year. Fidelity's program requires 500 HSA participants and the vast majority of their employer clients contribute to the HSA accounts.

Spanning incomes and age groups, Fidelity's *HSAs Help "Super Savers" Save Even More* notes that DC plan participants with HSAs save more than their peers. In addition to higher DC plan deferral rates, **overall DC plan account balances were almost twice as high for those contributing to both savings vehicles**.

Participants already on the path to retirement readiness use the complimentary vehicles to save even more in both their DC plan account and their HSA. These motivated and engaged savers have recognized and prioritized the HSA's health savings and investment components over the health spending account.

These savers have much higher DC plan and HSA account balances than other HSA account holders. HSA account balances vary by age and while they are relatively small for non-motivated savers, overall account balances have been increasing steadily. As the dollars gravitate towards investment options beyond cash, **motivated and engaged savers are in the crosshairs of those seeking to grow DC plan and HSA investment related assets**, including retirement plan advisors.

COMMUNICATIONS OR LACK THEREOF DRIVE HSA UPTAKE & USAGE

HSAs can only be offered in conjunction with HDHPs. Unfortunately, a large percentage of employees eligible for HDHPs don't understand their health plan options or HSAs. HSAs offer real value and based on numerous surveys, account holders are happy with them and plan to continue the arrangement.

Based on *Demystifying Health Savings Accounts*, a 2013 Fidelity/GfK survey of HSA attitudes, the findings confirmed that **HDHP enrollees - including HSA account holders - don't fully understand HSAs**.

The lower HDHP premiums, the carry over and the tax/financial incentives were generally recognized, but **account holders were far less certain about the long-term savings and investment potential offered by HSAs**.

On the positive side, the survey further noted that **more than 75% of the HSA account holders were likely to contribute more and invest the money if they thought it might provide a more secure retirement**.

While citing the lack of awareness and inertia as barriers, the findings confirmed that employers were the most trusted resource for making plan health care decisions. Multi-channel communication efforts were also recognized as having a major impact on employee attitudes and engagement.

Confirming the Fidelity study, the *2014 Consumer & Employer Healthcare Benefits Survey* noted that less than one-third of eligible employee had a good understanding of the different health plan types and HSAs. Undermining the value proposition, sixty percent didn't know HSA funds could be invested.

Based on both surveys, it is apparent that **employees eligible for HDHPs and HSAs want, need and deserve more and better communications about their health plan options and HSAs**.

DRIVING HSA OUTCOMES

Unknown to DC plan critics, advisors and the retirement plans industry have been the driving force behind positive outcomes and getting employees to make better 401(k) related decisions.

Driven by the rising cost of health care, demographics, an under-saved workforce and the ACA, employers are beginning to manage their health plans like their DC plans. **Intensified communications, incentives and the offloading of decision making as well as responsibility are all on the table.**As a key element fostering retirement readiness, HSAs are destined to play a much bigger role.

HSAs are approaching their tenth anniversary and while they have been successful, their impact on outcomes and retirement readiness has only just begun. As the most trusted source of information, **employers and advisors are in an advantageous positon to directly influence employee behavior**.

While administrators may have done an acceptable job with HSA administration, few have provided employers with advanced tools, information and analysis to further influence employee behavior. As noted by Roy Ramthun (HSA Consulting Services) in the *The Next Generation Of HSAs*, administrators are stepping up and starting to provide insight into account holder behavior.

According to Ramthun, differentiation will require deeper analysis and moving beyond the basics, but all administrators should be able to capture and report data on balances, contributions, withdrawals and most important of all, INVESTMENTS.

Critical to understanding employee behavior, data capabilities, reporting and analysis used to successfully influence behavior could prove quite distinguishing. Armed with this data, **advisors could facilitate combined 401(k) and health care retirement readiness while simultaneously providing a solution to one of the biggest concerns facing employers, the rising cost of health care for older workers who can't afford to retire**.

"While somewhat successful, the HSA industry has failed to market, target, communicate, educate, enroll and effectively highlight the investment potential of the accounts. As a result, plan level/open architecture HSAs offer retirement plan advisors an unprecedented opportunity to expand profitably, add value, meet client needs, drive multiple outcomes and marginalize competitors."

~ Phillip Chiricotti ~
President, CFDD

CFDD 2014 ADVISOR CONFERENCE

The CFDD's October 15-17, 2014 Advisor Conference, *Enhancing Margins, Enterprise Value & Motivating Plan Sponsors To Implement Your Recommendations*, is a premier education and networking event for the retirement plans advisory industry.

Known as the *King of Content*, the CFDD's broad, diverse and bottom-up agenda remains at the top of the food chain. Our ***sixty* plus different breakout sessions** are populated by the industry's most sought after speakers and accomplished advisors.

When compared to other retirement plan events, CFDD '14 offers **MORE content, BETTER content, MORE CE (including *Ethics*), MORE value, an IDEAL networking environment and LESS cost**. There is no substitute for cost effective networking with the elite and more than 1,000 retirement plan specialists will attend.

To increase your efficiency, the CFDD provides **a single source solution for unmatched core CE credits**, including IMCA, CFP, fi360, ASPPA, NIPA, IBF, CFA, SPARK, The American College, the College for Financial Planning and more.

The IMCA has accepted CFDD '14 for **20 hours** of CE credit towards the CIMA®, CIMC® and CPWA® certifications. Up to **30 hours** of CE applies to the CFP® designation. Both the CFP and IMCA credits include hard to get ***Ethics*** approved CE. **21 hours** of

CPE credits are also pending.

Attendees may also earn the AIF designation onsite and at a discount. For those already holding the AIF designations, CFDD '14 will provide 2-4 hours of non-fi360 produced CE.

Up to 15 hours of non-**ASPPA** produced CE will apply to all their designations, including *Ethics* Additionally, **insurance** and **legal**CE will be available for Texas-based professionals.

To facilitate growth, the PRI led Preconference Workshop on turning *Regulatory Challenges Into Opportunities* will **team proficiency training with advanced resources.**

In addition to early registration discounts, team member discounts and **FREE spousal attendance**, attendees benefit from a fiduciary insurance discount program, a conference CD-ROM and online access to the Conference Resource Library of all prior conference presentations, including the audio files.

Hosted at the AAA Four-Diamond Grand Hyatt San Antonio River Walk hotel, world class restaurants, nightlife, shopping, ambiance, hospitality, culture and history await registrants. In addition to a competitive $209 double occupancy rate (no additional cost for children), **FREE** internet and **FREE** health club, your entertainment dollars go further in San Antonio. The venue also includes **FREE**wireless in the meeting rooms, a charging station, a mobile app and excellent cell phone reception.

Complimentary food, beverages, snacks, cocktails and a Kick-Off Party are all included. After an intense 12 hour day of content, the**FUN** networking environment will include El Floridita Rum Bars, cigar rolling stations, Cuban music, hospitality cigar girls and aGrand Prize Fishing Trip to the Baja.

To **grow, enhance margins, earn your CE, develop your staff and monetize your practice**, click HERE to register now. For more information on the conference, visit the conference homepage at http://www.thecfdd.com/CFDDconference2014.

The CFDD's twice monthly email newsletter reaches a targeted audience of over 25,000 retirement plan professionals. To **leverage the industry's most powerful database of retirement plan specialists**, email CFDD@TheCFDD.com.