# Retiree health savings

## Addressing workforce challenges and employee concerns

Healthcare costs in retirement are a top concern for Americans. Unfortunately, overall employer benefit offerings haven't kept pace with employee and retiree needs.

### Current challenges

Employer retiree healthcare coverage has declined over the past several decades. Many employers believe that addressing employee retiree healthcare costs is too expensive and doesn't effectively address the challenge. Others consider offering a health savings account (HSA) tied to their high deductible health plan (HDHP) to be a solution for retiree medical expenses. While HSAs are effective at helping employees pay for ongoing healthcare expenses, they weren't designed as long-term savings vehicles and account holders typically don't use them in that manner.

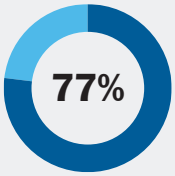
### Taking action

Significant retiree health costs could result in your employees postponing retirement or running out of money when they retire. You can assist them by pursuing a total benefits approach that complements existing retirement plans and accounts for your organization's financial situation. That means making the most of total benefit dollars spent and available tax savings incentives.

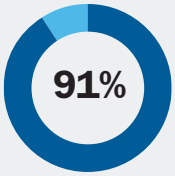
Offering a defined contribution (DC) retirement healthcare approach helps take care of your employees and enhances your workforce strategy and benefits offer. DC retirement healthcare savings plans can help:

- **Manage** your total compensation and health insurance costs
- **Strengthen** your workforce strategy
- **Improve** employee retirement readiness
- **Design** more effective key employee compensation packages
- **Manage** unfunded defined benefit (DB) retiree health legacy promises

### Costs are a concern




**of Americans** say they are concerned about retirement healthcare costs.[1]




**of plan sponsors** say that rising healthcare costs are a significant concern for retirement security.[2]

**Significant retiree health costs**[3]

**$296,000**

Amount needed for a 65-year old couple today to cover out-of-pocket retirement healthcare expenses in retirement.

# How addressing retiree healthcare can benefit employers

### Manage your total compensation and health insurance costs

Long-time workers' contributions are important to helping organizations meet their objectives. But, workers approaching or bypassing the traditional retirement age typically earn more and drive higher overall health insurance costs than younger employees. While it's important to consider other variables beyond health costs when evaluating an employee's benefit to an organization, employers could experience greater costs due to workers delaying retirement. In fact, research shows that employers face an additional $10,000 to $50,000 in costs for every year an employee who would like to retire delays retirement for financial reasons.[4]

### Strengthen your workforce strategy

Employees postponing their retirement date to save more and remain covered by their employer's health plan may affect your ability to recruit and retain talented employees. Employees delaying retirement could result in fewer advancement opportunities for younger workers and stall workforce renewal. Retiree healthcare solutions can help address these issues while also creating a differentiated and competitive employee benefits package.

### Improve employee retirement readiness

Many Americans are ill-prepared for retiree healthcare expenses and are under the false impression that Medicare covers most of these costs. Retirees paying for medical expenses could run through their savings faster than expected and outlive their retirement savings. Without employer-sponsored retiree health benefits, employees bear the full burden of saving for future health expenses and might not be saving enough to account for out-of-pocket healthcare costs.

### Design more effective key employee compensation packages

Attracting and retaining key employees can be highly competitive. Executive benefits are an important way for employers to stand out and provide retirement-focused solutions for targeted employees. Specifically, executive healthcare benefits offer features—such as coverage requirements, asset or account ownership and unlimited contribution opportunities—that are of value to both the employer and targeted employees.

### Manage unfunded DB retiree health legacy promises

Fewer employers today offer defined benefit retiree healthcare plans, but for those that still do, they may find it difficult to manage significant accounting liabilities. Changes in demographics, healthcare inflation and accounting standards are making it more costly to continue offering these plans. One potential solution would be to wind down existing DB plans and replace them with a more cost-effective DC approach. DB plan savings could potentially fund a new DC solution while maintaining or potentially reducing existing costs.

## Exploring a defined contribution approach

A DC approach—such as the TIAA Retirement Healthcare Savings Program (RHSP)—can help address both your institution's financial concerns and your employees' needs. It allows employees to save for retirement healthcare expenses, while you maintain control over institutional costs. Encouraging employees to think about and plan for growing retiree healthcare expenses early can help them approach retirement with greater confidence. Planning for healthcare costs in retirement should be part of a comprehensive health and wealth strategy—one that helps employees pursue a sense of financial well-being and puts them in a better position to pay for retiree expenses.

## Benefits of a DC retiree health approach

### Control costs

- Employers decide how much they contribute
- Costs are realized today, without future liabilities
- Reduce or eliminate DB benefit liabilities and financial statement requirements

### Drive timely retirements

- Improves likelihood that employees will reach retirement with adequate savings for retiree healthcare expenses
- Helps reduce concerns over losing employer healthcare coverage

### Maximize compensation costs

- Triple tax benefits
  - Employer contributions are made tax free
  - Earnings grow tax free
  - Distributions are tax free
- Depending on employee's tax-bracket, may be able to stretch benefits dollars by up to 33%[5]

### Enhance employment offer

- Complements existing retirement plan solutions offered
- More competitive benefits offer supports employee recruitment and retention efforts

## Not all defined contribution health accounts are the same

Many employers are already moving towards DC-like approaches to healthcare benefits for active employees with HDHPs and HSAs, and, in some cases, health reimbursement accounts (HRAs).

While HSAs and HRAs are effective tools for delivering health benefits for active employees, they fall short of meeting health costs in retirement. For example, employers offering HSAs don't have the flexibility to set vesting requirements and restrict distributions to retirement years. As a result, most HSA account holders spend their balance each year making it difficult to accumulate savings for retirement.

Integrating the RHSP into your retirement and health benefit delivery strategy makes it possible to take a similar DC approach to help employees plan for—and pay for—healthcare expenses in retirement. It can provide employees with funds to help pay for their retiree healthcare costs without adding unnecessary cost or complication to your institution's balance sheet.

Adding a retiree health benefit doesn't have to mean increased costs. Taking a total benefits approach could yield the necessary funding to support a RHSP offering.

### Evaluating your options

The following checklist offers five steps to consider when assessing retiree healthcare solutions.

- ☐ **Understand your employee demographics and how they affect your organization.**
  - Retiree healthcare costs could be contributing to employees delaying retirement.
- ☐ **Take a comprehensive look at employee retirement readiness**
  - Participant retirement savings may not be accounting for out-of-pocket healthcare costs.
- ☐ **Re-visit your current retiree healthcare benefits.**
  - Evaluate not just the financial impact of these solutions but also their effectiveness.
- ☐ **Take a total benefits approach to manage costs and deliver value to your employees.**
  - Taking a total benefits approach can help you minimize your liabilities while maximizing your total benefits spend.
  - Cost savings in one benefits area could help fund new retiree healthcare solutions.
- ☐ **Explore retiree healthcare solutions that meet your organization's needs.**
  - Consider their cost, effectiveness, ease of administration and how they may affect your workforce renewal strategy.

## Balancing what's best for your institution and employees

Healthcare is one of the largest expenses retirees may face as they get older, and it can have a significant impact on their savings. The sooner workers begin planning for retiree healthcare, the more manageable those future costs can be. By taking a comprehensive view of your benefits, you can provide an effective retiree healthcare solution for your employees while addressing other benefit and workforce related issues.

## Next steps

To learn more about how a RHSP can be an effective complement to an existing retirement offering and an important part of a workforce recruitment, retention and renewal strategy you can:

- Contact your relationship manager
- Visit us at **tiaa.org/retireehealth**
- Call us at **844-NEW-TIAA (844-639-8422)**

[1] 2017 TIAA Lifetime Income Survey

[2] 2018 TIAA Plan Sponsor Retirement Survey

[3] EBRI Issue Brief, October 8, 2018, No. 460. National average. Savings needed for Medigap Plan F premiums, Medicare Part B premiums and out-of-pocket (median) drug expenses. Does not include long-term care. A couple with a goal of having a 90% chance of having enough savings to cover healthcare expenses in retirement needs $296,000.

[4] Society of Actuaries: Risk & Rewards, Gregory Ward, Calculating ROI: Measuring the Benefits of Workplace Financial Wellness, August 2017.

[5] Assumes a 25% combined federal plus state income tax rate.



BUILT TO PERFORM.

CREATED TO SERVE.

698143

1104600
(1/19)