



OppenheimerFunds®

The Right Way
to Invest

Why We Believe Plan Sponsors Should Consider Health Savings Accounts (HSAs)

Presenter's Name

Presenter's Title

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Presenter's Name

Presenter's Title

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Healthcare Costs May Pose a Challenge To Retirement Planning

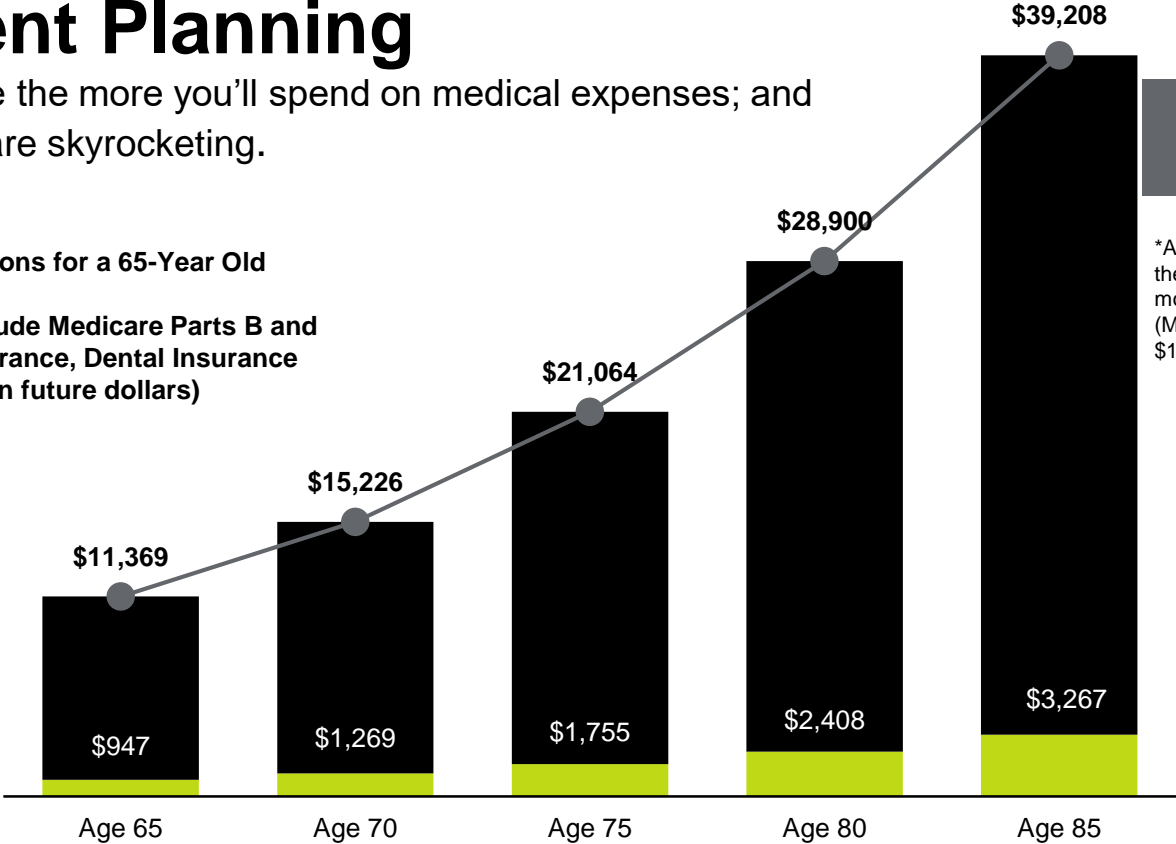
The longer you live the more you'll spend on medical expenses; and health care costs are skyrocketing.

Healthcare Cost Projections for a 65-Year Old Couple*1

- Healthcare costs include Medicare Parts B and D, Supplemental Insurance, Dental Insurance and Out-of-Pockets (in future dollars)



Annual Costs
Monthly Costs



\$607,662
Overall Costs
(to age 87)

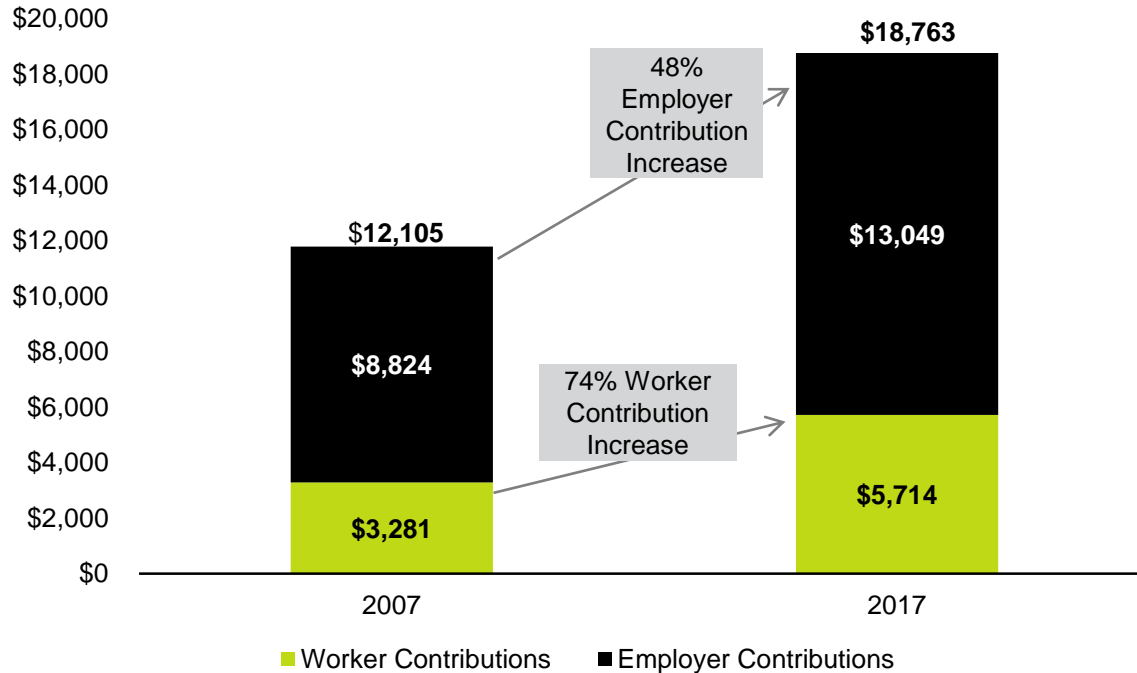
*Assumes life expectancy of 87 for the male, 89 for the female, and a modified adjusted gross income (MAGI) income level below \$170,000.

Sources:
1. Healthview Services: 2017 Retirement Health Care Cost Data Report.



What's It Costing the Average Worker???

Average Annual Health Insurance Premiums and Worker Contributions for Family Coverage, 2007 - 2017



74% **Increase**

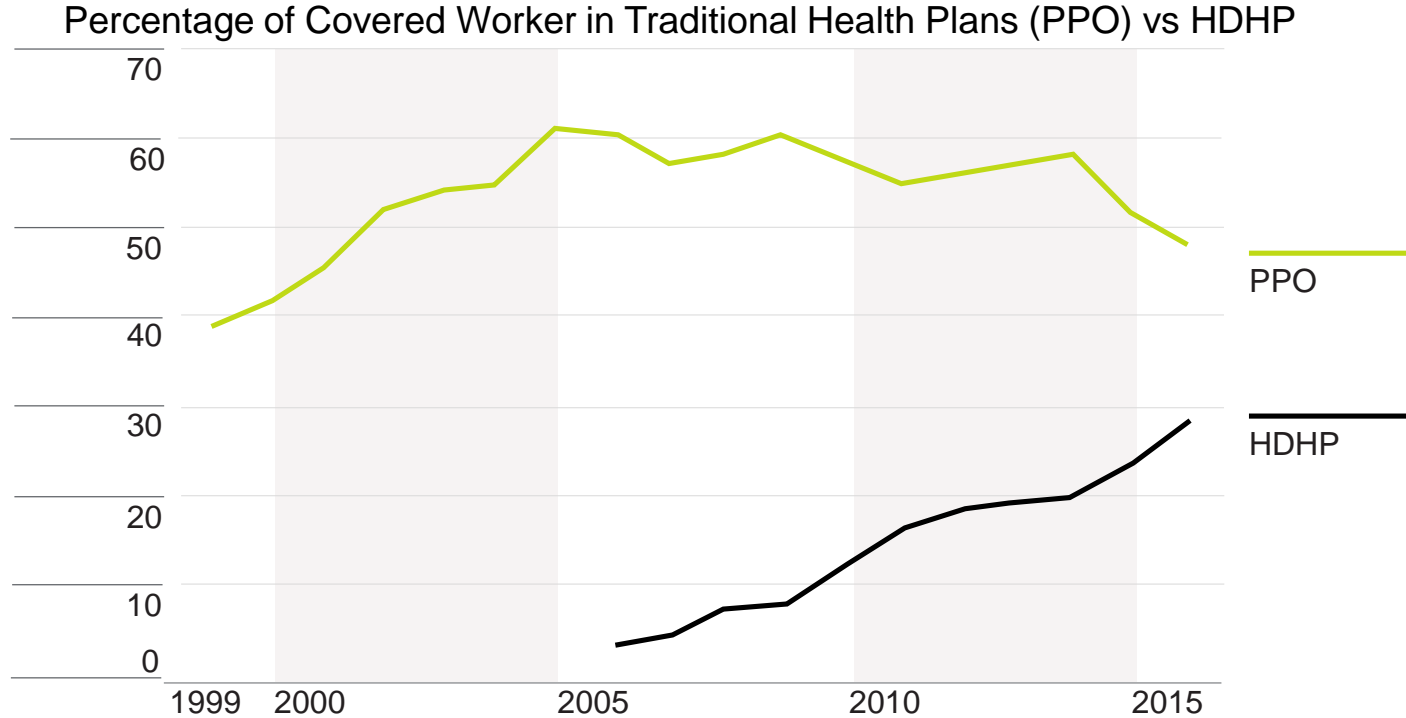
An employee with family coverage is paying approximately **\$2,400 more** now than 10 years ago for the same healthcare coverage.

Source:
Kaiser/HRET Survey of Employer Sponsored Health Benefits, 2007-2017.



Rising Popularity of HDHPs

The first High Deductible Health Plans (HDHPs) began in 2003 but now almost 1/3rd of covered workers are enrolled in them.



Source: Kaiser Family Foundation Employer Health Benefits 2016 Annual Survey



Agenda

- Healthcare Today
- What Are Health Savings Accounts (HSAs)?
- Changing The Way Employees Utilize HSAs
- Why We Believe Plan Sponsors Should Consider HSAs



Healthcare Today



A Brief History of Healthcare



1920s-

- American's pay their own way
- Certain "dangerous" professions had company doctors

1942-

- Stabilization Act of 1942 provides tax break for health benefits



1965-

- President Lyndon Johnson created Medicare and Medicaid systems

1990s-

- President Clinton promotes Health Security Act
- HMOs are born
- 'Patient's Bill Of Rights'



2006

- The Tax Relief and Healthcare Act enhance HSAs boosting their popularity

2017-2018

- New Healthcare Bill???
- Tax Reform???
- DOL Fiduciary Rule includes HSAs



1935-

- FDR enacts Social Security; it does not include medical benefits



1950s-

- Healthcare expands with vision and dental care benefits



1970s-

- Watergate scandal overshadows any attempt at healthcare reform



2003-

- HSAs are born

2010-

- Patient Protection and Affordable Care Act



Sources: Social Security.gov
Kaiser Family Foundation
OppenheimerFunds, Inc. 2018



Healthcare Now

- National healthcare spending growth exceeds gross domestic product (GDP) growth by about 1.2%
- Projected growth of national health spending as a percentage of GDP to rise from 17.8% in 2015 to 19.9% in 2025
- Employees and retirees are beginning to see an erosion of benefits in the form of higher co-payments, insurance premiums and deductibles



Healthcare Inflation Outpacing Social Security COLA

Case Study:

In this example we see a 66-year-old couple using Social Security as the sole source to pay health care costs. The chart shows that because of health care inflation, the amount spent on health care steadily erodes remaining income—40% of the couple's total Social Security income at age 70 – and up to 75% per year by age 87.



Retirees who intend to use their Social Security income to pay for all health care costs should be aware that healthcare inflation will erode their social security checks.

ANNUAL PROJECTED COSTS VS. SOCIAL SECURITY COLAS (In Future Dollars Based on Social Security Trustee Projection for Annual COLA Increase)*

Age	Annual Health Care Costs ** (In Future Dollars)	Social Security	Annual Difference	Percent of Social Security Dedicated to Health Care Costs
70	\$13,944	\$34,464	\$20,520	40%
75	\$19,291	\$39,375	\$20,084	49%
80	\$26,429	\$44,986	\$18,557	59%
85	\$35,808	\$51,395	\$15,587	70%
87	\$40,458	\$54,208	\$13,750	75%

*Data is based on this couple optimizing Social Security benefits at their full retirement age.

**Annual Health Care Costs include Medicare Parts B, D, Supplemental Insurance, Dental Insurance and Out-of-Pockets (in future dollars)



Resuscitating An Ailing Healthcare System

- Consumer-driven healthcare can disrupt the spiraling cost cycle
 - Increases consumer awareness of cost and quality of healthcare
 - Provides consumers with greater control over personal health management
- A high deductible health plan (HDHP) is key to this approach.
 - A Health Savings Account (HSA) is a key component to HDHPs



Traditional HMO vs HDHP

Traditional Health Insurance Plan (HMO and PPO):

- Plan helps you pay doctor's bills, lab tests, prescriptions from ***day one***
- There may be an initial deductible to be met but it is usually lower
- Patient is responsible for co-pay

High Deductible Health Plan:

- Patient must meet a high deductible before insurance will start to pay for doctor's visits, lab tests and prescriptions. The exception is for preventive care services which are usually covered in full starting on the first day of coverage.
- Once the deductible is met, insurance will pay all or a portion of covered expenses until the out-of-pocket maximum is reached. Insurance will then pay 100% of expenses.
- You can only obtain an HSA if you have a HDHP. HDHP sometimes offer HSAs.



What are HSAs?



Account and Investment Types

- A Health Savings Account (HSA) is a tax-exempt trust or custodial account that is set up with a qualified HSA trustee
- A qualified HSA trustee can be a bank, an insurance company, or anyone approved by the IRS to be a trustee of individual retirement arrangements (IRAs) or Archer MSAs
- A HSA can be established through a trustee that is different from your health plan provider
- Depending on the HSA platform, the account owner can invest in different types of securities, including mutual funds, stocks, and bonds



Tip: You don't need to go to a bank for a HSA. You can access a HSA through other providers/platforms that offer first-dollar investing on several investment fund options.



HSAs Are Not The Same As FSAs

	HSA (Health Savings Accounts)	FSA (Healthcare Flexible Spending Accounts)
Pre-tax Contribution	Yes	Yes
2018 Limit	Individual \$3,450 Family: \$6,850	\$2,650
How to Qualify	Must have a HDHP. You do not need to use your company's HSA	Employer established, however, no restrictions on the type of health insurance plan you use
Catch-up contributions	Yes, up to \$1,000 if age 55+	No
Investment Types	Can be in a bank, trust or custodial account. Investments can also be in a variety of securities including stocks, bonds, and mutual funds	Savings account
Portability/ Rollover options	Assets roll over from year-to-year. Assets are portable. You can take it with you when you change jobs.	No portability or rollover options. "Use or lose" by year end.



Qualifying for an HSA

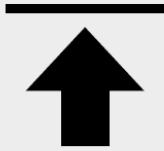
To be an eligible individual and qualify for an HSA, you must meet the following requirements:

- You are covered under a high deductible health plan (HDHP)
- You have no other health coverage (excluding: accidents, disability, dental care, vision care, or long-term care)
- You aren't enrolled in Medicare
- You can't be claimed as a dependent on someone else's 2017 tax return



Vital Stats on HSAs

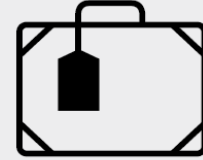
HSA advantages



HSAs do not raise the cap on tax-deferred savings.



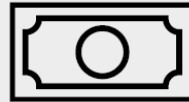
No time limit for using the money.



HSAs are portable.

3x

Triple tax break when paired with high-deductible health insurance policies.



HSA funds may be invested in cash, mutual funds or other investments.



Tax-free withdrawals for medical expenses.

* At age 65, HSAs can be used to pay for Medicare parts B, D and Medicare HMO premiums tax and penalty free. You cannot use HSAs to pay for Medigap insurance premiums.



HSAs vs Everything Else...

HSAs offer greater tax benefits compared to other tax advantaged savings vehicles

Comparison of tax benefits

Savings Vehicles	Tax-free contributions	Tax-free earnings	Tax-deferred earnings	Tax-free distributions ¹
HSAs	✓	✓		✓
401(k)	✓		✓	
403(b)	✓		✓	
Traditional IRA	✓		✓	
Roth IRA		✓		✓
Qualified Deferred Annuity	✓		✓	
Qualified Immediate Annuity	✓			

1. HSA distributions are taxed if:

- the account owner is under 65 and takes withdrawals for non-medical expenses. In addition to the tax, the account owner is subject to a 20% penalty fee; and
- the account owner is 65 and withdraws money to pay for non-medical expenses. The funds will be taxed as income.



HSAs: Fund Future Healthcare Expenses Now

HSAs allow individuals to pay for qualified out-of-pocket medical expenses using pre-tax dollars

HSA Contribution and Out-of-Pocket Limits	2018
HSA Contribution limit (employer + employee)	Individual: \$3,450 Family: \$6,850
HSA catch-up contributions (age 55 or older)*	\$1,000
High-Deductible Health Plans (HDHP) minimum deductibles	Individual: \$1,350 Family: \$2,700
HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts but not premiums)	Individual: \$6,650 Family: \$13,300

*Catch-up contributions can be made any time during the year in which the HSA participant turns age 55. Unlike other limits, the HSA catch-up contribution amount is not indexed; any increase would require statutory change.



HSA Caution Flags



Contributions not allowed after account owner enrolls in Medicare.



Withdrawals for non-medical expenses taxed as income after age 65.



20% penalty AND income taxes owed on withdrawals for non-medical expenses prior to age 65.



HSA Beneficiary: Beware The Tax Consequences

Tax rules differ depending on who you name as a beneficiary.



Your spouse is a beneficiary

- Spouse can maintain HSA in their own name
- Access funds for qualified medical expenses tax free
- Spouse does not need to have HDHP (high deductible health plan)



Your child is a beneficiary

- Your HSA is liquidated and the account value becomes taxable within the year of your death. This could be a significant tax liability.
- The taxable amount can be reduced if your beneficiary pays for any remaining qualified medical expenses of deceased HSA owner within one year of the date of death



Your estate is the beneficiary

- Your HSA is liquidated and total distribution is included on the deceased HSA owner's final tax return.



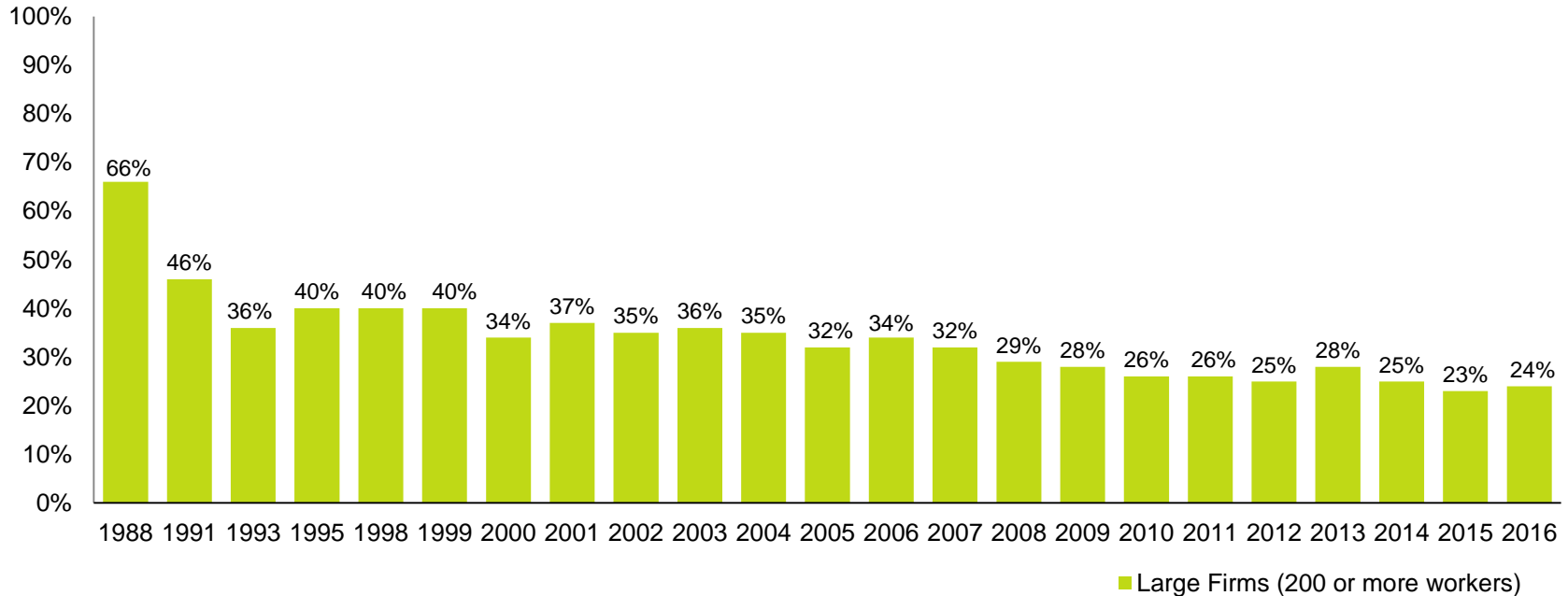
Changing The Way Employees Utilize HSAs



Eroding Benefits

Large companies are also reducing retiree health benefits.

Among Large Firms Offering Health Benefits to Active Workers, Percentage of Firms Offering Retiree Health Benefits 1988-2016



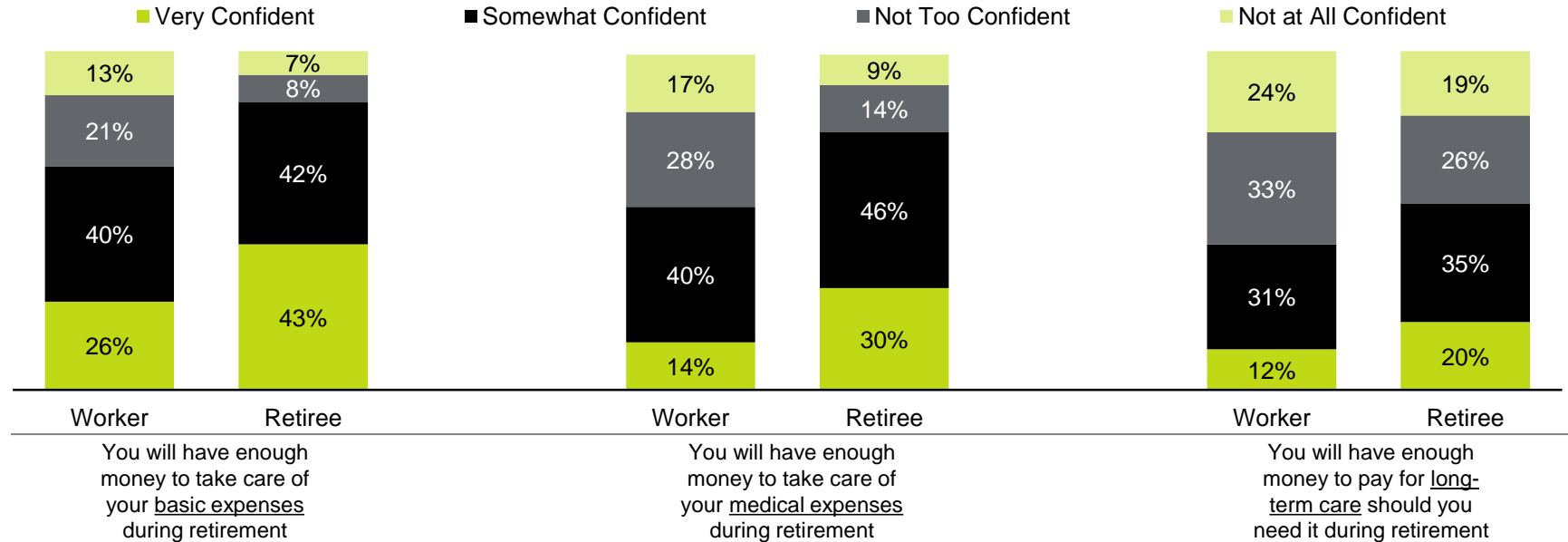
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2016; KPMG Survey of Employer-Sponsored Health Benefits, 1991, 1993, 1995, 1998; The Health Insurance Association of America (HIAA), 1988.



Confidence Levels Are Down

American workers believe healthcare expenses in retirement are a major obstacle.

45% of survey respondents say they are **NOT** confident they will have enough money for medical expenses in retirement



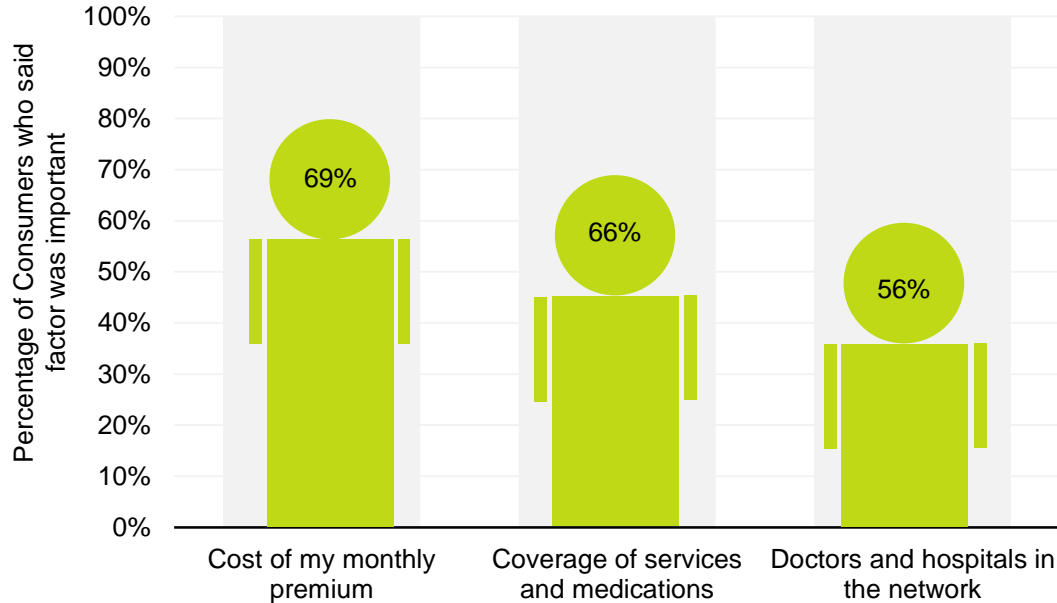
Source: EBRI No 431, March 21, 2017: The 2017 Retirement Confidence Survey



Confidence Levels are Down

Under any healthcare reform, consumers, care most about their premiums

Consumers pointed to the cost of their monthly premium, coverage of services and medications, and provider network as their most important considerations when choosing a plan from a health insurance company.



Source: PwC Health Research Institute Consumer Survey, 2016



Calculating Retirement Income Using A Typical Income Replacement Ratio Might Not Be Enough

- Typical formula uses 70% to 80% of salary to meet retirement income replacement needs
- “Salary” is most often defined as employees’ gross-pay
- It does NOT factor Employer’s contribution to healthcare costs.
 - Employers typically pay up to 75% of health insurance while employees pay up to 25%
- In retirement, employee generally pays 100% of healthcare costs (unless they have Retiree Medical)



Medicare Doesn't Cover Everything...

What you can use HSA dollars for...

- Eye examinations for the purpose of prescribing, fitting, or changing eyeglasses
- Eyeglasses and contact lenses (exceptions apply if items are required after cataract surgery)
- Examinations for hearing aids
- Hearing aids
- Dental care (i.e. the treatment, filling, removal, or replacement of teeth or structures supporting the teeth are not covered)



Medicare Costs Are Increasing

- Medicare Part B premiums is going to cost an average of \$1,608 per person/year (Standard for 2017 Medicare enrollees; can go as high as \$5,143 depending on your tier)¹
- On average Medicare only covers 62% of healthcare expenses in retirement²
- Policies to cover Medicare gaps (deductibles, copays) are an additional cost

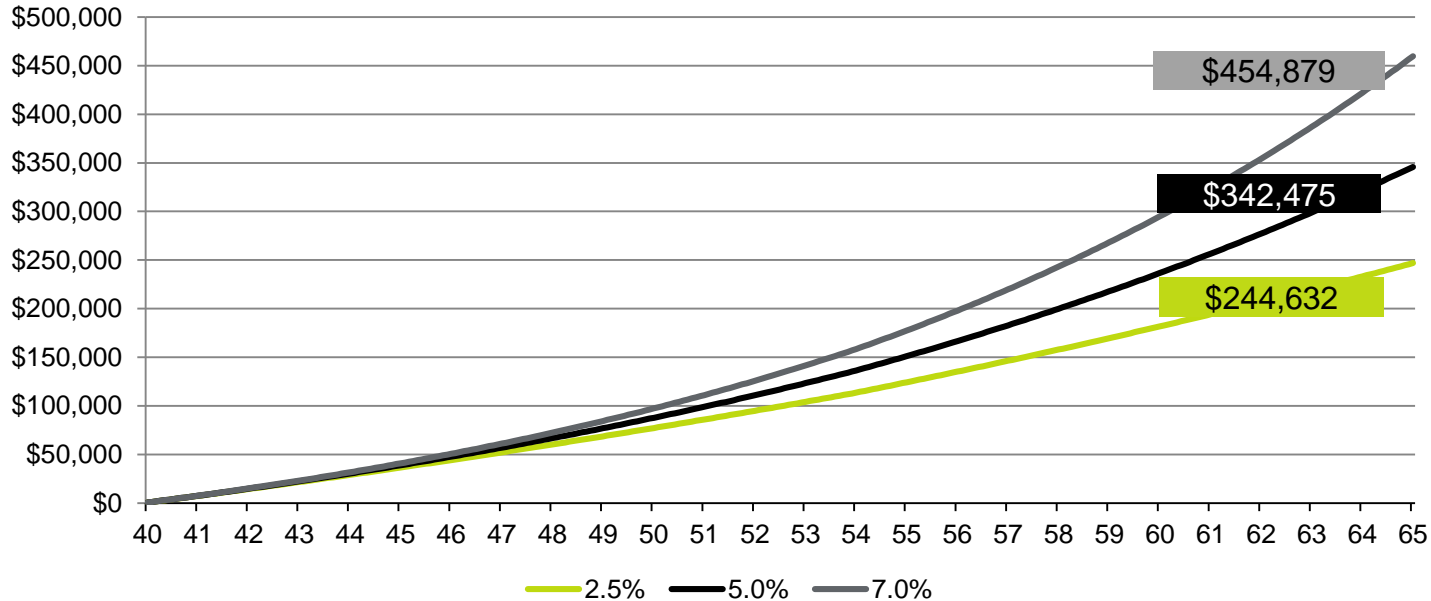
Source:

1. Medicare.gov, 2017 <https://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html>
2. EBRI, Jan 31, 2017, Vol 38, No. 1 *Savings Medicare Beneficiaries Need For Healthcare Expenses*



HSAs as “Investment Accounts”

Potential growth of Health Savings Account if used as an “Investment Account” versus a “Savings Account”



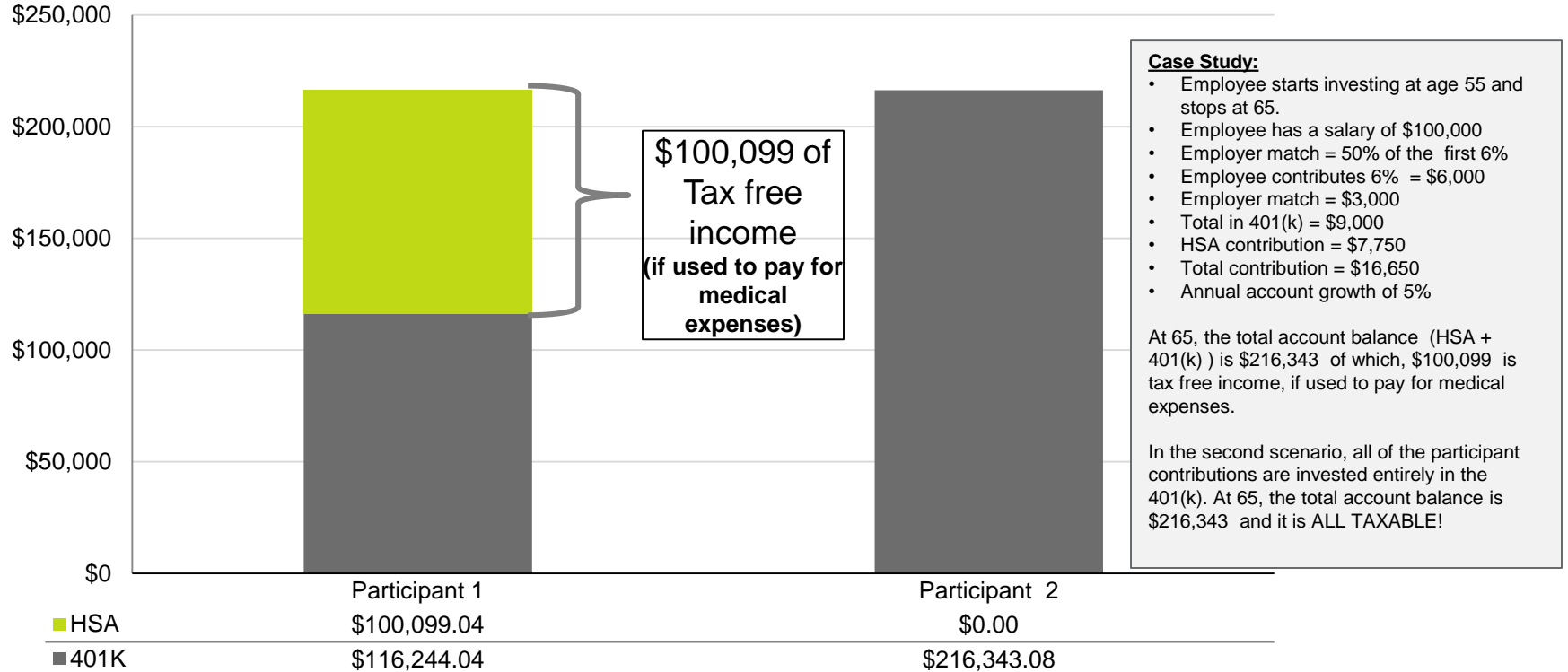
Hypothetical example of a 40 year old employee who saves \$6,750 annually from ages 40-54 and then at ages 55-65 saves \$7,750 annually. Chart shows what the account would grow to if the annual rate of return was: a) 2.5%, b) 5% and c) 7%

This hypothetical example does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed, and a financial advisor should be consulted. It is not intended to show the performance of any Oppenheimer fund over any period of time. The regular investment of money does not assure a profit or protect against losses in declining markets.

Source: OppenheimerFunds, 2017



What Your Tax Bill Could Look Like In Retirement

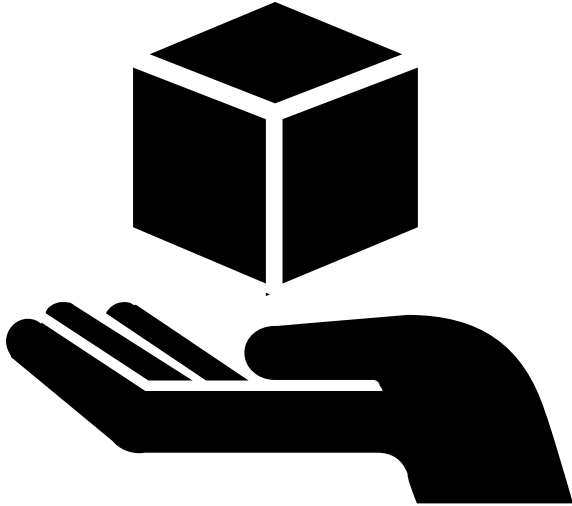


Source: OppenheimerFunds, 2017

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The Shoebox Benefit



- You can incur a medical expense today
- Pay out of pocket
- Put the receipt in the proverbial shoebox
- Let the HSA dollars continue to compound
- Reimburse yourself in the future



How Participants Might Leverage HSAs

- Step 1: Save in your 401(k) plan at the rate of company match
- Step 2: Save in your HSA until you reach the maximum limit (if applicable, save the catch-up contribution limit as well)
- Step 3: Save in your 401(k) until you reach maximum contributions
- Step 4: If possible, save in an after-tax account and then convert it to a Roth IRA



Why We Believe Plan Sponsors Should Consider HSAs



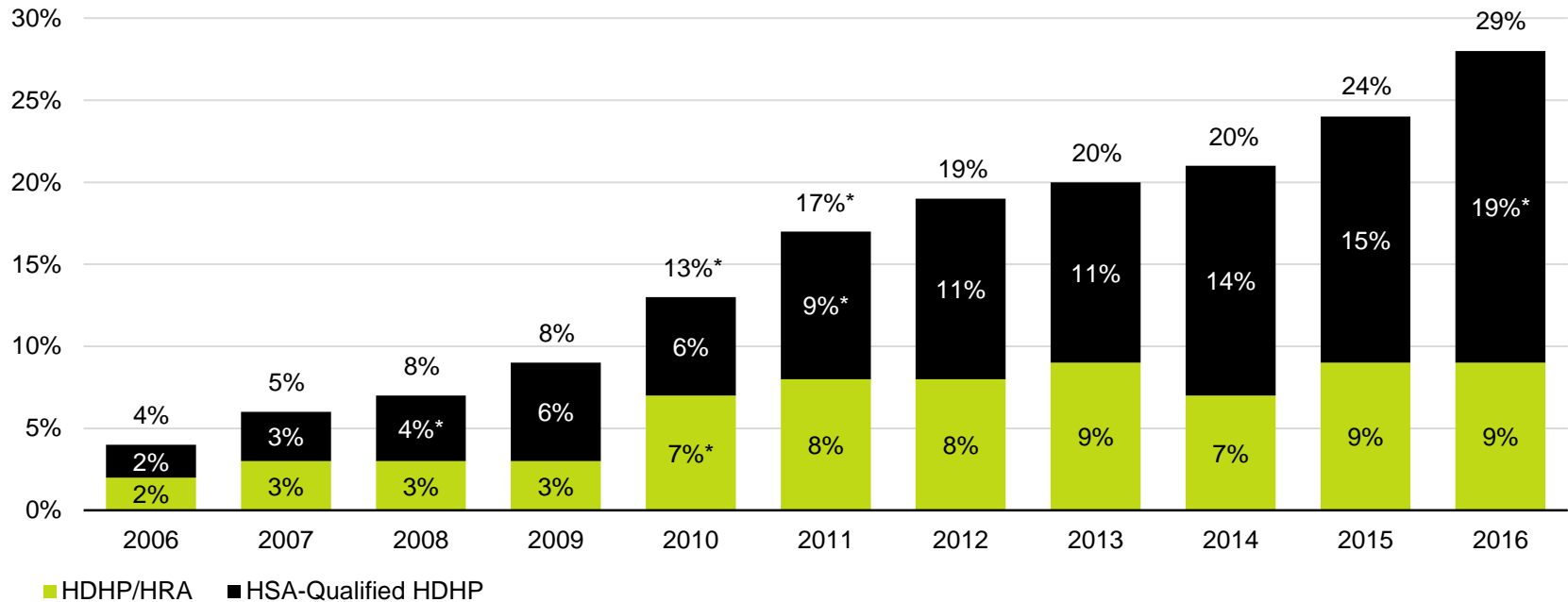
What Are Employers' Perceptions of HSAs?

- 75% view HSAs as part of a retirement benefits strategy
- ~60% believe HSAs should replace Flexible Spending Accounts (FSAs)
- ~3/4 of employers believe HSAs should be open to all employees, **not** just those enrolled in a high-deductible plan
- >80% of employers contribute to the HSA
 - 2/3s provide a set dollar amount based on the HDHP coverage tier



Industry Growth

Percentage of Covered Workers Enrolled in an HDHP/HRA or HSA-Qualified HDHP, 2006-2016



*Estimate is statically different from estimate for the previous year shown ($p < .05$).

Note: Covered Workers enrolled in an HDHP/SO are enrolled in either an HDHP/HRA or a HSA-Qualified HDHP. For more information, see the survey methods section.

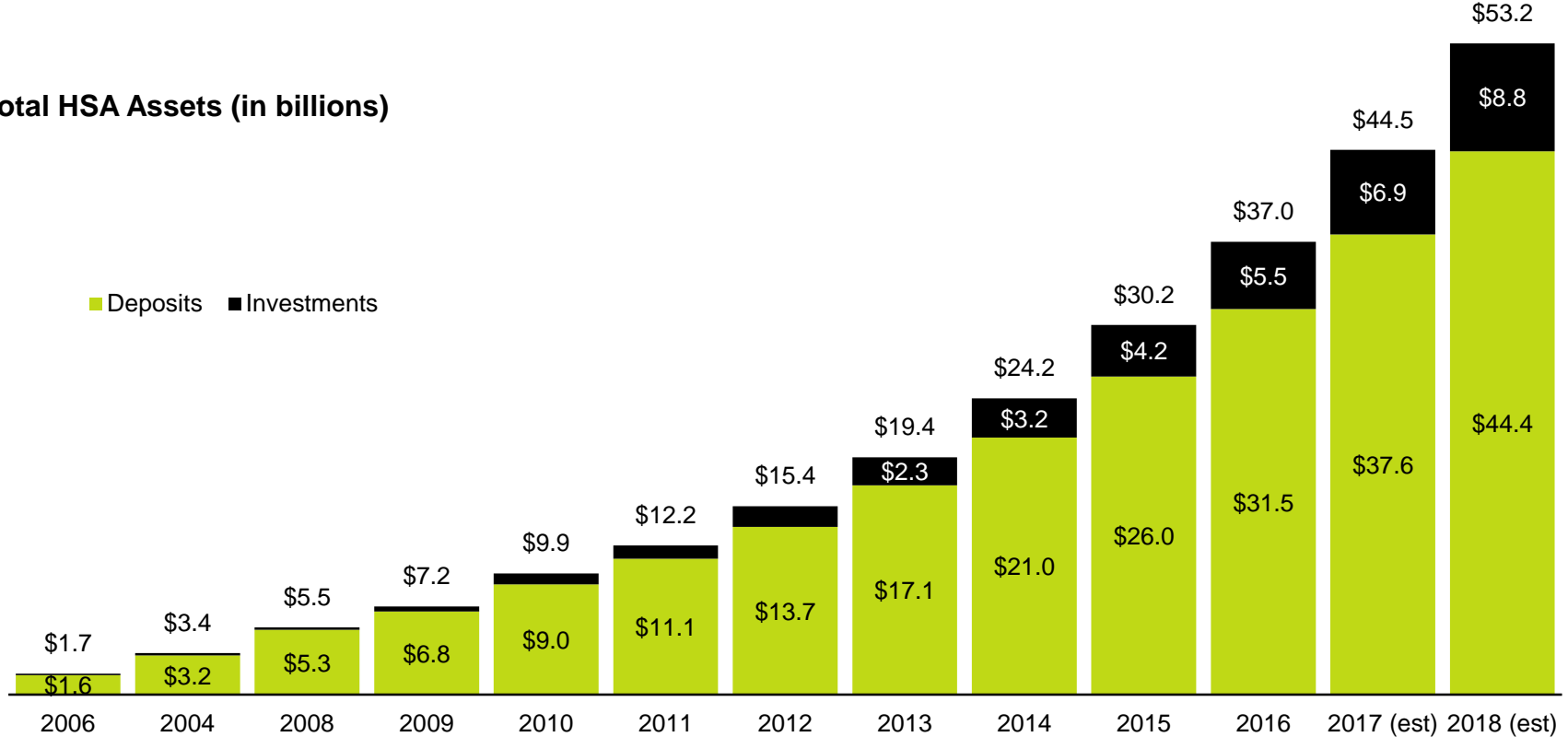
The percentages of covered workers enrolled in an HDHP/SO may not equal the sum of HDHP/HRA and HSA-Qualified HDHP enrollment estimates due to rounding.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2016



Rising Health Savings Accounts Assets

Total HSA Assets (in billions)



Source: Devenir Research 2016 Year-End HSA Market Statistics & Trends (<http://www.devenir.com/health-savings-account-assets-up-22-percent-in-2016/>)



Potential Benefits to Plan Sponsors

Tax benefits for employer HSA Contributions¹

- Deductible as business expense
 - Employer contributions to employees' health insurance treated like compensation and deductible as a business expense
- No FICA Tax
 - Employer-directed contributions and pretax payroll deferral HSA contributions avoid payroll taxes

Avoidance of Taxes on HSA Contributions, by Contributions and Tax Type ²		
Tax	Avoidance	
	Pretax Employer	Employee on Own
Federal income tax	X	X
State income tax*	X	X
FICA	X	
Medicare	X	
FUTA (Federal Unemployment Act)	X	
SUTA (State Unemployment Act)*	X	

Source:

1. EBRI 2012, *The Tax Treatment of Health Insurance and Out-of-Pocket Expenses*

2. Health Care 2012, *HSA Programs for Groups: Employer Versus Employee Responsibilities*

* Depends on state law—Alabama, California and New Jersey do not allow state HSA deductions



Potential Benefits to Plan Sponsors

- Employer-directed contributions and pretax payroll deferral HSA contributions avoid payroll taxes
- A solid HSA program can complement a holistic retirement and financial wellness incentive program
 - Can be used as a talent recruitment and retaining tool
- HSAs encourage employees to be better consumers of healthcare and can potentially reduce costs for both employees and employers
- Tying HSAs into the retirement discussion address two of the biggest concerns of plan participants—saving enough for retirement and affording healthcare in retirement
- HSA qualified plans can mean lower insurance premiums



Q&A



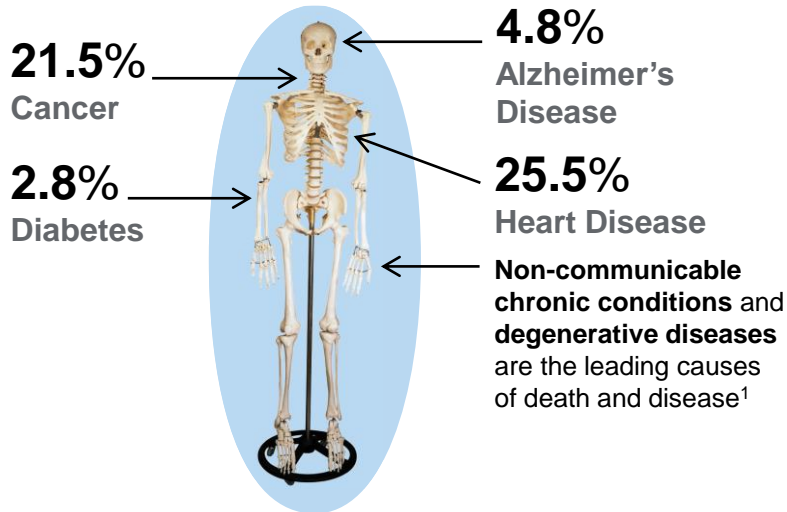
Appendix (optional slides)



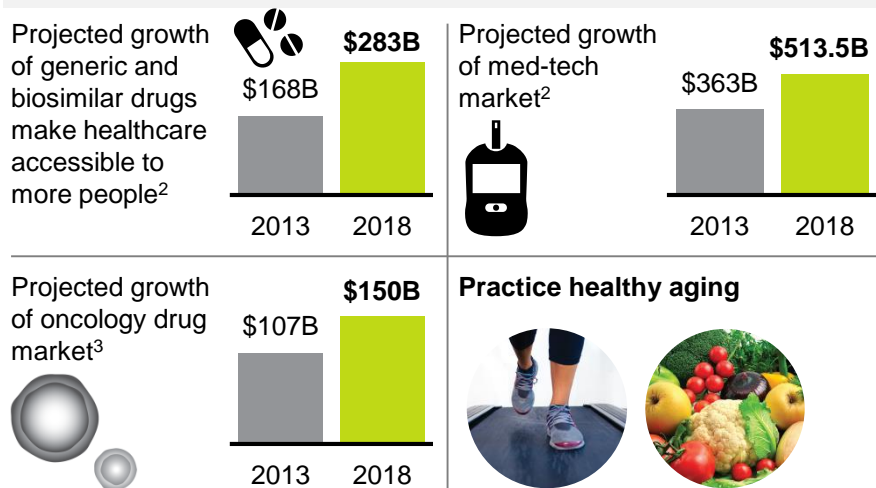
The Question Isn't "How Long Will I Live?" It's "How Long Will I Be Healthy?"

Life expectancy in the U.S. is rising and good health and vitality is highly probable for many Americans.

Leading causes of death ages 65+



Medical advances coupled with living healthy make living longer and better a possibility.



1. Source: World Health Organization, Global Health and Aging 2011.

2. Source: Deloitte 2015 Global Life Sciences Outlook.

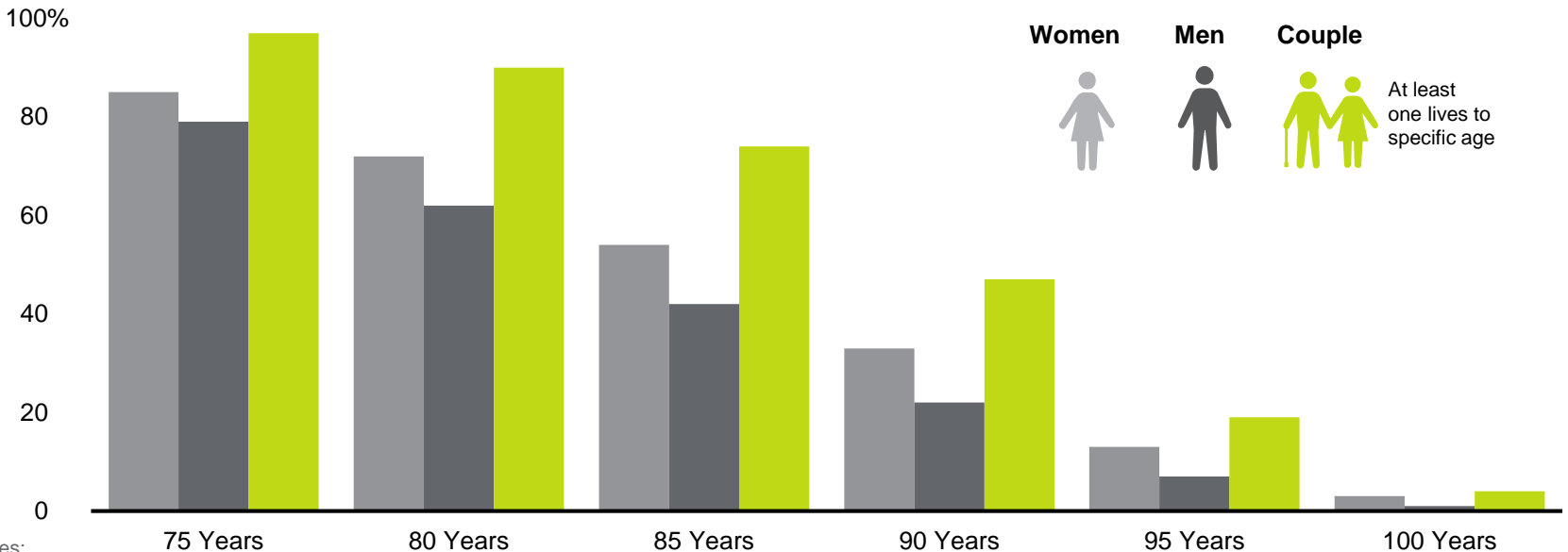
3. Source: Quintiles IMS, 2016.



Americans Are Living Longer, Which Means You'll Spend More Time in Retirement

Consider investing a portion of your portfolio for growth and longevity.

Probability of Living to a Specific Age or Beyond If Age 65 Today¹

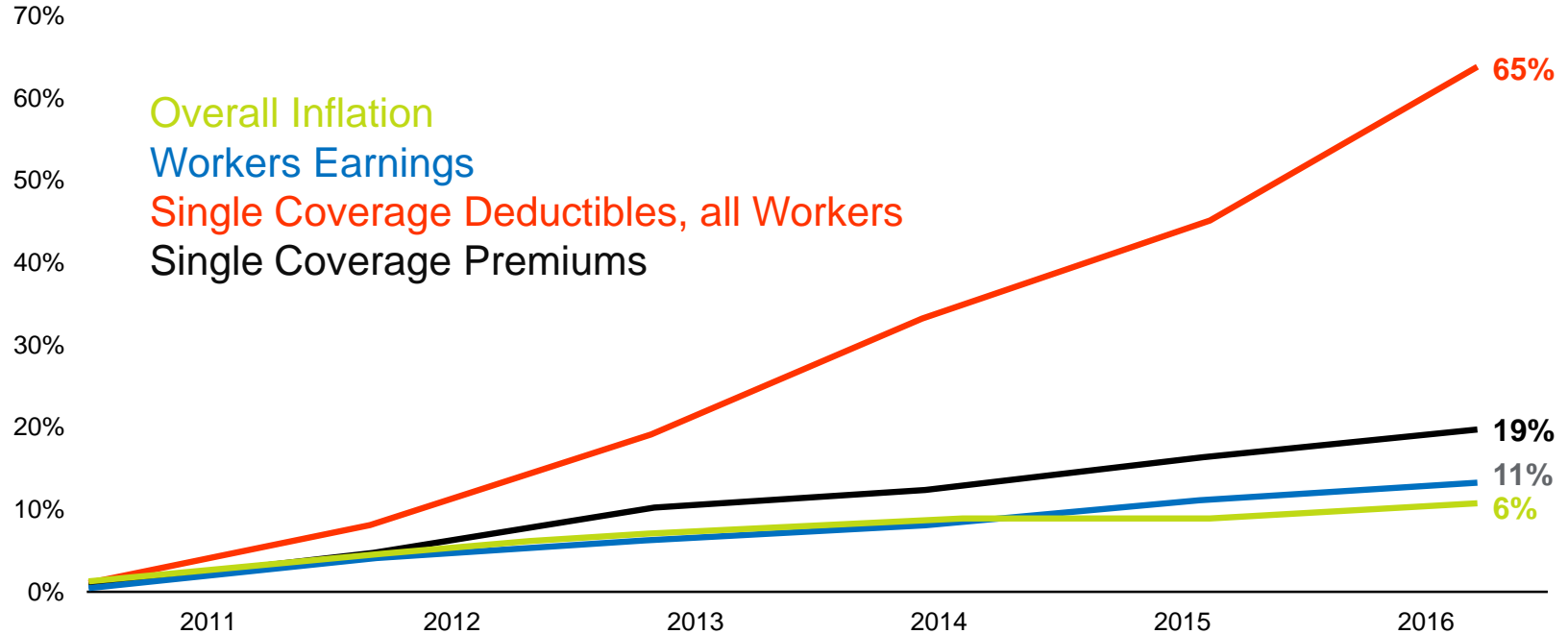


Sources:
 1. Social Security Periodic Life Tables, 2013
 2. Healthview Services: 2016 Retirement Health Care Cost Data Report.



Eroding Benefits

Cumulative Increases in Health Insurance Premiums, General Annual Deductibles, Inflation, and Workers' Earnings, 2011-2016

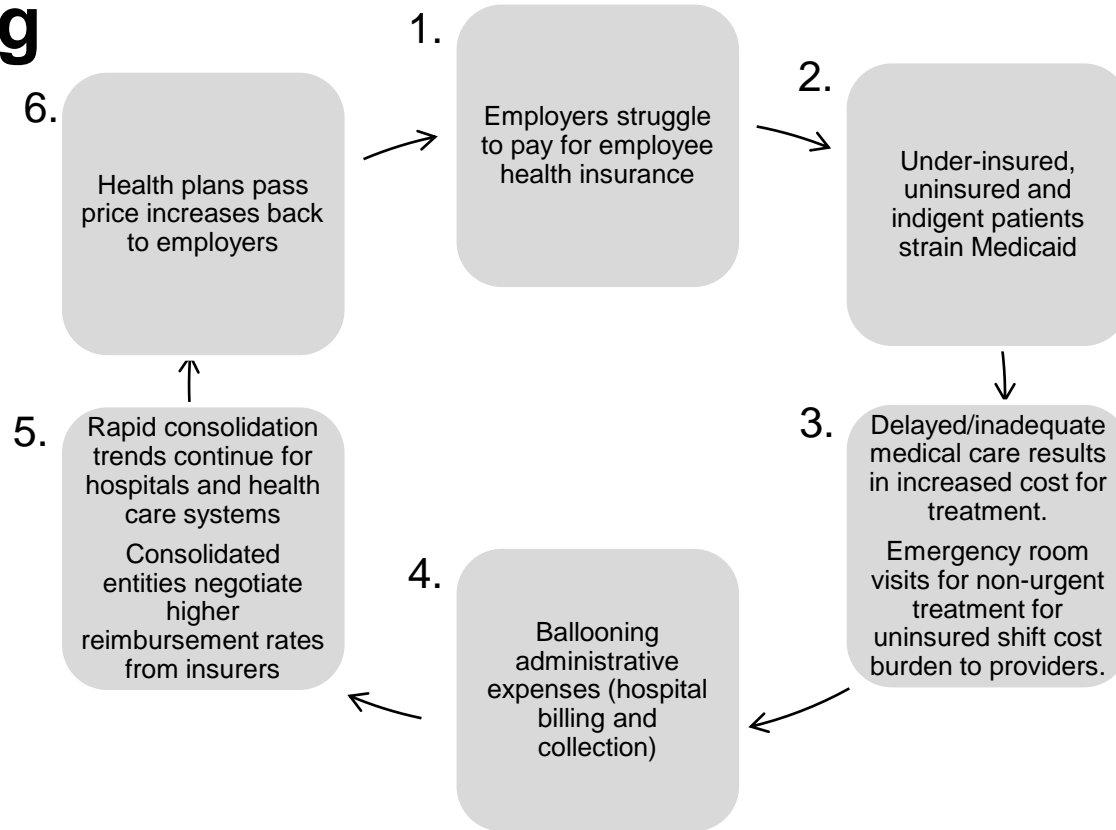


Note: Average general annual deductible is among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2011-2016. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2011-2016; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2011-2016 (April-April)



Understanding the Runaway Costs of Healthcare Spending



Healthcare Matters to Employers

Employer interest in improving employee health and productivity (H&P) is nearly universal

Why the interest in H&P strategies?

Employers see the risks...



64%

Stress:
physical,
psychological
financial

53%

**Insufficient
Physical
Activity**

45%

Obesity

31%

Poor Nutrition

30%

Lack of Sleep

87%

say improving workforce H&P is a **core-component** of their healthy strategy

98%

are **committed** to improving H&P in years ahead

...and see the benefits of healthy employees compared to unhealthy ones

6.5

fewer missed work days

Twice

as likely to be highly engaged on the job

Half

as likely to report high levels of work-related stress

Half

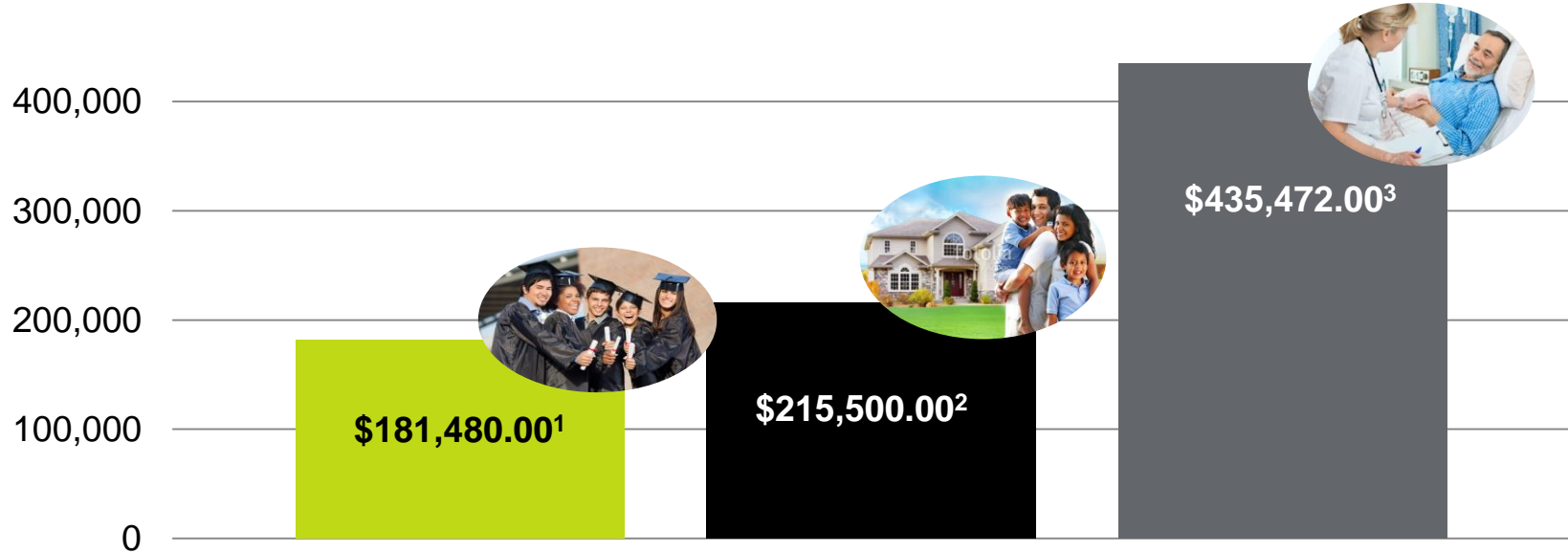
as likely to report financial stress



Putting Healthcare Premiums in Perspective...

Projected Costs of Major Life Milestones

■ Average tuition for 4 year private college ■ National median home sale price ■ Projected healthcare premiums in retirement



Sources:

1. The College Board, October 2016; Average tuition for 4 year private college is \$45,370 per year
2. Kiplinger, 2015 Home Prices in the 100 Largest Metro Areas; also Clear Capital 2015
3. Healthview Services Retirement Healthcare Cost Data Report, 2016



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