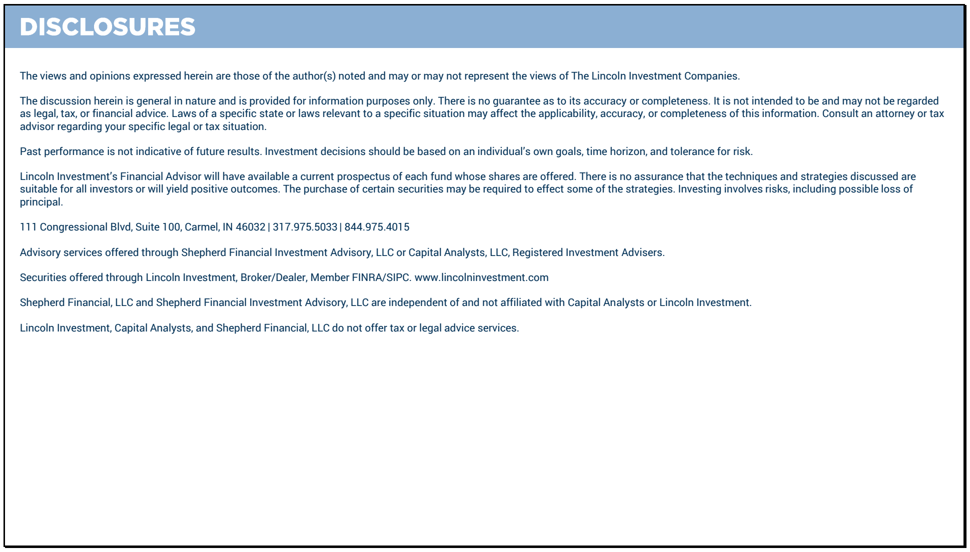
Slide 1

HEALTHCARE COSTS IN RETIREMENT

August 18, 2022

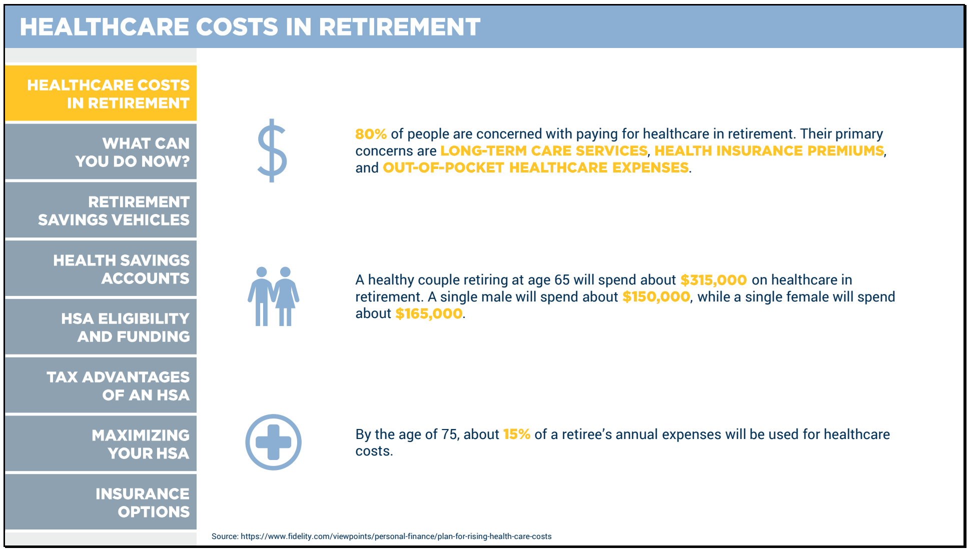
Shepherd FINANCIAL

Slide 2



This presentation is for basic investment education. It is not a substitute for reading plan documents, materials provided by fund companies, or materials provided by your employer. This presentation should not be the sole source for your investment decisions, and any performance data quoted represents past performance and does not guarantee future results.

Slide 3

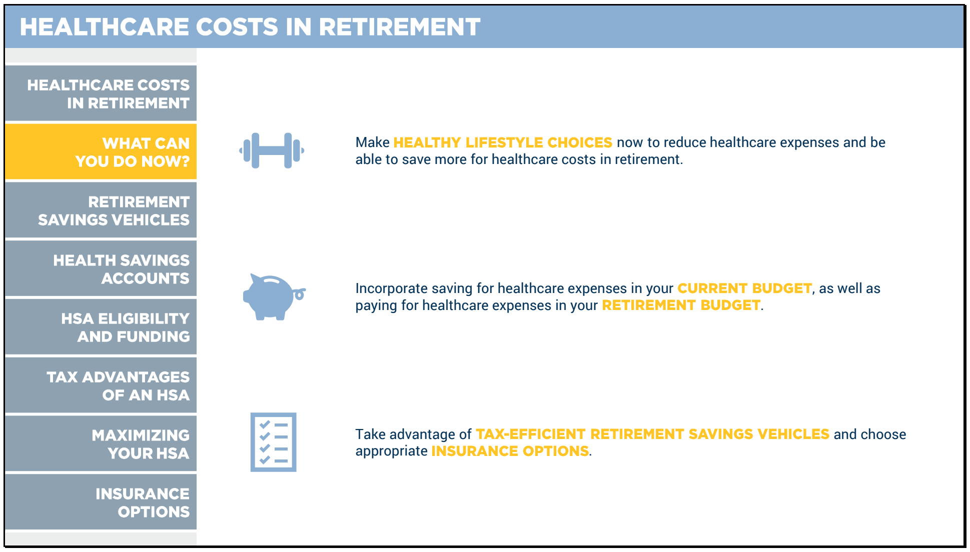


80% of people are concerned with paying for healthcare in retirement. The primary concerns are long-term care services, health insurance premiums, and out-of-pocket healthcare expenses. Inflation, longevity, who you're caring for now, a lower retirement age for many Americans – all these things really affect what you might end up paying in retirement.

One of the stats we touched on in June was projected costs. We mentioned that most people don't think about or properly account for healthcare costs in retirement. The average American thinks a healthy couple retiring at age 65 will spend only $41,000 on healthcare in retirement. And the scary part of that is that current projections estimate that same healthy couple will actually need about $315,000.

The number really just keeps growing – it's up 5% since last year alone. Healthcare inflation continues to outpace the rate of general inflation. The current projected costs for a single man are about $150,000, and for a woman, $165,000. Now keep in mind – these numbers assume enrollment in Medicare parts A, B, and D, but they don't include the cost of long-term care. By the age of 75, healthcare costs will account for about 15% of your overall spending, which includes Medicare premiums and out-of-pocket expenses. Of course, the amount you'll need will depend on when and where you retire, how healthy you are, and how long you live.

Slide 4



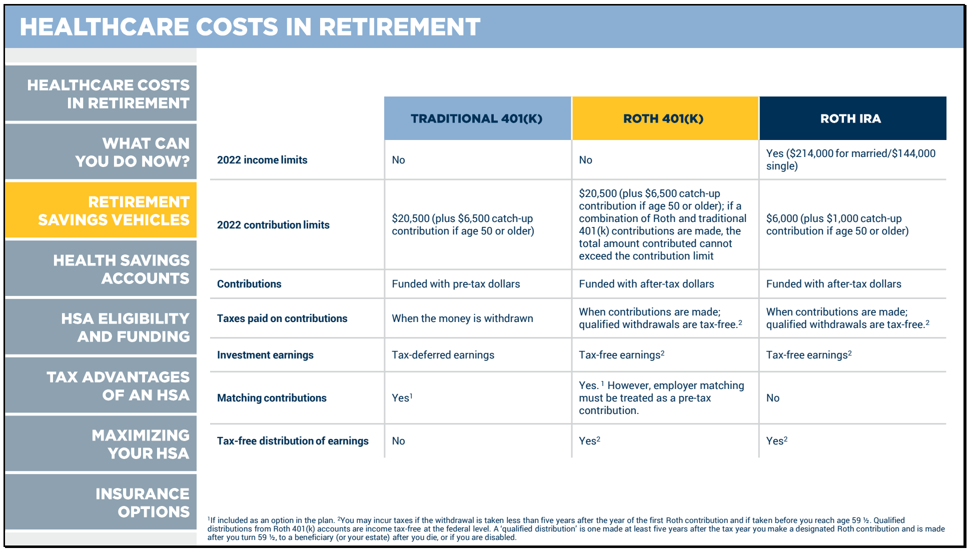
We are here to help you. We don't want you to be paralyzed by these numbers. So it's great you're here and engaging in this conversation! Putting the information in front of you will help you make a plan to move forward.

The first thing I am going to say is make healthy choices now – the less you have to spend on healthcare now, the more you can save and let compound interest build your savings for you!

The next step is to incorporate saving for healthcare expenses in your current budget and paying for healthcare expenses in your retirement budget. We're going to spend the bulk of our time today talking about retirement savings vehicles that can help you save now. But what do we mean by retirement budget? Budgets are for everyone, even retired people. Your income streams might be different – like Social Security instead of a company paycheck – but you still have money coming in and money going out. So you need to account for that. For example, health insurance premiums are usually known in advance, so they can be included in the budget or income plan, and they can be paid for from monthly income like Social Security, pension payments, annuity payments, or systematic withdrawals. A different pool of assets, like a savings account, can be used specifically to cover out-of-pocket costs.

Why does thinking like this help our brains now? If we are saying a couple may need $315,000 in retirement, that means that giant lump sum is actually spread out over 15 or 20 years. Suddenly, $16,000 a year seems a little more manageable to plan for, right? After allocating for annual out-of-pocket healthcare expense needs, retirees can keep the rest of their assets invested and benefit from potential returns to meet their other needs, including long-term care.

Slide 5



	TRADITIONAL 401(K)	ROTH 401(K)	ROTH IRA
2022 income limits	No	No	Yes ($214,000 for married/$144,000 single)
2022 contribution limits	$20,500 (plus $6,500 catch-up contribution if age 50 or older)	$20,500 (plus $6,500 catch-up contribution if age 50 or older); if a combination of Roth and traditional 401(k) contributions are made, the total amount contributed cannot exceed the contribution limit	$6,000 (plus $1,000 catch-up contribution if age 50 or older)
Contributions	Funded with pre-tax dollars	Funded with after-tax dollars	Funded with after-tax dollars
Taxes paid on contributions	When the money is withdrawn	When contributions are made; qualified withdrawals are tax-free.[2]	When contributions are made; qualified withdrawals are tax-free.[2]
Investment earnings	Tax-deferred earnings	Tax-free earnings[2]	Tax-free earnings[2]
Matching contributions	Yes[1]	Yes.[1] However, employer matching must be treated as a pre-tax contribution.	No
Tax-free distribution of earnings	No	Yes[2]	Yes[2]

[1]If included as an option in the plan. [2]You may incur taxes if the withdrawal is taken less than five years after the year of the first Roth contribution and if taken before you reach age 59 ½. Qualified distributions from Roth 401(k) accounts are income tax-free at the federal level. A 'qualified distribution' is one made at least five years after the tax year you make a designated Roth contribution and is made after you turn 59 ½, to a beneficiary (or your estate) after you die, or if you are disabled.

We're going to touch on some tax efficient savings vehicles here. First, I hope you're saving in your company's retirement plan! That's a really important one, and we will discuss how that can pair with a health savings account. And we're definitely about to spend some quality time with HSAs. What other options are there?

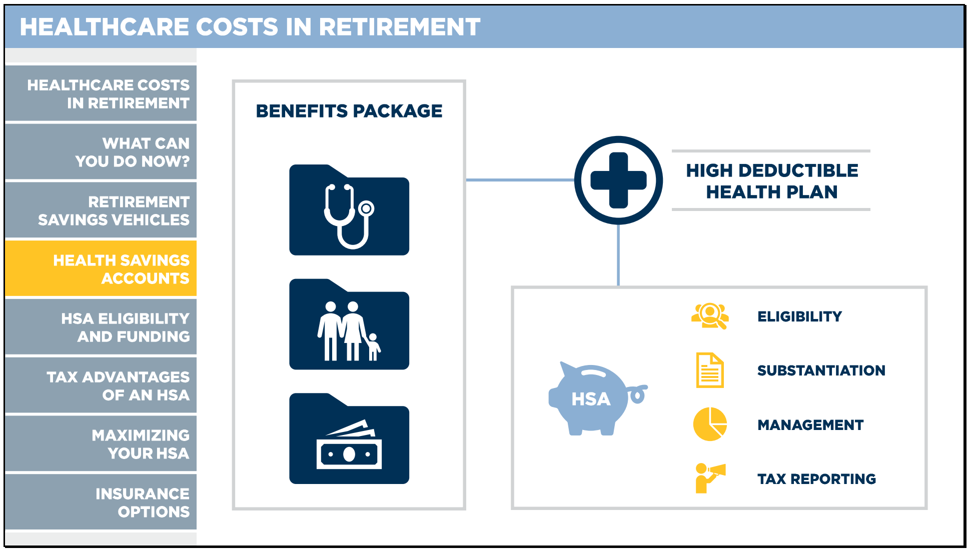
You may also consider an individual retirement account, or IRA. When we're talking about a 401(k) and an IRA, we also have to bring up the difference between traditional savings and Roth savings. So let's start with the 401(k) plan. Not every plan allows Roth savings. But if you can, your money can be saved as pre-tax dollars, Roth after-tax dollars, or a mix of both. When you contribute pre-tax, you don't pay income taxes on the money you're putting in the plan today, and the money grows tax-deferred. Once you begin taking money out at retirement, that's when you'll pay income taxes. With Roth after-tax contributions, you pay income taxes on your savings today. But your earnings grow tax-free, and when you take the money out at retirement, you don't pay any income taxes – assuming you've owned the Roth account for at least five years and are at least 59 ½ years old. Remember, whether you choose pre-tax or Roth after-tax contributions, your employer's matching contributions are made with pre-tax dollars. So your account could have a mix of money types in it.

Why might a person decide to make Roth contributions to their company's retirement plan? As I said, your earnings in a Roth account grow tax-free. So if you are younger now and expect your income to increase over your career, it could be advantageous to contribute now while you're still in a lower tax bracket.

There are income and contribution limit differences between saving in a 401(k) plan, an IRA, and a Roth IRA. For starters, a 401(k) plan doesn't have an income limit. The contribution limit for employees under 50 in 2022 is $20,500. But you can only save $6,000 in an IRA or Roth IRA. There are catch up contributions available for each of these types of accounts, too. If you file taxes as a single person, your modified adjusted gross income must be under $144,000 for the tax year 2022. It's $214,000 for those of you filing jointly.

So because of these contribution and income limits, it could be more challenging to save in a Roth IRA. But a combination of 401(k), IRA, and Roth IRA savings might make sense depending on your personal situation. The overall theme here is that you want to try and maximize your tax-efficient savings vehicles and that a professional advisor is a great person to talk to with questions.

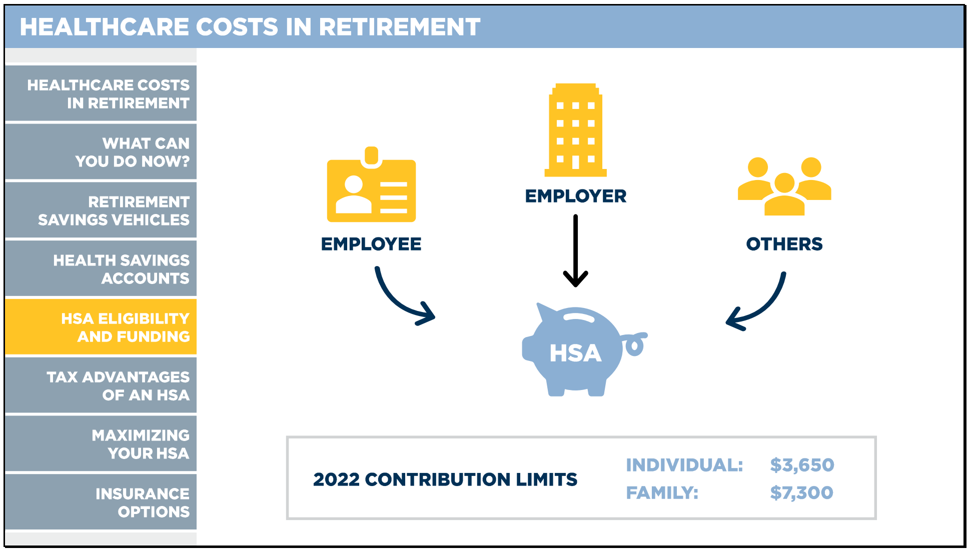
Slide 6



We are going to talk through a lot of details about health savings accounts, because it's so important for you to understand all the ways they can help you pay for healthcare expenses in retirement. Health savings accounts, or HSAs, are tax-advantaged medical savings accounts to help people save money for current and future qualified medical expenses. They go hand-in-hand with a high deductible health plan. A high deductible health plan is health insurance providing preventative care services at no cost, and it has lower monthly payments in exchange for higher deductibles. A deductible is the amount you pay out of pocket for medical expenses before your insurance kicks in. These deductibles and maximum out-of-pocket expenses are set by federal guidelines. So remember, you have to be enrolled in the high deductible plan to be eligible for an HSA.

An HSA is owned by the individual and established under their Social Security number, which means certain responsibilities fall on the account owner. Additionally, HSAs are portable. As the owner of a portable account, that money is yours. And you won't lose it at the end of the year. That's different from a flexible spending account, or FSA. While an FSA can be used for medical expenses, it's not linked to a high deductible health plan – it can be used with any health plans. Another difference is that this account is owned by your employer, not you. And since the company owns the FSA, that means the money expires at the end of the year.

Slide 7



It's important to know if you are eligible to save in an HSA before you consider if this could be an option to help you pay for healthcare expenses in retirement. So the way we'd do that is to go through this series of questions: First, are you covered by a high deductible health plan? Second – are you covered by your spouse's non-consumer driven health plan? In other words, are you covered by your spouse's HMO or PPO? Third – can you be claimed as a dependent on someone's tax return? Fourth – are you covered by your spouse's general health FSA or HRA?

An HRA is a health reimbursement arrangement. It has similarities to both HSAs and FSAs. The IRS says that FSA coverage extends tax benefits to family members as well. That's because medical expenses can be deducted for the account holder, their spouse, and their dependents. So even if you're eligible for the HSA and your spouse is eligible for an FSA at his company, you can't do both. You have to pick one or the other.

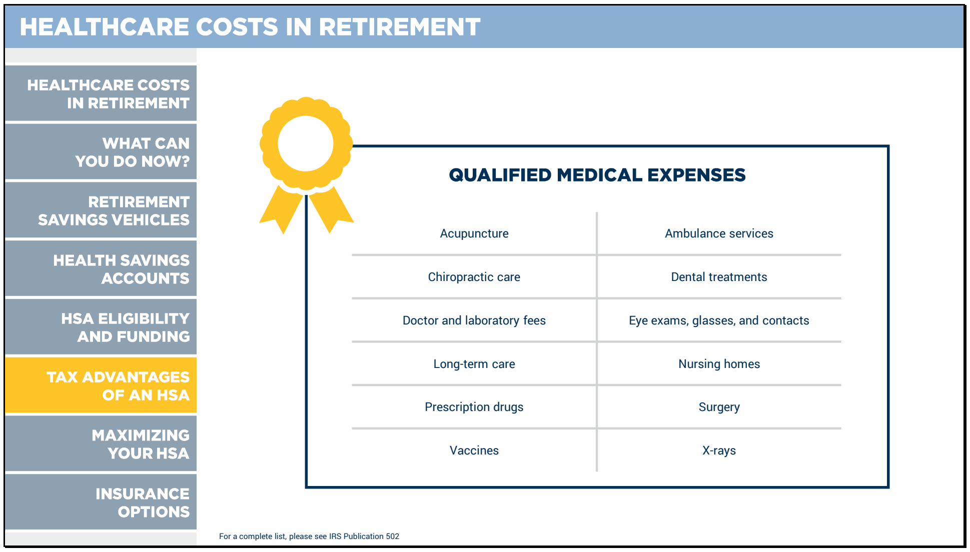
And one last question: are you enrolled in Medicare?

Assuming you're eligible, let's talk about how to fund HSAs. An HSA is generally considered established at the time of funding, and it's the HSA owner's responsibility to track this establishment date. This establishment date is important because you can pay medical expenses tax-free after that date.

As an employee, as long as you have HSA eligible health insurance during the year you wish to contribute, you can put money in pre-tax or after-tax. But the HSA account owner is not the only one who can contribute to their account. Your employer can also contribute to your account. There are a couple ways they could do it. Employers may make a lump sum contribution at the beginning of the year, or they could make contributions every payroll period. Believe it or not, random people can contribute to your account! Just remember that your contribution, your employer's contribution, and any other money people put in is all added together – it all counts toward your contribution limit.

Speaking of contributions, every spring, the IRS announces limits for the upcoming calendar year. The limits are different for the individual plan and the family-covered plan. We are showing the 2022 limits on the screen here - $3,650 for individuals and $7,300 for families. Don't forget – similar to 401(k) plans, HSAs have what are known as catch up contributions. So if you are 55 years or older, you can make an additional $1,000 contribution. Catch up contributions for 401(k) plans, though, start at age 50.

Slide 8

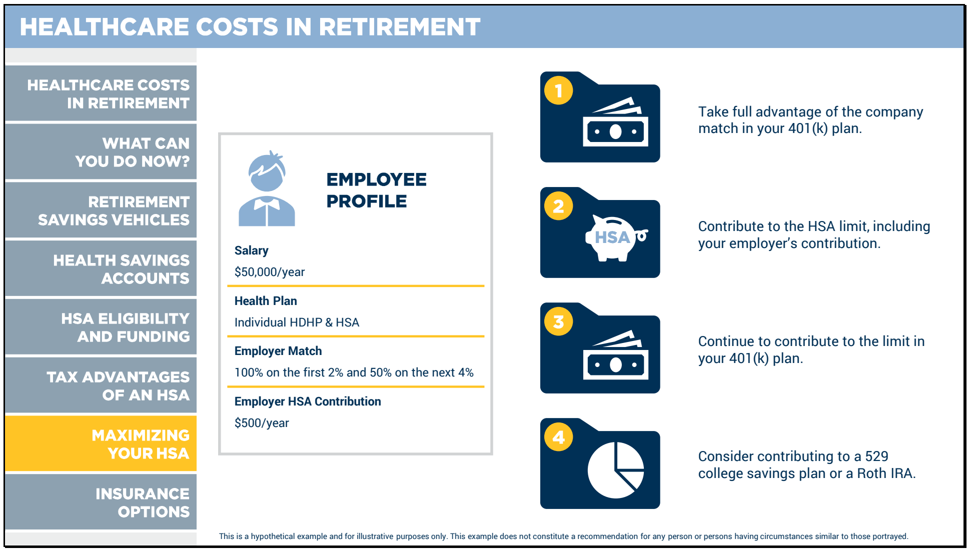


Let's talk about the amazing tax advantages of HSAs. First of all, like your 401(k) account, you can make pre-tax contributions, which lowers your taxable income. Second, the money that's contributed grows in your account tax-free and can be invested. And third, as long as the money is used for qualified healthcare expenses, your withdrawals and any investment gains are 100% tax-free.

One more cool feature, too - after reaching age 65, you can withdraw money from your account for any reason at all – it doesn't have to be medically-related – without paying a penalty. It is considered taxable income in that case, though, so you do pay taxes on those types of withdrawals. If you withdraw money from your HSA before age 65 for any reason other than paying qualified medical expenses, you face a 20% penalty from the IRS. And it's considered taxable income. Looking at the screen, you can see some examples of qualified medical expenses, but the list is actually much longer. A few examples are things like dental services, hearing aids, eye exams, prescription medications, and vaccinations.

There is also something called the retroactive use of HSA eligible expenses. Let's say you're putting money in your HSA during your working years and paying your medical bills out of pocket. But you're a smart person, so you hang on to all those receipts. You can reimburse yourself later on for those qualified medical expenses. A couple of notes here. These expenses have to occur after you've established your HSA. And if you claimed those medical expenses as an itemized deduction on your taxes, you can't do the retroactive payback.

Slide 9



Let's tie it all together here. I promised we'd talk about how an HSA can pair with a company retirement plan. If you can't pay a medical bill out of pocket, you probably want to use your HSA to cover it, but it can be a helpful strategy, if possible, to keep money in your HSA rather than spend those dollars. Again, this is no FSA. You don't have to 'use it or lose it' at the end of each year. Instead, you can think of an HSA as a 'stow it and grow it' account. Each person's case is unique, so when we talk about different strategies, factor in your own life circumstances. We're going to cover how an HSA can be a really effective companion to a 401(k) plan in preparing for retirement.

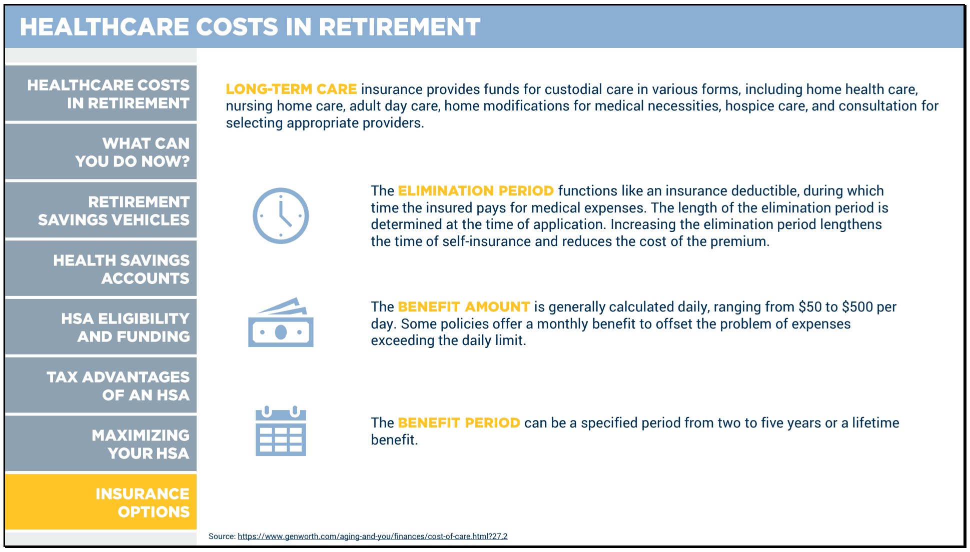
Here's a potential flow for your dollars. Contribute to your 401(k) plan to take full advantage of your company match. In this example, the company matches dollar for dollar of the first 2% this employee saves in the plan and another 50 cents for every dollar of the next 4% saved in the plan. Which means this employee needs to save 6% to take full advantage of the company match – they put in 6%, and the company puts in another 4%, so the total 401(k) savings is 10%. Look at the screen – we're using pre-tax dollars here. This sample employee's salary is $50,000. 6% of that is $3,000.

The next stop is the HSA. As an individual, this employee can contribute $3,650 in 2022. But remember – that includes the employer contribution. And in the example, I'm assuming this employee is single. That means if the employer is putting in $500, the employee can put another $3,150 in there. 401(k) savings of $3,000 and HSA savings of $3,150 means this employee has put $6,150 into retirement savings of some kind.

But what if he wants to save a little bit more? As we mentioned, you can contribute to a much higher limit in your 401(k) – we're saying our sample employee is under age 50, which means his contribution limit in 2022 is $20,500. So far, he's only put $3,000 in his 401(k). This means he can contribute another $17,500 if he wants, and the employer match doesn't count against that contribution total. As I mentioned, it may be a helpful strategy to keep money in your HSA rather than spend it. Why is that?

It depends on where your HSA is, because not all providers allow it, but you may be able to invest the money in your account. Keep a few things in mind: like in your 401(k) account, you will probably have to pay investment fees. You may also have to pay transaction fees. Check into those details before you make an investing decision. HSA money can be placed in investments approved for IRAs, like stocks, bonds, and mutual funds, but you can't invest in life insurance contracts. And your HSA provider may also restrict you to a set of particular funds. Your investments may also earn interest, and a kind of cool tax benefit is that those earnings are then tax-free. Your investing time horizon and risk tolerance will help guide which investments make the most sense for you, but it's a helpful idea to keep at least a portion of your account in cash so that it is easily accessible if you do need to pay for medical expenses right now.

Slide 10



The last thing we want to talk about are a couple of important insurance options as we think about ways to pay for healthcare costs in retirement. Let's start with annuities. An annuity is an insurance contract that is issued and distributed by a financial institution with the intention of paying out invested funds in a fixed income stream in the future. Now, an annuity's invested cash is not liquid, and it's subject to withdrawal penalties, so it's likely not an appropriate savings vehicle for a younger individual.

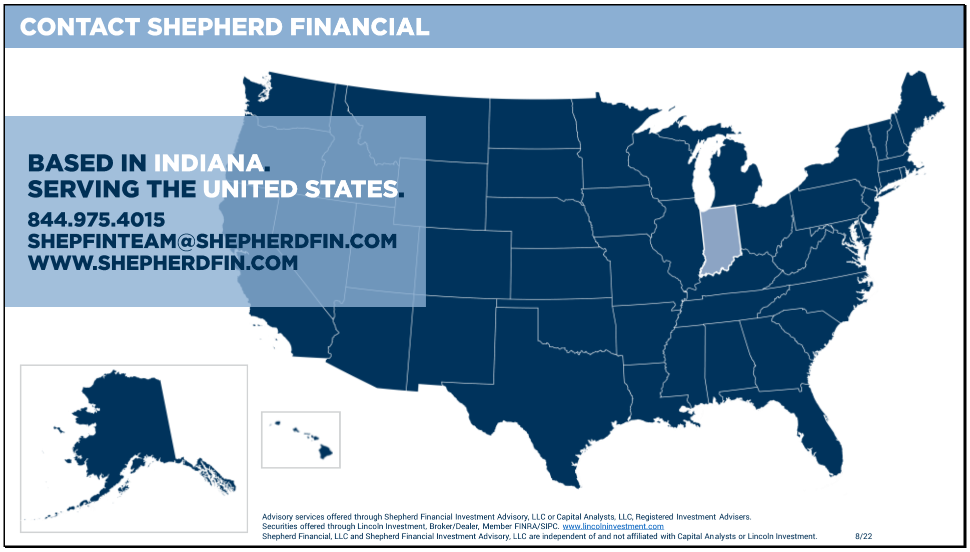
An annuity goes through a couple different phases – you have the accumulation phase when the annuity is being fund. Any money invested in the annuity grows on a tax-deferred basis during this stage. And then during the annuitization phase, the owner begins to receive payments. How can this help people pay for healthcare costs? Well, those steady payments can be a source of income to cover out-of-pocket healthcare expenses in retirement.

As we've mentioned, Medicare does not pay for the vast majority of long-term care options. And you may have noticed we have barely touched on Medicare today. That is because we're going much more in depth in November in our Nearing Retirement webinar. We'll get deeper in the weeds on both Medicare and Social Security – be sure to tune in for that one!

But an important thing to remember is that you will need health insurance coverage if you retire before age 65, which is when you can enroll in Medicare. So long-term care insurance may be a solution to the gap between what Medicare covers and your long-term care needs. People generally buy long-term care insurance for two reasons: to protect their savings and to get more choices for care.

Long-term care insurance can be purchased as a stand-alone policy or included as a rider on permanent life insurance. A stand-alone policy ensures that no matter where you need care, you'll have the money to cover at least a portion of the bill. A lengthy stay at a nursing home is less likely to drain your savings or wipe out your estate. On the other hand, long-term care riders allow you to receive a portion of the death benefit while you're still alive, and this death benefit can be used to pay for long-term care expenses. Under most policies, you'll have to pay for long-term care services out-of-pocket for a certain amount of time, such as 30, 60, or 90 days, before the insurer starts reimbursing you for any care, which is where that annuity stream of income could be helpful!

Slide 11



Don’t forget our next Open Phone Day is Tuesday, September 6th, and you can sign up for that by emailing shepfinteam@shepherdfin.com. If you’d like to talk with one of our team members at any other time, you can always call us at 844.975.4015 or 317.975.5033.

Slide 12

DISCLOSURES

The discussion herein is general in nature and is provided for information purposes only. There is no guarantee as to its accuracy or completeness. It is not intended to be and may not be regarded as legal, tax, or financial advice. Laws of a specific state or laws relevant to a specific situation may affect the applicability, accuracy, or completeness of this information. Consult an attorney or tax advisor regarding your specific legal or tax situation.

Past performance is not indicative of future results. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Lincoln Investment's Financial Advisor will have available a current prospectus of each fund whose shares are offered. There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to effect some of the strategies. Investing involves risks, including possible loss of principal.

111 Congressional Blvd, Suite 100, Carmel, IN 46032 | 317.975.5033 | www.shepherdfin.com

Advisory services offered through Shepherd Financial Investment Advisory, LLC or Capital Analysts, LLC, Registered Investment Advisers.
Securities offered through Lincoln Investment, Broker/Dealer, Member FINRA/SIPC. www.lincolninvestment.com
Shepherd Financial, LLC and Shepherd Financial Investment Advisory, LLC are independent of and not affiliated with Capital Analysts or Lincoln Investment.

Lincoln Investment, Capital Analysts, and Shepherd Financial, LLC do not offer tax or legal advice services.

Investments in Target Date Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. The principal value in a Target Date Fund is not guaranteed at any time, including on or after the target date, which is the approximate date when investors turn age 65. Should you choose to retire significantly earlier or later, you may want to consider a fund with an asset allocation more appropriate to your particular situation. The funds invest in a broad range of underlying mutual funds that include stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. The funds maintain a substantial allocation to equities both prior to and after the target date, which can result in greater volatility. All investing is subject to risk, including the possible loss of the money you invest. Investments in bonds are subject to interest rate, credit, and inflation risk.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. There are some risks associated with investing in the stock markets: 1) Systematic risk - also known as market risk, this is the potential for the entire market to decline; 2) Unsystematic risk - the risk that any one stock may go down in value, dependent of the stock market as a whole. This also incorporates business risk and event risk; and 3) Opportunity risk and liquidity risk. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. Small and mid-cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small and mid-cap markets may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost. In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities).

Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate. Treasury bills (T-bills) are short-term securities with maturities of one year or less issued at a discount from face value. Treasury bills are the primary instrument used by the Federal Reserve in its regulation of money supply through open market operations. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. Treasury bonds (T-bonds) are long-term debt instruments with maturities of ten years or longer issued in minimum denominations of $1,000. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Treasury inflation protected securities (TIPS) refer to a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. TIPS are considered an extremely low-risk investment since they are backed by the U.S. government and because the par value rises with inflation, as measured by the Consumer Price Index (see below), while the interest rate remains fixed.

The consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.

Past performance is no guarantee of future results. No person or system can predict the market. All investments are subject to risk, including the risk of principal loss.

Consult your financial professional before making any investment decision.