Please note: This is a transcription so there may be slight grammatical errors.

Charlie MacBain:

The cost of healthcare in retirement increases every year, and most people aren't saving enough for this expense. So how can you help? As a plan sponsor, it's important to not only assist your employees with saving for retirement but also help them understand how much they need to save. Only 15% of people approaching retirement have estimated how much money they'll need to pay for healthcare once they stop working. And of those who have made an estimate, nearly half believe they'll need less than $100,000. But the truth is, the average American couple will spend around $350,000 or more to cover healthcare expenses in retirement. That's over 20% of the average person's total retirement savings. What's worse, that amount is only going up.

So how can you get your employees thinking about and appropriately planning for this need? Make sure they know about the healthcare specific resources that are available to help them save. Start by defining the difference between a flexible spending account and a healthcare savings account. An FSA is designed to help people pay for yearly medical expenses, while an HSA is designed for longer term healthcare savings. One important thing to note, while FSAs are available to any employee whose company offers one, people can set up and contribute to an HSA only if they have a qualifying high deductible health plan or HDHP.

Other differences you'll want to point out are that FSAs are employer owned. Contributions cannot be invested and cannot be rolled over to the next year. HSAs, on the other hand, are controlled by the individual. They're portable and they can be invested. And unlike FSAs, HSAs offer the ability to change your contributions throughout the year depending on your circumstances. There are a lot of misconceptions about HSAs, which is why it's important that employers take the time to explain not only what HSAs are but how these tax advantage accounts can be a strategic part of saving for retirement. By talking about HSAs as part of your holistic retirement benefits package, you will help employees connect the dots between healthcare savings and their life goals.

People 55 or older who are enrolled in a qualifying HDHP are allowed to make a catch-up contribution of $1,000 per year to their health savings account. Most employers contribute to their employees' HSAs. Of those that do, nearly three fourths provide a set dollar amount based on the coverage level, single or family. To further incentivize participation in an HSA, you might consider pre-funding or seeding employees' healthcare savings accounts. This can be through a single upfront contribution or via regularly scheduled contributions, or a mix of the two. Employer seeding goes a long way to increase HSA adoption and engagement among employees. To learn more about designing a healthcare savings plan that helps your employees prepare for the future, contact your financial advisor or visit captrust.com today.