SERVING THOSE WHO SERVE

Quarterly Newsletter

December 2019

The New Premium Stabilization Feature of FLTCIP

The Federal Long-Term Care Insurance Plan (FLTCIP) is, among all things, the hardest abbreviation to pronounce in the realm of Federal benefits. Other than that, though, it is important to know that there were large miscalculations made in the late '90s regarding long term care insurance in general. Barely anyone elected to purchase long term care insurance, and those that did went on to retain it much longer than assumed, cumulatively claiming benefits at a much higher rate than what was anticipated. While the private insurance industry migrated to offering LTC "riders," which were added to life insurance policies and annuities, the FLTCIP did not. In the realm of private LTC insurance, old traditional policies even evolved in response to a lackluster demand in the marketplace by developing State Partnership Programs. The Federal plan remained with traditional policies that were usually cheaper than other, similar offerings, but didn't include any extra features and didn't participate in the partnership programs.

Over the last ten years, the Federal LTC plan has been administered by John Hancock- who placed the sole bid for the contract when it went up for renewal. Around that same time, existent policies saw an average increase of 83% in their premium amount. A 2018 audit of FLTCIP concluded that a contingent plan was most likely needed due to an uncertain marketplace. So to summarize: a program that only 10% of eligible feds use is operating under a contract that no one wanted but the company that was already locked in is hiking prices and facing possible financial ruin... With all that in mind, then, it makes sense that what is being called FLTCIP "3.0" offers a relatively attractive feature: 'premium stabilization.' Old policies can't add the

feature, but every new plan issued after October 21, 2019 has it included. The details surrounding what portion of your premium is deposited into the new "PSF" funds and how much is going to FLTCIP itself can make the idea needlessly complicated pretty quickly, so we'll steer clear of that for now.

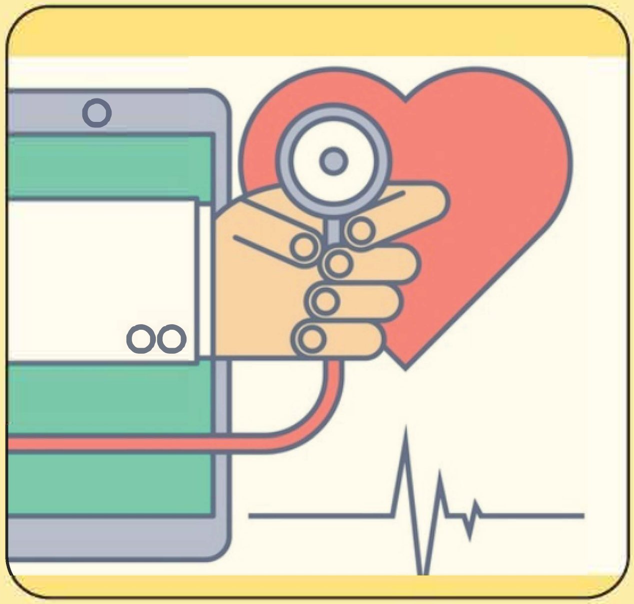
The main concept is: if you die before age 85 (and never utilized the coverage), then you'll get 35% of your premiums paid out as a death benefit to a chosen beneficiary. If you live over 85, however, you can start using up to 50% of premiums paid to pay your future premiums. This is actually a pretty neat solution when considering all the possible faults with the FLTCIP.

This new feature is attempting to address one of the main complaints against FLTCIP, and traditional LTC insurance itself- the **"Use it or Lose it" Aspect.** If you don't need long-term care, all the premiums paid could be seen as loss. (While this complaint contradicts the main idea behind insurance itself, it is still nonetheless a prominent gripe with long-term care coverage especially.) While insurance companies somewhat solved this by attaching the aforementioned riders to insurance policies and annuities, doing this made those products even more expensive and complicated. What the Premium Stabilization Feature does is a unique way of preserving some value of premiums paid if the insurance itself is never needed.

Until Next Time,

BENEFITS BEN

(Sources listed in "Disclaimers" section)



Health & Wellbeing:

The Many Health Benefits of Music

One's taste and enngagement in music is a personal journey and can have varying effects on health. Most studies, however, show that music has the portential for numerous and powerful positive impacts on someone's mental and physical health. In terms of the body- dancing, or even playing some instruments or singing- can have significant influence on physical wellbeing. Listening to music even lowers the blood pressure and boosts the immune system. Music has also been shown to effectively combat depression, lower stress levels, and a study from Drexel University showed music greatly reduced anxiety in cancer patients.

(Sources listed in "Disclaimers" section)

FED ZONE

featured article by Ed Zurndorfer

Understanding Health Savings Accounts & How They Can Result in Savings for Federal Employees and Annuitants

A health savings account (HSA) combines a high deductible health plan (HDHP) with a tax-favored savings account. In particular, an HSA offers a trifecta tax benefit; namely:

(1) **Tax Deductible Contributions.**

Contributions made to the HSA are 100 percent tax deductible, up to the legal limit. This is similar to contributions made to a deductible traditional individual retirement arrangement (IRA). Also like a deductible traditional IRA contribution, a contribution to an HSA is reported on one's income tax return as an adjustment to income (an "above-the-line" deduction). In other words, an individual does not have to itemize on his or her income tax return in order to get a tax benefit by contributing to his or her HSA. But unlike a deductible traditional IRA that some Federal employees own and contribute to, there are no adjusted gross income (AGI) limitations for contributing to an HSA. Because permanent Federal employees are covered by at least one pension plan – namely, a CSRS or FERS retirement – IRS rules restrict how much (if any) Federal employees can contribute to a deductible traditional IRA.

2) **Tax-Free Distributions.**

Withdrawals from an HSA to pay for qualified medical, dental, vision or long-term care expenses are not taxed. This is unlike a deductible traditional IRA in which withdrawals are fully subject to Federal and state income taxes.

(3) **Tax-Deferred & Possibly Tax-Free Earnings**.

HSAs accrue earnings which accumulate at least tax -deferred. The accrued earnings will not be taxed when withdrawn to pay for qualified medical, dental, vision or long term care expenses.

Another key feature of the HSA in that the HSA *remains the property of the owner*. *Unlike a health care flexible spending account (HCFSA), unused money in an HSA is never forfeited*. Withdrawals can be made tax-free to pay for qualified medical, dental, vision and long term care expenses, even when the owner is not covered by an HDHP. For example, the HSA owner uses HSA funds to pay for qualified expenses in retirement when the HSA is enrolled in Medicare and no longer enrolled in a high deductible health insurance plan.

In order to contribute to an HSA, an individual must be enrolled in an HDHP. An HDHP also features higher out-of-pocket maximum limits compared to other types of health insurance plans. With an HDHP, the annual deductibles must be met before insurance plan benefits are paid for medical services other than in-network preventive care services which have 100 percent coverage before the deductible is met.

The Federal Employee Health Benefits (FEHB) program offers HDHPs to employees. The following employees are eligible to participate in a HSA – that is, contribute to an HSA - through their enrollment in a FEHB-sponsored HDHP: (1) Employees not enrolled in any part of Medicare – Medicare Part A, Part B, Part C or Part D; (2) employees not enrolled in additional health insurance plan associated with a non-HDHP health insurance plan, either themselves or through a spouse; and (3) employees not claimed as a dependent on someone else's Federal income tax return.

Note that being enrolled in a Federal-sponsored (through the Federal Employee Dental and Vision Insurance Program or FEDVIP) or an individually-purchased dental, vision or long-term care insurance plan will not disqualify an individual from contributing to an HSA. But participation in one's health care flexible spending account (HCFSA) or through a spouse's HCFSA will disqualify an individual from contributing to an HSA.

The following is a list of FEHB program insurance plans offering HDHPs during 2020 for Federal employees:

1. GEHA
2. MHBP – Consumer Option

A number of FEHB program plans such as Blue Cross Blue Shield and United Health Care offer HDHP's in certain states. For example, CareFirst Blue Cross offers an HDHP to federal employees and annuitants living in Maryland and the District of Columbia.

An HSA is administered by a trustee or custodian, similar to an IRA. If the HSA owner dies, then a spousal beneficiary can inherit the HSA and use it as his or her own, making qualified withdrawals to pay for out-of-pocket medical, dental and vision expenses. Non-spousal beneficiaries of an HSA such as children must withdraw funds from the HSA and pay Federal and state taxes on withdrawals, but no early withdrawal penalty.

Each year, the IRS announces limits on contributions to HSAs, HDHP minimum deductibles, and maximum out-of-pocket spending amounts under HDHPs linked to HSAs. The following table summarizes the IRS limits for 2020:

Contribution and Out-of-Pocket Limits for Health Savings Accounts & High Deductible Health Plans for 2020

HSA contribution limit (employer + employee) :

Individual: $3,550

Family: $7,100

HSA "catch-up" contributions (age 55 and up) :

$1,000

HDHP minimum deductibles:

Individual: $1,400

Family: $2,800

HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts, but not premiums) :

Individual: $6,900

Family: $13,800

Penalties for Using HSA Withdrawals to Pay Nonqualified Expenses

Those HSA owners under the age of 65 (unless totally and permanently disabled) who make HSA withdrawals to pay nonqualified medical expenses face a 20 percent penalty of the HSA funds used for such expenses. Funds spent for nonqualified purposes are also subject to Federal and state income taxes.

Dependent Children

While the FEHB program allows employees to add their adult children (up to age 26) to their FEHB health plans, the IRS definition of a qualified dependent (as to which family member may be covered under an employee's HSA) is different. This means, for example, a Federal employee whose 25 year old child is covered under his or her HSA-qualified FEHB HDHP plan may not be eligible to use HSA funds to pay for that child's out-of-pocket medical, dental or vision expenses. The exception would be if the child is a full-time student and therefore a qualified dependent for Federal income tax purposes.

In short, these are the steps for a Federal employee to participate in an HSA in the FEHB program:

1. The employee enrolls in a HDHP under the FEHP program.

2. The employee's HDHP establishes an HSA with a fiduciary (each HDHP has more information on how this step works in the HDHP Plan Brochure).

3. The HDHP automatically contributes a portion of the employee's FEHB premium into the employee's HSA (the "**premium pass-through**")

4. The employee can make additional contributions to their HSA up to the IRS' annual maximum contribution limit, as shown above in the table under "HSA contribution limit (employer and employee)"

6. The employee will pay the full cost of non-preventive care for the employee or for a member of the employee's with funds from the HSA or out-of-pocket, up to the plan's high deductible amount.

7. If an employee incurs out-of-pocket medical expenses that reach the HDHP's maximum out-of-pocket limit, the employee's HDHP will then cover needed care with no charge to the employee. This assumes the employee uses in-network providers.

Other key features of HSAs that employees should be aware of:

- Distributions from one's HSA are tax-free to pay for the qualified medical expenses for the employee, the employee's spouse, and the employee's tax dependents. This is true even if the spouse or tax dependents are not covered by an HDHP.

- HSA may allow the contributions to the HSA to grow tax-free over time, similar to a Roth IRA. This is true even if the HSA owner leaves or retires from Federal service.

- HSA owners are highly encouraged to shop around for an HSA custodian who will be most aggressive in investing the funds in the HSA, especially if the HSA owner is relatively young. Using very simplified assumptions, it is possible to calculate for today's employees the future benefit of an HSA during the accumulation phase of an HSA.

- HDHPs with HSAs give employees greater control over how their healthcare dollars are spent, both out-of-pocket monies and with funds from their HSAs. As with most FEHB fee-for-service plans, HDHPs provide most cost-effective coverage when enrollees use preferred network providers.

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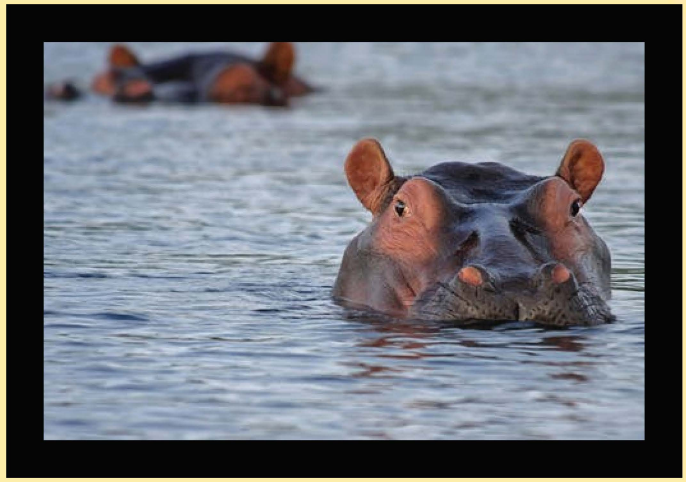
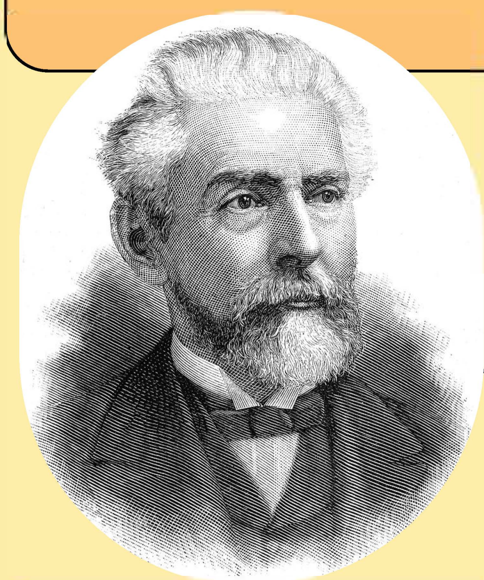
Fun Fact:

Elephants, Hippos, Rhinos, and Sloths are the only mammals who cannot jump.





History Tidbit:

On February 15, 1889, Norman Colman becomes the first "Secretary of Agriculture"- an office he occupied for a total of 18 days.

AGENCY SPOTLIGHT:

Foreign Agricultural Service

Acronym: F.A.S.

Established: 1930

Located: Washington, DC

# of Employees: 929

Leading Director: Ken Isley

Mission:

" The Foreign Agricultural Service links U.S. agriculture to the world to enhance export opportunities and global food security."

source: *fas.usda.gov*

The Coach's Corner

by Executive Coach, Robert Oberleitner

More commonly, organizational leaders are working with an executive coach in both the private and public sectors. Unless you have had coaching yourself, you may be asking, “What exactly is executive coaching?”
Or, “isn’t it really just mentoring by a different name?”

Executive coaching, also referred to as leadership coaching, is different from mentoring though both are valuable to development. Let’s take a look at the similarities and distinctions between them:

In mentoring, mentees seek a senior leader to serve as an advisor to help develop their skills. The mentor provides experiential advice explaining how they would address an issue in order to help address challenges. One example of a mentor / mentee relationship is Obi-Wan Kenobi and Luke Skywalker in Star Wars. Obi-Wan, the sage Jedi taught Luke many things from his own experiences, including how to use a light saber and control the force. He offered support and, at times, allowed Luke the space to work through challenges. Under Obi-Wan’s tutelage Luke learned how to stand on his own.

However, in organizations there are not enough Obi-Wans to work with all of the leaders who want direction. Additionally, have you ever received advice that just did not feel right or otherwise missed the mark for you? You are the only person who knows what feels right for you.

The International Coach Federation’s (ICF) definition of coaching is the “partnering with clients in a thought-provoking and creative process that inspires them to maximize their personal and professional potential.” A coach serves as a confidant who is working in support of you. Your coach does not have to be from your professional field, though it is best to select a coach you're comfortable with.

Leaders report intangible benefits to coaching such as increased job satisfaction, stress reduction, as well as happier, more effective teams. Formal analysis has also been conducted. For example, in a study conducted by PricewaterhouseCoopers it was reported that companies using professional coaching have seen a return of 5 to 7 times their initial investment. In an ICF study, 96% of those who had an executive coach said they would continue with coaching.

Like Luke, we all have the ability to grow and reach our goals. Working with an executive coach enhances your ability to see the path that is most suited to you. Coaching will help you control the professional “forces” you encounter and help you be the “jedi” leader you were meant to be.

(See "Disclaimers" section)

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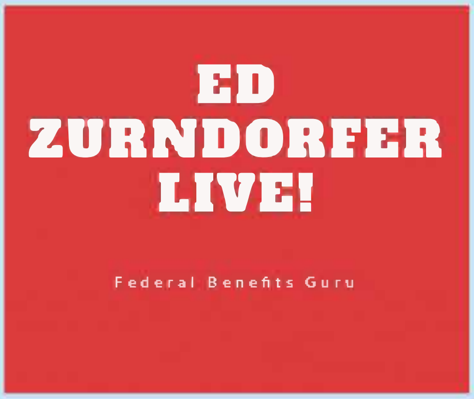

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"FLTCIP Premium Stabilization" Article Sources:

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