RETIREMENT REPORT

Littleton Public Schools
403(b) and 457 Retirement Plans

Fall 2019

Littleton Public Schools
big enough to serve you; small enough to know you

The Lowdown on Health Savings Accounts

With longer life spans come extended healthcare needs — and significantly more dollars required to pay for them

It's more likely today that you'll live longer than your grandparents did. The flip side is that you may spend far more on doctors' bills and treatment for chronic illnesses than previous generations. With healthcare costs continuing to rise along with life expectancies, health savings accounts (HSAs) are an increasingly popular way to bridge the retirement and health savings gap.

Most retirees are underfunding their future healthcare needs

It's very difficult to visualize a future unknown such as healthcare expenses — let alone set aside money to pay for them. But according to a 2019 research report,[6] a 65-year-old couple retiring today will need $360,000 to cover their total lifetime healthcare costs. Plus, while 70% of Americans age 65 or older will need some form of long-term care during their lives, only 17% are very or extremely confident that they'll have the resources to pay for it.[7] And the numbers suggest a growing funding crisis: according to HSA Bank, 40% of consumers never set aside money specifically for future healthcare costs.[8]

Average cost of semiprivate room in a nursing home in 2018[9]

An HSA complements your retirement plan

The key with any large expense is to break it down into manageable chunks. Just as your retirement plan takes manageable amounts out of your paycheck each month, you can use an HSA to pay for future healthcare expenses by making small, regular deposits. An HSA is a hybrid savings and investment account that lets you set aside funds in a tax-advantaged way, and allows you to:

1. Pay for Medicare premiums on a pretax basis
2. Pay for qualified long-term care insurance premiums tax-free
3. Reimburse yourself for qualified medical expenses at any time, with tax-free withdrawals

How HSAs work10

An HSA allows you to lower your federal income tax bill by making tax-free deposits each year. In order to contribute to an HSA, you must be enrolled in a high-deductible health insurance policy (HDHP), either through your employer or on your own. In 2020, the Internal Revenue Service has set minimum deductibility limits for HDHPs of $1,400 for individuals and $2,800 for families. You can't be covered by another person's health plan, and your income isn't a factor in your eligibility.

The amount you contribute to your account can be invested in basic interest-bearing accounts or funds, and the amounts deposited along with any earnings can be withdrawn tax-free at any time to pay for qualified medical expenses not covered by your HDHP. (Qualified expenses include items such as dental and vision costs, as well as preventive medications, such as sunscreen, bandages, and lip balm, among others.)

You must stop contributing to an HSA once you enroll in Medicare.

If you withdraw funds from an HSA and don't use them to pay for qualified medical expenses and you're under age 65, you'll have to pay tax on the full withdrawal amount plus a 20% penalty (so don't do it unless you have a big emergency!) After age 65, you'll owe tax but no penalty. Unused HSA funds roll from year to year — and your account has the potential to grow until you take future withdrawals — which makes them a useful complement to your retirement plan.[11]

You can also use your HSA to pay for medical expenses of a spouse or other family member — even if they are not covered by your health insurance. If your employer offers an HSA, you can take your account with you when you retire or change jobs.

If you're healthy and don't anticipate having much in the way of medical expenses as you get older, an HSA can be an excellent long-term tax-advantaged investment. But if you wind up needing long-term care not covered by Medicare, a well-funded HSA may be able to fill any short-term funding gap — giving you and your loved ones peace of mind.

How an HSA Works

Funds go into an individual account that is **TAX-DEDUCTIBLE**

Funds **ACCUMULATE** and carry over from year to year

PHARMACEUTICAL

Take your prescription to the pharmacy and present your insurance ID card.

The pharmacy will confirm your insurance coverage and charge you only the discounted rate.

MEDICAL

Choose a doctor either in or out of network.

Visit the hospital, lab, doctor's office, or imaging area. No copay is required (before deductible—some plans require a copay after the deductible).

Present your insurance ID card.

An Explanation of Benefits (EOB) will arrive in your mail to explain what's covered.

The provider will send you a bill for the amount not covered. *Tip: confirm the bill matches your EOB.

PAY THE PROVIDER BY EITHER:

Using your **HSA FUNDS** (debit card or transferring investment funds to your personal account).

OR

Paying **OUT OF POCKET** and keeping money in your HSA investments. (You must save your receipts to REIMBURSE yourself tax-free in the future.)

* Refer to IRS Publication 502 for a complete list of eligible expenses.

Three HSA Mistakes to Avoid

There are lots of advantages to an HSA. But you should keep these three potential pitfalls in mind before you decide to open an account:

- Contributing when you are no longer eligible – In 2020, you can participate in an HSA if you have a high-deductible health insurance policy with an annual deductible of $1,400 or more for single coverage or $2,800 or more for family coverage. At the same time, your maximum annual out-of-pocket costs must be $6,900 as an individual and $13,800 as a family. If you do not meet these requirements, you are not eligible to contribute to an HSA.
- Using HSA funds for nonqualified medical expenses – Although the definition of qualified medical expenses is fairly liberal (including vision, dental, and sunscreen products, for example), you generally can't use this money to pay for elective procedures or cosmetic surgeries. Be careful of the rules before you spend any funds.
- Spending down your account balance each year – Unlike Flexible Spending Accounts, in which you have to use the funds in the account or lose them, you can carry over a balance in an HSA each year. This makes them a good complement to your retirement savings account — and a good reason to fund them each year.

6 "HealthView Services 2019 Retirement Healthcare Costs Data Report." HealthView Services. 2019. http://www.hvsfinancial.com/wp-content/uploads/2018/09/2018-Retirement-Health-Care-Costs-Data-Report.pdf

7 "Long-term Care in America: Increasing Access to Care," Associated Press-NORC Center for Public Affairs 2018 Long-term Care Poll. https://www.longtermcarepoll.org/project/long-term-care-in-america-increasing-access-to-care/

8 "HSA Bank Health and Wealth Index℠." HSA Bank. March 19, 2019. http://www.hsabank.com/hsabank/learning-center

9 "Nursing Home Costs," seniorliving.org., Aug.13, 2019. https://www.seniorliving.org/nursing-homes/costs/

10 "How a health savings account (HSA) works," healthinsurance.org, Feb. 21, 2019. https://www.healthinsurance.org/other-coverage/how-a-health-savings-account-hsa-works/

11 "Top 10 reasons to use health insurance accounts," healthinsurance.org., July 20, 2019. https://www.healthinsurance.org/other-coverage/top-10-reasons-to-use-health-savings-accounts/

Whom do I call for help?

Contact TIAA-CREF for the following:

> Balances
> Investment changes
> Change personal info

800.842.2009
www.tiaa-cref.org

The Plan's Investment Consultant

Innovest Portfolio Solutions

4643 S. Ulster St., Suite 1040
Denver, CO 80237

303.694.1900 | www.innovestinc.com

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Littleton Public Schools Conservative 09/30/19

Who typically uses this portfolio?

Current Age: over 60

Risk Level: Low

Expected Return: Low

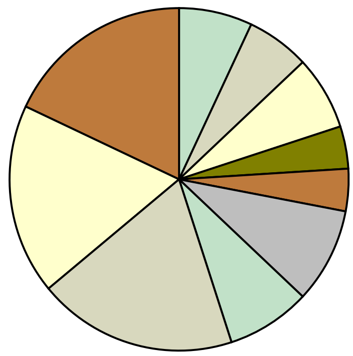
Time Horizon:

Years to Age 65: under 5

Years to Age 85: under 25

Expense Ratio (%) 0.36

Portfolio Allocation (%)



Dodge & Cox Stock (DODGX)	7.0
Vanguard 500 Idx;Adm (VFIAX)	6.0
Harbor:Cap Apprec;Inst (HACAX)	7.0
Vanguard Md-Cp I;Adm (VIMAX)	4.0
Vanguard S-C Id;Adm (VSMAX)	4.0
Am Beacon:Intl Eq;Inst (AAIEX)	9.0
American Funds EuPc;R6 (RERGX)	8.0
Met West:Total Return;Pl (MWTSX)	19.0
Vanguard Tot Bd;Adm (VBTLX)	18.0
TIAA Traditional	18.0

Past Performance (%)*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Littleton Public Schools Conservative	0.64	11.00	4.59	6.34	5.44	N/A

Understanding Your Professionally-Managed Portfolios

Who typically uses this portfolio?

Current Age: The age (today) of an average investor with time horizon, risk level, and return expectations of the Conservative Portfolio.

Time Horizon: Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

Risk Level: The amount of expected risk in the Conservative Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Conservative Portfolio, and is calculated via a statistical process consistent with 95% probability.

Low: -8% to **-14%**

Expected Return: The level of expected investment return from the Conservative Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

Low: 4% to **6%**

Past Performance

Investment performance results shown above represent past performance and are not indicative of future results. Please read the information contained in the applicable fund prospectuses carefully before investing money.

How is the portfolio diversified?

The pie chart and accompanying data shown for each portfolio illustrates the percentage allocated to each fund.

*Innovest relies on 3rd party data for these returns.

**Returns using TIAA Traditional Annuity - GRA contract

Littleton Public Schools Moderate 09/30/19

Who typically uses this portfolio?

Current Age: 40 - 60

Risk Level: Moderate

Expected Return: Moderate

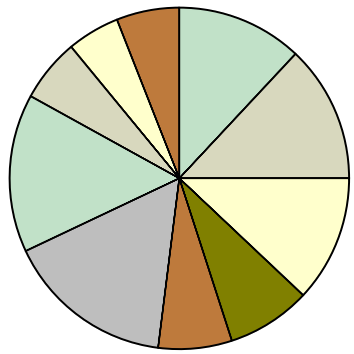
Time Horizon:

Years to Age 65: 5 - 25

Years to Age 85: 25 - 45

Expense Ratio (%) 0.40

Portfolio Allocation (%)



Dodge & Cox Stock (DODGX)	12.0
Vanguard 500 Idx;Adm (VFIAX)	13.0
Harbor:Cap Apprec;Inst (HACAX)	12.0
Vanguard Md-Cp I;Adm (VIMAX)	8.0
Vanguard S-C Id;Adm (VSMAX)	7.0
Am Beacon:Intl Eq;Inst (AAIEX)	16.0
American Funds EuPc;R6 (RERGX)	15.0
Met West:Total Return;Pl (MWTSX)	6.0
Vanguard Tot Bd;Adm (VBTLX)	5.0
TIAA Traditional	6.0

Past Performance (%)*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Littleton Public Schools Moderate	-0.35	14.59	1.08	8.77	6.93	N/A

Understanding Your Professionally-Managed Portfolios

Who typically uses this portfolio?

Current Age: : The age (today) of an average investor with time horizon, risk level, and return expectation of the Moderate Portfolio.

Time Horizon: Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

Risk Level: The amount of expected risk in the Moderate Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Moderate Portfolio, and is calculated via a statistical process consistent with 95% probability.

Moderate: -13% to -19%

Expected Return: The level of expected investment return from the Moderate Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

Moderate: 5% to 7%

Past Performance

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How is the portfolio diversified?

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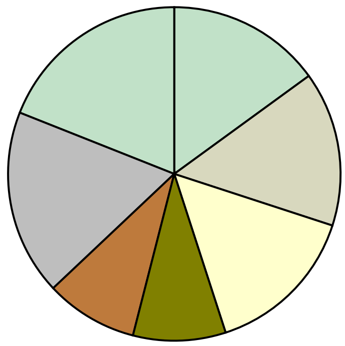
**Returns using TIAA Traditional Annuity - GRA contract

Littleton Public Schools Aggressive 09/30/19

Who typically uses this portfolio?

Current Age:	30 - 50
Risk Level:	High
Expected Return:	High
<u>Time Horizon:</u>	
Years to Age 65:	15 - 35
Years to Age 85:	35 - 55
Expense Ratio (%)	0.42

Portfolio Allocation (%)



Dodge & Cox Stock (DODGX)	15.0
Vanguard 500 Idx;Adm (VFIAX)	15.0
Harbor:Cap Apprec;Inst (HACAX)	15.0
Vanguard Md-Cp I;Adm (VIMAX)	9.0
Vanguard S-C Id;Adm (VSMAX)	9.0
Am Beacon:Intl Eq;Inst (AAIEX)	18.0
American Funds EuPc;R6 (RERGX)	19.0

Past Performance (%)*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Littleton Public Schools Aggressive	-0.79	16.21	-0.60	9.85	7.55	N/A

Understanding Your Professionally-Managed Portfolios

Who typically uses this portfolio?

Current Age: : The age (today) of an average investor with time horizon, risk level, and return expectation of the Aggressive Portfolio.

Time Horizon: Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

Risk Level: The amount of expected risk in the Aggressive Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Aggressive Portfolio, and is calculated via a statistical process consistent with 95% probability.

High: -17% to -23%

Expected Return: The level of expected investment return from the Aggressive Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

High: 6% to 8%

Past Performance

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How is the portfolio diversified?

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**Returns using TIAA Traditional Annuity - GRA contract