OAKTREE FINANCIAL ADVISORS, INC.

Independent, Objective Advice

Investment & Retirement Rx

A newsletter for Eli Lilly employees and retirees

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HSA or HRA for health insurance?

The following was originally written prior to benefits enrollment but updated after enrollment information was released. After the updates and getting through our compliance department we realized this information may be getting to you too late for this year's enrollment decisions. However, even if this is the case, we encourage you to consider whether the HSA may be a good fit for you next year.

It's benefits enrollment time for Eli Lilly. One of the most important benefits you choose will be your medical plan.

For your medical plan you can choose between the HSA and the HRA. These two plans are very much the same in what they cover. The differences are in the premium, deductibles, and out-of-pocket maximums. The big advantage to the HSA is the tax treatment. It's triple tax-free. You do not pay tax on the money you put into your HSA. Your account balance grows without tax and withdrawals for qualified medical expenses are tax-free. You can invest the money in the HSA. It doesn't have to sit in the savings account.

Many people look at the coinsurance of 10% for the HRA and 20% for the HSA and assume that the HRA must be better. This is not necessarily true. The HSA can often be the more cost-effective choice, especially after considering the tax benefits.

We've analyzed what costs would be under both the HRA and the HSA for 2021. These numbers were run assuming a family of four or more with the Lilly employee salary between $100,001 and $150,000, using the maximum family out of pocket amount. The premiums, annual deductibles, and Lilly's contribution all change based on the number of people covered, and the out-of-pocket maximums change based on your salary, so your situation may be different. To see what this would look like for your situation you can use the **HRA vs HSA Calculator** we created specific for Lilly employees. You can download it here.

For this example, we are assuming that the family has $2,000 in medical expenses in addition to the premium.

The HSA would cost $728 less for the year than the HRA in this situation. And this does not include the tax savings on the money contributed to the HSA or the accumulated savings from contributing to the HSA each year. If you contribute $5,600 to your HSA and you are in the 22% tax bracket, your tax savings would be $1,232. After 20 years of your contributions at $5,600 per year and Lilly's contributions of $1,600 per year, assuming a 6% return, your HSA balance would be $280,747.

Want to see how much you could save in income taxes and how much your contributions could grow to? The calculator will show you.

The HSA can be a terrific tool to help pay for your medical expenses with pre-tax dollars now and/or to save for expenses in retirement, whether you use the money then for medical or non-medical expenses.

For more in-depth information about health savings accounts refer to this article. It's a couple years old so some of the numbers have changed slightly but it should still answer many of the questions you may have. If you still have questions, please contact us.

	HRA	HSA
Annual Premium	$5,520 ($212.32 per pay period)	$4,392 ($168.92 per pay period)
Medical Expenses	+$2,000	+$2,000
Costs	$7,520	$6,392
Lilly's Contribution	-$2,000	-$1,600
Your Net Cost	$5,520	$4,792

A cup of coffee and a second opinion

When the markets turn as volatile and confusing as they have over the last several months, even the most patient investors may come to question the wisdom of their investment plan.

At Oaktree Financial Advisors, we've seen a lot of difficult markets come and go. And we can certainly empathize with people who find the current environment troublesome and disturbing. We'd like to help, if we can, and to that end, here's what we offer: **A cup of coffee and a second opinion.**

By appointment, you're welcome to come in and sit with us for a while. We'll ask you to briefly outline your financial goals - what your investment portfolio is intended to do for you. Then we'll review the portfolio for and with you.

If we think your investments continue to be well suited to your long-term goals - despite all the market turmoil – we'll gladly tell you so and send you on your way.

If, on the other hand, we think some of your investments no longer fit with your goals, we'll explain why, in plain English. And, if you like, we'll recommend some alternatives.

Either way, the coffee is on us.

Please call us at 317-818-1631 or email info@oaktreeadvisors.com when you'd like to sit down with us.

Can I afford to retire?

Not sure? Our Independent Professional Retirement Overview (IPRO) can help. We can help you determine if you can maintain your lifestyle throughout retirement based on an early retirement, a full retirement, or anywhere in between. There are many factors to consider other than just your pension. Oaktree Financial Advisors has developed the IPRO, a customized retirement analysis that takes into account your specific Lilly benefit programs. It is designed to help you understand what retirement will look like, before you retire. It's part of our effort to make your retirement preparation and transition as smooth and successful as possible.

To request your free IPRO simply visit our website at www.oaktreeadvisors.com. Once there click on the Contact link, fill out the form, select IPRO in the "I'm interested in" box, and click on Submit. You can also call our office at 317-818-1631.

Roth 401(k) or Traditional 401(k)?

When you make a traditional, pre-tax 401(k) contribution, the amount is taken out of your paycheck before taxes are taken out. You won't pay taxes on those savings until you take a distribution, at which time both your contributions and investment earnings are subject to taxes.

A Roth 401(k) contribution is made on an after-tax basis, meaning that you've already paid the current income tax on it when it gets deposited into your 401(k) account. Because of this, you won't be taxed when those contributions are withdrawn. And the earnings on those contributions can be distributed tax-free if you are at least age 59½ and have held the Roth 401(k) for at least five years.

Those who may benefit from a Roth 401(k) include:

- Younger employees who have a longer retirement horizon and therefore more time to accumulate tax-free earnings.
- Employees who aren't eligible for a Roth IRA because they exceed the compensation limits and who want a pool of tax-free money to draw on in retirement.
- Employees who want to leave tax-free money to their beneficiaries.
- Those making the maximum contribution to their 401(k) each year.

The Roth 401(k) can help provide you with tax diversification. This means you will have money that will not be taxed upon withdrawal. If you've been using the traditional 401(k), you'll pay tax on all that money. By using a Roth 401(k) with after-tax dollars, the appreciation of assets is sheltered from future tax. If you have accumulated money in both types of accounts, you will have flexibility for withdrawals that could save on taxes during retirement.

If you are unsure whether the Roth option is right for you, please contact us.

Is it time for a 401(k) Tune Up?

How long has it been since you last gave your 401(k) a tune up? One of the most valuable services we have been able to provide to our clients is a personal 401(k) Tune Up. This comprehensive analysis includes specific recommendations on how to allocate your 401(k) based on your personal situation.

If you're not sure your 401(k) is set up appropriately and you would like some professional guidance, **request your complimentary 401(k) Tune Up by visiting our website at www.oaktreeadvisors.com.** Once there click on the Contact link, fill out the form, select 401(k) Tune Up in the "I'm interested in" box, and click on Submit. You can also call our office at 317-818-1631 or toll-free at 1-877-901-1631.

Are you acting or reacting?

"The idea that a bell rings to signal when to get into or out of the stock market is simply not credible. After nearly fifty years in this business, I don't know anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who has."

- Jack Bogle, the founder of Vanguard

It seems that many investors think that trying to time the market is an important factor in their investing success. But rather than **react** to the market's movements or even trying to anticipate what may happen (i.e. the upcoming election), history teaches us it's much more prudent to **act** on a plan

After reaching an all-time high of 3,386 on February 19th, the S&P 500 declined 34% by March 23rd. That's just 33 days. It dropped a lot and it dropped quickly. That alone can be unsettling for investors, but it was accompanied by news of COVID-19 cases increasing rapidly in the U.S. The headlines were scary and there was a lot of uncertainty.

When exactly would an investor get out of the stock market to not subject themselves to this decline? What investor could have seen that coming? If an investor did **react** to the drop and tried to time the market and get out during those 33 days as the market was going down, they would have two problems. One, they probably got out after a significant decline had already occurred. So maybe the market was down 10 or 15 or 20 percent by the time they exited. And in doing so they locked in that 10, 15 or 20 percent loss. The disciplined and patient investor that did not **react**, lost nothing.

From March 23rd to October 2nd the S&P 500 gained 42% to 3,271. And here is problem number two: at what point would that investor have decided to get back into the market? Or are they even back in yet? Did they miss the 42% run back up? The patient and disciplined investor, **acting** on their plan, did not.

When you are **acting** on a long-term plan you are more likely to stay the course. What kind of plan, you might ask? A plan to accumulate enough money to provide an income during retirement that will allow you to live the lifestyle you want and to make sure you never run out of money.

In order to execute such a plan, not only is it not necessary to try to time the market, or **react**, it is imperative that you do not try to. The only way to be assured of capturing the full permanent return of equities is to ride out every day of their temporary declines. It is simply not possible for anyone consistently to gain a timing advantage over the market by going into and out of it.

Since 1980 the S&P 500 has had an average annual return of 8.79%, not including reinvested dividends. The rate of return with dividends reinvested is 11.64% per year (source: politicalcalculations.com).

During the same period the average annual correction in the S&P 500 from high to low has been about 14%. About once every five years there is a bear market – that is, a decline of 20% or more from a previous peak. The average decline during these episodes has been a little over 30%, and it's taken an average of around 15 months for the S&P 500 to go from high to low. It's important to note that these have been the averages.

It's also important to note that the declines have always been temporary. And they have always given way to the market moving on to new higher highs. The patient and disciplined investor rides out these temporary declines, **acting** on their long-term plan to accumulate capital, and sees them for what they are - a normal and necessary part of the market cycle. This investor has learned that the volatility cannot be avoided if they are to earn the returns they need.

> "The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."
>
> - Benjamin Graham

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Investment & Retirement Rx

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What's Inside

We're excited to present this issue of the Investment & Retirement Rx newsletter. We hope you enjoy it and that you'll share it with your colleagues.

When patients want the very best medical expertise, they go to a specialist, not a general practitioner. Oaktree Financial Advisors specializes in helping current and former Eli Lilly employees and retirees.

We are not affiliated with or endorsed by Eli Lilly. We are an independent firm serving clients who work for or have worked for Eli Lilly.

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

- Peter Lynch

"Those who judge their portfolio by its performance relative to some narrow benchmark are focusing on an issue that is largely irrelevant to their ultimate financial success. The only benchmark that you should care about is the one that indicates whether or not you're on track to accomplish your financial goals. Risk is measured as the probability that you won't meet your financial goals. Investing should have the exclusive objective of minimizing this risk."

- from Adaptive Asset Allocation by Butler, Philbrick and Gordillo