

Financial Strategies

News You Can Use!!

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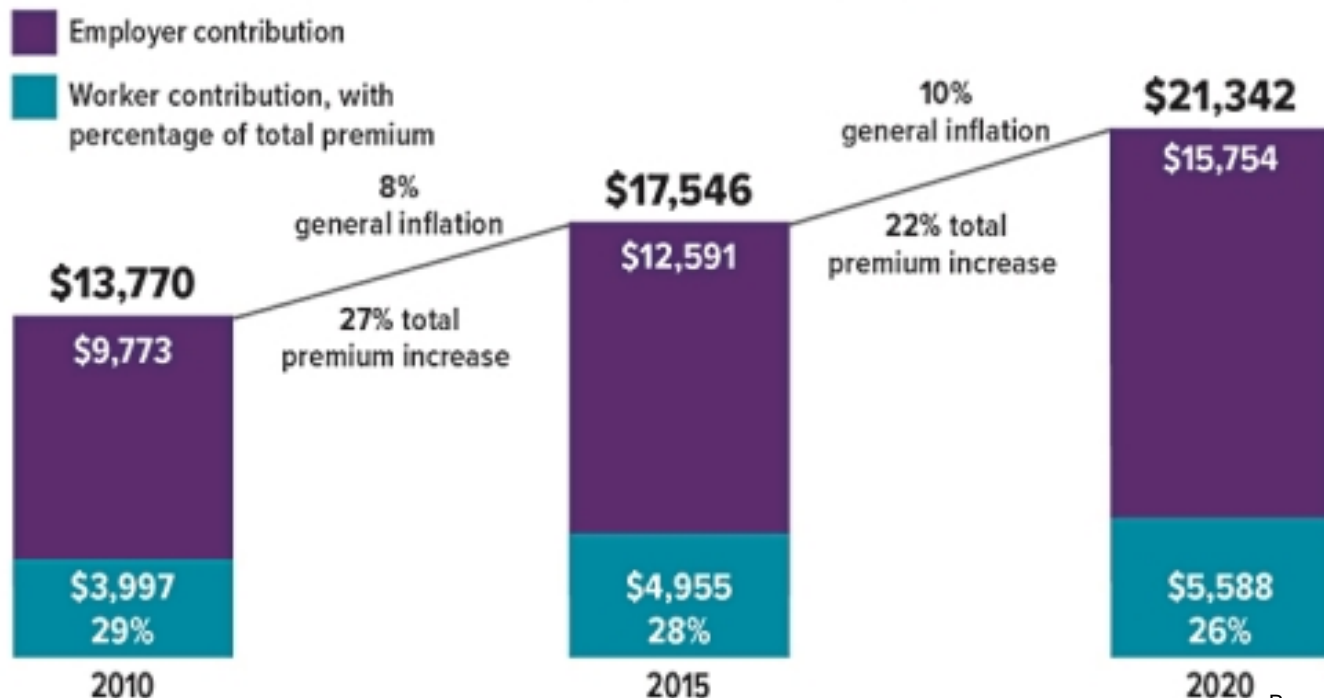
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Rising Premiums

Approximately 157 million Americans are covered by employer-sponsored health insurance. From 2010 to 2020, premiums increased much faster than the rate of general inflation, although the increase has slowed somewhat in recent years. Employers absorbed the largest share of the premium increases, and the percentage paid by workers dropped over the period. However, workers are paying additional costs in the form of higher deductibles and other out-of-pocket expenses.

Average annual employer and worker premium contributions for family coverage

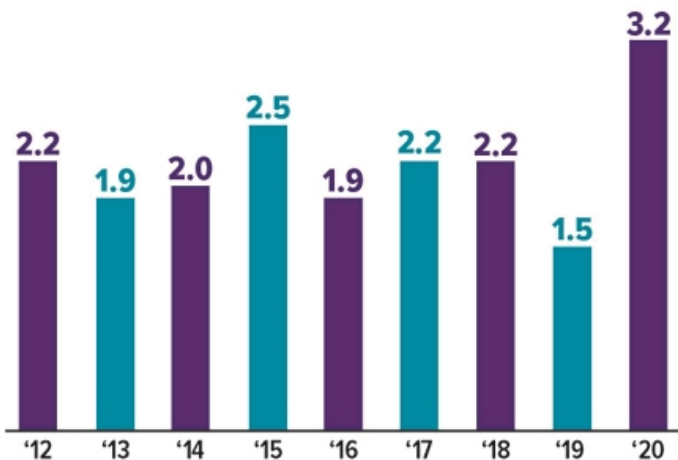


Should You Speed Up Your Retirement Plans?

According to a March 2021 survey, an estimated 2.8 million Americans ages 55 and older decided to file for Social Security benefits earlier than they expected because of COVID-19. This was about double the 1.4 million people in the same age group who said they expected to work longer, presumably due to pandemic-related financial losses.¹

Many older workers were pushed into retirement after losing their jobs, and others may have had health concerns. Still, it appears that work-related stress and the emotional toll of the pandemic caused a lot of people to rethink their priorities and their retirement timelines.

Annual increase in the number of retired baby boomers (in millions)



Source: Pew Research Center, 2020

How do you know if you can realistically afford to retire early? First and foremost, determine whether you will have enough income to support the lifestyle you envision. Instead of accumulating assets, you may have to start draining your life savings to cover living expenses. Here are four important factors to consider.

Lost Income and Savings

You may be sacrificing years of future earnings and contributions to your retirement accounts. For example, an early retiree who was making \$80,000 per year would forgo about \$400,000 of salary over five years or \$800,000 over a decade, not counting cost-of-living or merit increases. The 10-year total rises to nearly \$1 million when annual raises averaging just 3% are included.

If the same retiree could have contributed 5% of salary to an employer-sponsored retirement plan with a 100% match, he or she would also miss out on \$8,000 in contributions in the first year, more than \$40,000 over five years, and almost \$100,000 over 10 years.

Debt and Other Financial Responsibilities

If you are still paying a mortgage, have other debts, or are supporting children or aging parents, you may not be ready to retire. Ideally, you should be free of "extra" financial responsibilities so you can focus on meeting your own living expenses without a regular paycheck.

Reduced Social Security Benefits

The earliest age you can file for Social Security is 62, but your benefit would be reduced to 70% or 75% of your full retirement benefit — for the rest of your life. So even if you do decide to retire, you might think about waiting to claim your benefit until you reach full retirement age (age 66 to 67, depending on the year you were born) or longer if you have enough income and/or savings to cover your expenses. For every year you wait past your full retirement age, your benefits will increase by 8% (up to age 70).

Higher Medical Costs

If you retire before you (or a spouse) become eligible for Medicare at age 65, you could lose access to an affordable employer-provided health plan. You can purchase health insurance through the Health Insurance Marketplace or a broker, but the age-based premiums are more expensive for older applicants. For two 60-year-olds with a household income of \$100,000, the average premium for a silver Marketplace plan in 2021 is \$708 per month (\$8,500 per year), after subsidies. And if you seek medical treatment, you'll typically need to cover copays, deductibles, coinsurance, and some other expenses (up to the plan's out-of-pocket maximum).²

Even with Medicare, it's estimated that a married couple who retired at age 65 in 2020, with median prescription drug expenses, would need \$270,000 to have a 90% chance of paying their health-care costs throughout retirement.³

The bottom line is that some people might be giving up more than they realize when they retire early. Before you say goodbye to the working world, be sure you have the resources to carry you through the next phase of your life.

1) U.S. Census Bureau, 2021

2) Kaiser Family Foundation, 2021

3) Employee Benefit Research Institute, 2020

Is a High-Deductible Health Plan Right for You?

In 2020, 31% of U.S. workers with employer-sponsored health insurance had a high-deductible health plan (HDHP), up from 24% in 2015.¹ These plans are also available outside the workplace through private insurers and the Health Insurance Marketplace.

Although HDHP participation has grown rapidly, the most common plan — covering almost half of U.S. workers — is a traditional preferred provider organization (PPO).² If you are thinking about enrolling in an HDHP or already enrolled in one, here are some factors to consider when comparing an HDHP to a PPO.

Up-Front Savings

The average annual employee premium for HDHP family coverage in 2020 was \$4,852 versus \$6,017 for a PPO, a savings of \$1,165 per year.³ In addition, many employers contribute to a health savings account (HSA) for the employee, and contributions by the employer or the employee are tax advantaged (see below). Taken together, these features could add up to substantial savings that can be used to pay for current and future medical expenses.

Pay As You Go

In return for lower premiums, you pay more out of pocket for medical services with an HDHP until you reach the annual deductible.

Deductible. An HDHP has a higher deductible than a PPO, but PPO deductibles have been rising, so consider the *difference* between plan deductibles and whether the deductible is per person or per family. PPOs may have a separate deductible (or no deductible) for prescription drugs, but the HDHP deductible will apply to all covered medical spending.

Copays. PPOs typically have copays that allow you to obtain certain services and prescription drugs with a defined payment before meeting your deductible. With an HDHP, you pay out of pocket until you meet your deductible, but costs may be reduced through the insurer's negotiated rate. Consider the difference between the copay and the negotiated rate for a typical service such as a doctor visit. Certain types of preventive care and preventive medicines may be provided at no cost under both types of plans.

Maximums. Most health insurance plans have annual and lifetime out-of-pocket maximums above which the insurer pays all medical expenses. HDHP maximums may be the same or similar to that of PPO plans. (Some PPO plans have a separate annual maximum for prescription drugs.) If you have high medical costs that exceed the annual maximum, your total out-of-pocket costs for that year would typically be lower for an HDHP with the savings on premiums.

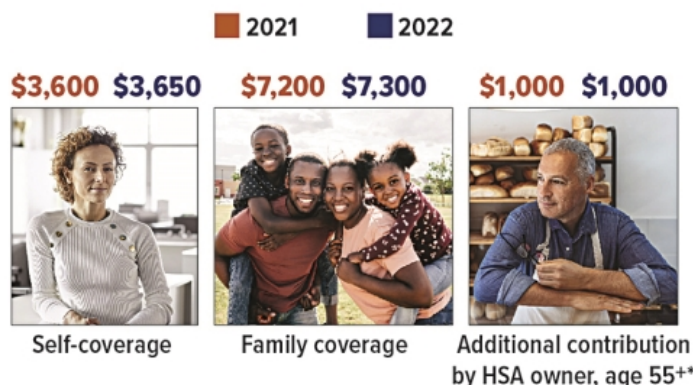
Your Choices and Preferences

Both PPOs and HDHPs offer incentives to use health-care providers within a network, and the network may be exactly the same if the plans are offered by the same insurance company. Make sure your preferred doctors are included in the network before enrolling.

Also consider whether you are comfortable using the HDHP structure. Although it may save money over the course of a year, you might be hesitant to obtain appropriate care because of the higher out-of-pocket expense at the time of service.

HSA Contribution Limits

Annual contributions can be made up to the April tax filing deadline of the following year. Any employer contributions must be considered as part of the annual limit.



*HSA contributions cannot be made after enrolling in Medicare.

Health Savings Accounts

High-deductible health plans are designed to be paired with a tax-advantaged health savings account (HSA) that can be used to pay medical expenses incurred after the HSA is established. HSA contributions are typically made through pre-tax payroll deductions, but in most cases they can also be made as tax-deductible contributions directly to the HSA provider. HSA funds, including any earnings if the account has an investment option, can be withdrawn free of federal income tax and penalties as long as the money is spent on qualified health-care expenses. (Some states do not follow federal tax rules on HSAs.)

The assets in an HSA can be retained in the account or rolled over to a new HSA if you change employers or retire. Unspent HSA balances can be used to pay future medical expenses whether you are enrolled in an HDHP or not; however, you must be enrolled in an HDHP to establish and contribute to an HSA.

1–3) Kaiser Family Foundation, 2020

Is It Time to Cut Cable?

An explosion in the number and variety of streaming services, coupled with more time spent at home in the last year, might have you wondering whether it's time to cut the cord on cable. After all, cable isn't getting any cheaper. At the beginning of 2021, many large cable and satellite television companies announced higher prices and reinstated data caps, which were temporarily suspended in 2020 by the Federal Communications Commission.¹ But is it really worth it to ditch cable in favor of streaming services? Consider the following before you make the switch.

Determine how much of your cable subscription you *actually* use. Are you regularly watching all the channels you pay for, or do you watch only a few of them? Are the channels you watch worth what you pay each month? The answers to these questions may help you decide whether the cost of your cable subscription is worth it.

Know your viewing preferences. Streaming services often delay the release of new TV show episodes, which can be frustrating for dedicated viewers. And sports fans might be disappointed to learn that it's difficult to access live sports coverage through most streaming services. Comprehensive sports packages are offered by some services, but usually at a higher cost, and you may need to bundle a few services together depending on whether you want local, national, and/or international coverage. Plus, delays in live programming can make it tough to tune in to your

favorite teams.

Compare streaming services. A dizzying array of streaming services are available. Narrow down your choices by making a list of the ones that most appeal to you. If possible, sign up for free trials to find out what is (and what isn't) a good fit. And investigate the terms and conditions of any service that you decide to try — look for termination fees and how much any add-ons might cost.

Consider the benefits and limitations. In addition to being less expensive than cable, most streaming services are user-friendly. And as long as you have an Internet connection, streaming services allow you to view your favorite shows on the go on your cell phone or tablet. But not all streaming services offer extras such as digital video recording (DVR) or live television pausing, which are cable features you might miss. You may also have to subscribe to multiple streaming services to access all your preferred programs, which could mean you won't save much (or any) money in the long run.

Factor in the cost of extra equipment. You may need to invest in special streaming devices to access the programs you want. You might also consider the cost of high-speed Internet — you won't be able to successfully stream without a relatively fast Internet connection.

1) *Consumer Reports*, December 21, 2020

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