THE
ADVISOR
conquer the complex

2021
expectations & hope

yhb Wealth Advisors

1Q2021

High Deductible vs **Low Deductible**
Health Care & Retirement Impacts

Our employer healthcare benefits are an important portion of our annual elections, but why do they seem to cause such a headache whenever it is time to choose our plan? So much of selecting the “right” benefits seem to hinge upon accurately forecasting our health needs for the year. Just like in predicting our expected age for Social Security, it seems if we know what our health needs are, then selecting the right benefits will be easy.

Every family and individual has unique health needs. So, if you have ongoing treatments, medications, or care, then further analysis is necessary. Yet it is possible to plan for retirement, select an appropriate level of healthcare benefits and manage our budget all in one decision. This is where the High Deductible Health Plan (HDHP) vs. Low Deductible/Preferred Provider Organization (PPO) decision comes into play.

Generally, HDHP plans are marketed towards “healthy” individuals that infrequently visit the doctor and want to limit the impact upon their budget. Inevitably, it seems healthcare benefits will need to be accessed at some point. Under a high deductible plan the out of pocket costs may be considerable.

With an HDHP, the insured is bearing much of the financial risk. Compared with a PPO plan where the insured is paying a higher monthly premium for lower out of pocket costs when medical services are needed. Below is a chart providing a generic framework of how HDHP and PPO plans compare:

	HDHP		PPO	
	Single	**Family**	**Single**	**Family**
Premium monthly	$450	$1,500	$750	$2,100
Deductible	$5,000	$10,000	$500	$1,000
Max out of Pocket	$6,250	$12,000	$4,000	$8,000
Annual Prem + Ded	$5,400 + $5,000 = $10,400	$18,000 + $10,000 = $28,000	$9,000 + $500 = $9500	$25,200 + $1,000 = $26,200
Co-Pay vs Co-insurance	$300 after ded.	$300 after ded.	20% after ded.	20% after ded.

There are three primary considerations when planning and selecting our healthcare benefits:

1. Monthly/annual budget
2. Ongoing healthcare needs
3. Future planning impacts

Our budgets affect so much of our financial, and now physical/mental, health. If a given health plan is unaffordable on our current budget, that makes our health care plan decision straightforward. If all options available are unaffordable on our current budget, then our budget is the problem that needs retooling.

The above annual premiums are a difference of $3,600 for individuals ($750 - $450 = $300 x12) and $7,200 families ($2,100 – $1,500 = $600 x 12) between the two plans. Not an overwhelming impact but significant, nonetheless. Adding together monthly premiums and meeting the deductible in one year, the total costs present a steep cost on an annual basis regardless of plan selection. The difference between the two plans doesn’t amount to a vast difference; $900 for individuals and $1,800 for families. Keep in mind that this is in the event that the deductibles max out on any given plan. If all are healthy, and no deductibles maxed out, simply comparing the annual premiums makes the decision straightforward.

One key issue to discern between the two plans is what happens once your max out of pocket is reached. In the case of the HDHP plan, you have a $300 co-pay after the deductible is met. Thus, if one incurs a $20,000 ER bill after already meeting their maximum deductible/out-of-pocket costs on their HDHP plan, they only pay $300. This is significant, although it means we have already incurred substantial costs during the year.

On a PPO plan, even though there is a maximum out of pocket total set, the plan then transfers to co-insurance rather than co-pay. In the event of the same $20,000 ER bill after having met the out-of-pocket max for the year on a PPO plan, the cost could be $4,000. This is not the sole reason to select a given plan, but certainly a factor that impacts our monthly and annual budget.

Ongoing health care needs are the primary factor in selecting the appropriate insurance for the coming year. If an individual or family member has frequent doctor visits the costs incurred may put too much strain on the budget for an HDHP to make sense. While an HDHP may provide a broader range of providers than a PPO plan, the out of pocket costs for ongoing care may exceed what one is able to afford on an ongoing basis.

Utilizing your financial advisor to identify these costs and make an informed decision is not only worthwhile but may have lasting impacts upon your financial, personal and mental health. The above examples provide a framework for how costs may be incurred on an annual basis but are not plan specific. A PPO plan may be a better fit for a specific health issue where 100% of the cost is covered, compared with an HDHP plan. This emphasizes the need for understanding ongoing health needs and concerns as they relate to plan coverage.

Lastly, the future impact upon one's financial circumstance due to healthcare costs needs consideration.

When a medical event occurs, the impacts can be financially and morally debilitating. Establishing an emergency fund helps to plan for the unforeseen, but there are efficient ways to plan for such events.

HDHP plans are eligible for Health Savings Accounts (HSA) in which individuals may make tax-deductible contributions of $3,600 and families $7,200 for the 2021 tax year. There are additional $1000 contributions for those age 55 and older. This money goes into the account on a tax-deductible basis, may be invested according to given plan restrictions with the growth being tax-free, and be used to medical expenses tax-free. This triple tax advantage is an extremely compelling reason for the selection of an HDHP plan over a PPO, as the latter are not eligible for HSA's.

There are other lesser-known healthcare expenses that HSA monies may pay for (but are not limited to): long-term care insurance premiums, Medicare premiums, and other medical, dental and vision health expenses during retirement. Unlike many flexible spending accounts (FSA), these HSA accounts are not required to be liquidated by the end of a calendar year and may remain with you if you change employers. Furthermore, these funds may be withdrawn for any reason once you reach the age of 65 at ordinary income rates. With rising healthcare costs, the ability to plan for retirement healthcare costs using tax-free income is an incredible advantage. This is almost an equal comparison to making IRA contributions, with additional advantages, when one may be otherwise unable or not receive a tax benefit for doing so.

Your healthcare is important. Your finances are important. The impacts they may have upon each other are desperately important. It is our hope to better equip you to make more informed decisions on every aspect of your financial and physical lives. When you have questions, it is best to ask your trusted advisor. Thankfully, we're here to help.

JT TRIMBLE

~~2020~~ COMES TO A CLOSE

Thank goodness!

This year the global economy will shrink for the first time since the 1930s, and it is almost certainly the case that the long-term implications of an outright decline in global GDP are not yet widely appreciated by the investment markets. As it stands today, although the economic free fall from the lock down in the spring has now been partially recouped, weekly initial unemployment claims remain at a rate above the peak levels seen during the most recent economic weakness in 2009, and U.S. GDP may decline by as much as 4%–5% in 2020. Since GDP will likely remain dampened until people no longer have reason to fear the coronavirus, the cumulative economic impact of this downturn will be far beyond what was endured in the decade following the Great Recession. In other words, we are just nine months into a process which will very likely be measured in years.

If it seems odd that in light of the scale of this economic downturn, the financial markets appear to see a different reality, it is a tribute to the power of monetary policy to alter market prices and investor perceptions. Monetary policy has been the central narrative underlying major market trends over the last decade, and with fiscal and monetary policy now more closely aligned than at any other time since the 1940s, it will likely be an even stronger force in the years ahead.

Since the financial crisis in 2008, we have witnessed the end of price discovery in an ever-larger share of the credit markets. Along with lowering interest rates to near zero, the Fed began buying Treasury bonds and mortgage-backed bonds in 2008. Today, more than a decade later, the Fed continues buying them — at a rate of $120 billion per month. With interest rates near zero and the yields in the safest realms of the bond market suppressed, the Fed now finds itself inhibiting price discovery in Treasury, mortgage, and corporate bonds. This collectively represents $45 trillion of debt, or an amount greater than 200% of U.S. GDP.

If you get the feeling that monetary policy is already trapped, it's because it is already trapped. And it appears Chairman Powell and other members of the Fed are not only well aware of this, they are determined to dig monetary policy out of its trap by doing everything possible to encourage higher inflation in the years ahead — including embracing the rising national debt as a vehicle to achieve that inflationary goal. We are preparing to weather the future impact of this wish for higher inflation by adding to portfolio inflationary hedges while they are inexpensive.

2021 – The Year of the Vaccine

Whether the development and widespread dissemination of several vaccines in 2021 to fight the coronavirus will mean a return to some semblance of normal economic growth remains to be seen. Depending on which poll you read, somewhere between 40% and 60% of those polled say they are reluctant to get the vaccine immediately when it is available. Despite the possibility of a much slower rebound in economic activity, it seems likely the investment markets may continue to decouple from the economic reality as accommodative monetary policy continues to fuel valuation expansion.

But, it seems probable not all sectors of the market will benefit equally from this monetary largesse. In 2020 the sectors of the market that saw the greatest gains were those tied to technology platforms and consumer discretionary items benefiting from the "stay at home" phenomenon.

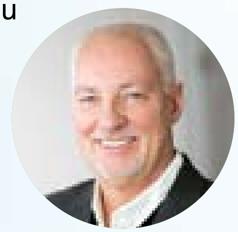
In the case of the NASDAQ 100, six large technology companies with a combined $6 trillion market value now represent 45% of the entire index, and investors appear to feel that the impact of the pandemic justifies a complete decoupling from the rest of the market. This impact is not unlike the middle of 2007, when investors felt markets outside the U.S. would decouple from the largely domestic housing related crisis and ultimately benefit from the slowdown in the U.S. At that time, investors believed this would result in strong growth in the demand for oil, and that was not all. At the same time, it was rumored "the end of cheap oil" was in sight and this resulted in the Oil Services Index doubling between late 2006 and June 2008.

It didn't quite work out that way. Shortly cracks began to appear in the idea that global growth would decouple and accelerate while the U.S. economy slowed down. And as we know today, the global economy and financial markets would prove to be far more connected than most investors thought possible at the time. In addition, the "end of cheap oil" didn't arrive either. In the years that followed, hydraulic fracking in the U.S. ushered in a new era of domestic oil output. Long story short, as the key assumptions underlying the desire to pay any price eroded, energy investors who bought at elevated valuations were left holding the bag over the next twelve years, and counting.

The story of energy stocks over the last twelve years likely has lessens for investors today, as today's narrative for some technology stocks appears just as compelling as the justification for energy was in 2008. Whenever a narrative takes over to such an extent that it compels investors into a "pay any price" frenzy, it is likely the case that a few reasonable conclusions have been warped into justifying the kind of exuberance that usually accompanies long-term market peaks. I have a suspicion that I will be writing a commentary at some time in the future pointing to today's technology valuations as extreme and citing examples of frenzied investors who got caught in a pay any price trap.

In the case of energy, the reversion which began twelve years ago could be approaching its end. At the height of the pay any price fever in mid-2008, energy stocks represented 25% of the S&P 500's market capitalization. Today, they represent a mere 2%. And while investors then thought the end of cheap oil was in sight, today the narrative is that the end of all oil demand is in sight, with alternative energy and electric vehicles on the rise. While there are usually kernels of truth in every compelling market narrative, when assets are priced extremely, driven by either exuberance or despondency, there is usually a big gap between valuation and reality. Though it may take some time for the current value in some parts of the energy sector to be realized, we continue to hold these quality names for long term appreciation, and in the meantime are collecting some attractive dividend yields.

It is our sincere desire that you remain healthy and 2021 unfolds as a much better year for each and every one of you. As always, should you ever have a question about your financial plan or investment portfolio, please don't hesitate to reach out to any of us on the YHB Wealth team.



RANDY BEEMAN

yhb Wealth Advisors

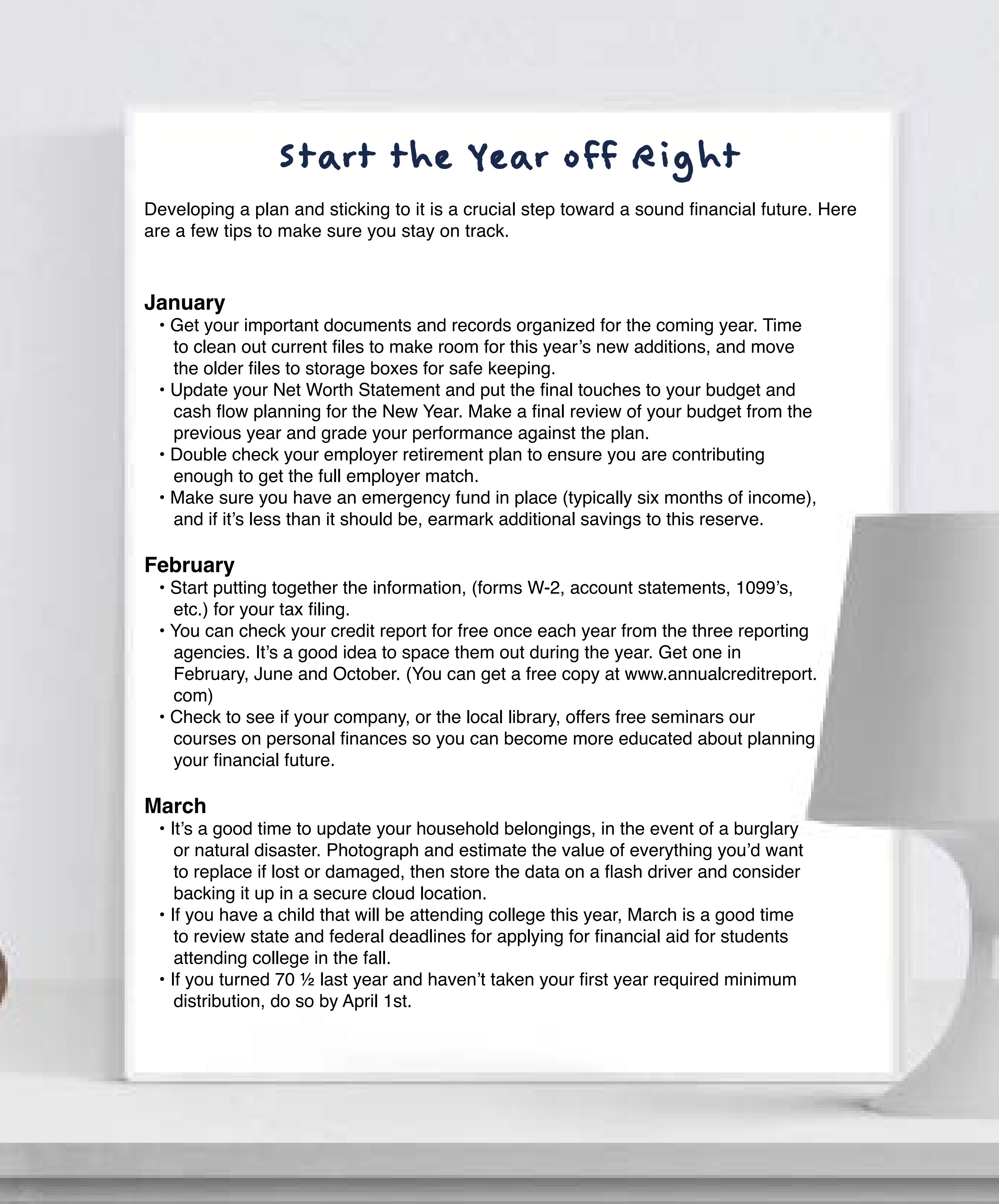
2021 Market Outlook

January 27, 2021 | 11:00am | Webinar

With investment market volatility increasing, whether you manage your own portfolio, or have a professional money manager, you will want to attend this informative seminar to increase your investment knowledge and ensure your portfolio is properly positioned to take advantage of future market opportunities, while also minimizing risk.

We will take an in-depth look at the historical and current market situation both domestically as well as globally, and help attendees position their portfolio to minimize risk and profit from specific areas of opportunity. More than just sharing charts, trends and macro-economic data, the speaker will discuss the drivers behind market movements, point out specific risks to understand and highlight interesting value opportunities in both income and equities.

Register at YHBwealth.com/RSVP



Start the Year off Right

Developing a plan and sticking to it is a crucial step toward a sound financial future. Here are a few tips to make sure you stay on track.

January

- Get your important documents and records organized for the coming year. Time to clean out current files to make room for this year's new additions, and move the older files to storage boxes for safe keeping.
- Update your Net Worth Statement and put the final touches to your budget and cash flow planning for the New Year. Make a final review of your budget from the previous year and grade your performance against the plan.
- Double check your employer retirement plan to ensure you are contributing enough to get the full employer match.
- Make sure you have an emergency fund in place (typically six months of income), and if it's less than it should be, earmark additional savings to this reserve.

February

- Start putting together the information, (forms W-2, account statements, 1099's, etc.) for your tax filing.
- You can check your credit report for free once each year from the three reporting agencies. It's a good idea to space them out during the year. Get one in February, June and October. (You can get a free copy at www.annualcreditreport.com)
- Check to see if your company, or the local library, offers free seminars our courses on personal finances so you can become more educated about planning your financial future.

March

- It's a good time to update your household belongings, in the event of a burglary or natural disaster. Photograph and estimate the value of everything you'd want to replace if lost or damaged, then store the data on a flash driver and consider backing it up in a secure cloud location.
- If you have a child that will be attending college this year, March is a good time to review state and federal deadlines for applying for financial aid for students attending college in the fall.
- If you turned 70 ½ last year and haven't taken your first year required minimum distribution, do so by April 1st.

YHB wealth advisors, LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Some employees of YHB Wealth Advisors, LLC are tax professionals and are employed by Yount, Hyde & Barbour, P.C.

50 S. Cameron St.
Winchester, VA 22601

RANDY BEEMAN

randy.beeman@YHBwealth.com
540.545.8702

JT TRIMBLE, CFP®

jt.trimble@YHBwealth.com
703.840.0702

JAMIE BROTHERS

jamie.brothers@YHBwealth.com
540.545.8702

What is your Risk Tolerance?

RISK
43
Are you invested right?
RISK
?
Find out in 5 minutes.

Riskalyze helps you understand your risk tolerance and align your investment strategy to provide you peace of mind. As a friend of YHB Wealth you complimentary access to a Risk Number-centric view of your wealth.

This complimentary survey explains your risk score, while also providing:

- Perspective on aligning your portfolio allocation to match your personal preferences and priorities
- A comfort zone of how you should expect a portfolio to perform based upon your risk score
- The opportunity to discuss the results with a qualified YHB Wealth Advisor

Get Your Score at YHBcpa.com/riskalyze