

## HSA Prognosis — Employers Have Choices

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*Nationwide, employers' and employees' health care premiums have risen almost 75 percent from 2000 to 2005, according to the Kaiser Family Foundation. Companies with average premiums around \$2,300 per covered life in 2000 were spending, on average, over \$3,400 per life in 2005. Faced with this near vertical climb, human resources and financial executives in large companies — “encouraged” by their shareholders — made themselves dizzy trying to offer competitive benefits while still controlling their cost. So what is the prognosis?*

Enter High-Deductible Health Plan (HDHP)/Health Savings Account (HSA) offerings into the benefits marketplace. HDHP/HSAs have shown evidence of providing a partial cure to health care costs for many early adopters. As of January 2006, more than 3.2 million Americans have enrolled in HSAs, according to America's Health Insurance Plans (AHIP). And while detractors insist that the HDHP/HSA combination appeals only to the young, healthy, and wealthy, a survey conducted by the not-for-profit Galen Institute found that “70 percent of purchasers are over age 40, one-third make less than \$50,000 a year, and more than 75 percent are families with children.” (Galen Institute, 7/14/05)

In 2007, an estimated 40 percent of large employers (employers with more than 5,000 employees) are expected to implement a bundled HDHP/HSA option. Most will offer it under their Section 125 Plan as a choice alongside more traditional PPO and HMO options. (See *HDHP/HSAs — The Beneficial Benefit* for some reasons why.)

### **HDHP/HSAs — THE BENEFICIAL BENEFIT**

Although reducing their medical spend is a primary reason for large employers to add an HDHP/HSA, there are other reasons such as:

- Growing expectations that employees must take responsibility for their health and the costs attached to their care decisions, for personal health maintenance, and for adherence to recommended preventive tests and treatments;
- Interest in tax advantages available through HSAs; and
- Potential to offer employees a trade of higher premiums and annual increases for lower rates on both, with the difference applied as account “seed money” to ease their transition from traditional coverage and payment.

Since the introduction of HSAs in 2004, most human resources and financial executive decision-makers have become acquainted with their fundamentals. However, fewer are as well versed about the various administrative solutions available. This article will help employers evaluate the available HSA options, administrators, and product features.

## **HSA ADMINISTRATOR BUSINESS MODELS**

The number of HSA administrators has increased six-fold during the past year and a half. More than 300 HSA administrative solutions are now available. This includes national financial services companies that have flooded the market with the expectation that billions of dollars that previously flowed through health plans will be deposited with their organizations. Numerous regional and local banks and credit unions are also entering the HSA arena causing confusion for employers and account holders about how the HSA product actually works.

The business models typically followed by financial services firms to offer HSAs are summarized below.

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The HSA business models described below are not consistent in their maturity — with some proving problematic with consumers and employers — or in the level of commitment that they ultimately require from the larger employer. As a result, executives in the decision-making process must be aware of the context surrounding these options as they determine the best contract approach for the company and employees. Presently, the first and second options — wholesale and employer-direct contracting — are the most popular with employers.

### **Wholesale**

Financial services firms contract with health plans and third-party administrators (TPAs) to offer an integrated HDHP/HSA solution to employers and end consumers. Under this scenario, individual consumers can enroll with the HSA at the time of establishing the HDHP sponsored by the employer. To date, this model is the most popular one with large employers.

### **Employer-Direct Contracting**

Large employers contract directly with HSA administrators, forgoing interfacing with the health plan. This “health plan agnostic” approach works well when employers have multiple health plans and are concerned about other factors, as described later.

### **Retail**

Financial services organizations offer the HSA product on a retail basis enabling accounts to be directly established and then funded by consumers.

### **Integrated Retail and Commercial Banking**

A financial services firm offers the HSA as part of a larger service portfolio that can include insurance, brokerage, asset management, cash management, and other banking services. The product is then made available to employers and end consumers. The bank typically claims ownership of the member even if a health plan is involved.

### **Ownership of a Bank by a Health Plan**

Several health plans have created or purchased and internalized financial services organizations to assume a “one-stop” model of health plan and custodian integration.

## EMPLOYER CONTRACTING OPTIONS FOR HSA ADMINISTRATION

Most large employers strive to find the best value in benefits for employees, including the best HSA value. In seeking the best value, employers need to first understand how to obtain and contract for HSA services. And, employers need to arrange for these services in a way that does not risk the HSA being considered as an employer-sponsored plan covered by ERISA.

As mentioned, the most popular method by which large employers make HSA services available for employees is through the HSA product of their selected health plan. Under this wholesale approach, the employer first utilizes the health plan or TPA for HDHP administration. The employer then accesses HSA services through the HSA administrator owned or selected by the health plan.

This approach is typically easier to implement since the health plan is responsible for HSA administration. The employer can hold the plan accountable for HSA services such as enrollment, fulfillment, and customer service. Further, the HSA product requires extensive communications to gain employee acceptance, and health plans are often best suited to deliver this.

However, employers should be cautious because all HSA administrators are not the same. At a minimum, employers need to understand the HSA fees and service offerings. For instance, if you assume that the administrative fee (ASO) charged by a health plan for plan administration is \$40 per employee per month, HSA fees can increase the ASO fee by between 5 and 20 percent.

Since the introduction of HSAs, employers have been predisposed to view them as a health care product and, therefore, are predisposed to utilizing the HSA product offered by their health plan. However, the HSA is also a retirement savings vehicle, a voluntary benefit and a part of a spending account solution (e.g., FSA and HRA).

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Legislative and regulatory changes will also impact how employers view HSAs. For example, if enacted legislation increases the HSA's out-of-pocket maximum family savings to \$10,500, it suddenly competes with more traditional retirement savings vehicles such as the 401(k) since the HSA has all the advantages of the 401(k), plus the tax advantage of spending on health care. If the limits are increased, this may cause employers to view the HSA more like a financial services product and consider contracting directly with a financial services provider versus a health plan for services.

The second method gaining in popularity among large employers is to contract directly for HSA services — “carving out” the HSA from the health plan. Why is carving out the HSA from the health plan preferred by some employers? For one thing, it works well when employers have multiple health plans. Large employers that maintain multiple plans and/or do not wish to bind themselves further with any one plan find carving out attractive. Under the direct contracting approach, employers can evaluate HSA vendors as they do any other benefit vendor, select the organization that provides the best cost/quality platform, and keep the health plan competing with others on its original playing field.

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In addition, although direct contracting adds one step in the set-up process prior to open enrollment, employers choose it because it:

- Supports the offering of multiple plan design and health plan vendor options and enables employers to offer a consistent HSA product, regardless of health plan;
- Provides HSA features that a health plan may not offer;
- Provides greater flexibility to switch health plans in the future; and
- Follows vendor standards of many large corporations that require a search for best price and services available in the market, both at time of implementation and in subsequent years.

In addition to the previous two typical approaches, employers are exploring other alternatives to gain access to an HSA administrator. Some of these include offering the HDHP with no HSA, resulting in individual employees shopping for their HSA (if desired) or using an HSA administrator tied to other employer services: payroll administrators, spending account administration, employer associations, trade groups, and specialty TPAs. Still others are opting to tap the retirement benefits administrator to offer the HSA program as an integrated savings program.

## **HSA ADMINISTRATOR SELECTION CRITERIA**

The next issue employers must consider is the selection criteria for an HSA administrator. Whether an employer is planning on utilizing its health plan, contracting directly, or facilitating the offering of the HSA through another method, it is necessary to understand which HSA account features should be examined when evaluating a product.

From both an account holder and employer perspective, the principal selection criteria for an HSA administrator are the fees charged for establishing and maintaining accounts. The following fees are the most relevant:

- Employer implementation and customization
- Employer payroll transactions
- Account holder set-up
- Monthly account maintenance
- Waiver of fees upon achieving pre-set account balance
- Investment account fees, including sales loads and monthly charges

Account holder set-up fees typically range between \$10 and \$25; maintenance fees typically range between \$2 and \$6 per account per month. Some administrators state that the HSA is “free,” but the buyer should be wary. Other types of fees exist that are similar to a standard bank checking account. These are ATM and debit card fees, check processing, account closure, insufficient funds, and stop payment fees. Lastly, employers should evaluate the interest rate paid on accounts and how the interest is paid. Human resources executives are strongly encouraged to include representatives from finance and treasury services in the evaluation of these fees.

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In addition to fees, other selection criteria should include the following:

- Experience of vendor, including actual accounts administered, employer implementations, and references
- Brand strength of vendor
- Account features, such as ease of use, statements, and IRS reporting
- Customer service features, including call centers and performance metrics
- Administration capabilities
- Investment thresholds, fees, and liquidity
- Card options, including single and multi-purse spending account integration
- Employer payroll interface options
- Vendor communications capabilities and support
- Employer reporting capabilities
- Other tools available to employers and account holders
- Vendor commitment to HSA marketplace

## EMPLOYER HSA FUNDING CHOICES

The overwhelming majority of large employers are funding their employees' HSAs. This employer funding typically includes paying the set-up fees, individual account holders' administrative fees, maintenance fees, and making initial or ongoing contributions to employee accounts. Employers appear to view the set-up and monthly maintenance fees as part of their ASO fees to administer benefits for employees.

Employer contributions to accounts are taking several forms. Average contributions by large employers to HSAs for employees are estimated at \$400 for individuals and \$800 for families.

Other creative contribution methods will develop over time. For example, one large employer is bringing together both 401(k) and HSA contributions, enabling employees to choose where they would like the employer contribution to be directed.

Employer procedures for making these contributions vary and can be categorized as follows:

1. Flat contribution per pay period, per month, or per quarter
2. A "seed" contribution, where the total employer contribution is deposited at the beginning of the plan year
3. A seed plus flat contribution, where a percentage of the total is contributed at the beginning of the plan year and then equal deposits are made during the plan year, such as monthly or quarterly
4. Matching employer contributions conditioned on employee contributions

## CRITICAL SUCCESS FACTORS

As happens with any new employee benefit, some employers that have implemented HDHP/HSA programs are markedly more successful than others in realizing the ultimate goal — adoption by the workforce. Four primary factors are predictive of the degree of success:

1. **Plan Design** — Is the HDHP plan design different enough from other plan designs to distinguish the new plan?
2. **Premium Pricing** — Are the premiums charged to employees for the new plan lower enough than those charged for other plans to provide employees with an incentive to consider the HDHP/HSA? The plan's economic value must be transparent to the potential enrollee. In fact, the attractiveness of the initial premium may be the first or only opportunity to engage employees who retain the option of enrolling in more traditional plans.

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3. **Employer's Financial Investment** — Is the employer paying the fees to make the HSA cost neutral for employees who enroll? Is the employer offering to make a large enough contribution to employees' HSA accounts to convince them that the plan is not merely a cost-shifting tactic?

4. **Communications** — Has the employer thoroughly communicated the essentials and the value of the HDHP/HSA offering, including the employer's motivation for offering the option and the advantages to the employee, despite the possible intimidation of a high deductible?

A comprehensive communication strategy is critical. Many employers have successfully completed the first three steps, only to fail in communicating the fundamentals of this markedly different plan. Some others advocate the plan's benefits in more than tepid language. It is too easy for employers to forget that, on average, employees spend fewer than 30 minutes making all their benefit selections, particularly if their previous year's choices can remain in place by default unless a change is indicated.

Employers must provide early, repeated, and engaging communications to familiarize employees with the potential opportunities of switching to an HDHP/HSA combination. Employers also must educate employees about how to establish and use their new plan. The

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ultimate goal is that employees remain sufficiently satisfied with their choice to keep viewing the consumer-directed approach as a benefit to them, enabling the employer to offer a competitive benefit plan.

## CONCLUSION

Human resources or financial executives may find this list of considerations daunting. However, the savings and workforce satisfaction that may result from a successfully implemented HDHP/HSA program usually makes the necessary research effort worthwhile.

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## ABOUT THE AUTHOR

**Tom Hricik** is the National Distribution Director for the HSA product offered by ACS and Mellon Financial Corporation. He is also a principal with Buck Consultants, an ACS company, and serves as an advisor to health plans and employers throughout the nation on their implementation of HDHP/HSAs. Tom can be contacted at [thomas.hricik@acs-inc.com](mailto:thomas.hricik@acs-inc.com) or at 412.394.3278.