

## Diagnosis HSA — A Treatment Plan for Employers

Updated from the HSA Prognosis article, 2006

April 2009

By Tom Hricik

*As the economy continues to contract globally, U.S. employers are seeking and finding benefit plan design and funding solutions to control and manage both short- and long-term costs. So what is the diagnosis for Health Savings Account (HSA) qualified plans and HSAs specifically? At the heart of the most innovative approaches is a combination of High-Deductible Health Plan (HDHP) design features joined with a tax-advantaged HSA. According to the Kaiser Family Foundation, HSA-qualified plans reduce the premiums to offer health insurance and the savings nearly offset all of the deductible. Even on a risk-adjusted basis, recent studies from the Blue Cross Blue Shield Association (BCBSA), United Health Care, CIGNA, and Aetna all support the notion that HDHP participants have the same demographic, health, and economic characteristics as non-participants and costs are lower, both initially and over a long-term basis. The question is: How are HSAs contributing to these findings?*

When HDHPs and HSAs were introduced through the Medicare Modernization Act, many skeptics voiced concerns. The framework at the time was the “ownership society” policies of the previous administration although the concept of “medical IRAs” was first contemplated in 1984. Medical savings accounts were introduced in 1992 and HSAs followed in 2003. Naysayers initially typecast HSAs as being attractive to a limited segment of the population (e.g., young, healthy, and/or wealthy) and today, HSAs continue to suffer from these perceptions. As of January 2008, America’s Health Insurance Plans (AHIP) estimates that more than 6.1 million individuals are enrolled in HSA-qualified plans, a nearly 100 percent increase since 2006. In addition, Blue Cross Blue Shield enrollment in HDHP-type plans has increased 100 percent in the past year to 4.4 million HDHP enrollees. These statistics raise the question: Are all of these individuals really young and wealthy?

On the contrary, plan participants in HSA-qualified plans have approximately the same demographic profile as individuals in other plan types, such as PPOs and HMOs. According to the 2008 BCBSA Member Experience Surveys, both age and income profiles of individuals in HSA-eligible plans compared to other plans are approximately the same. Data from the 2009 ACS|BNY Mellon HSA Solution account holder survey suggests that 44 percent of account holders earn less than \$75,000 per

year, and a recent Optum Financial survey suggests the same. ACS|BNY Mellon and Optum are the two largest HSA administrators in the nation with 650,000 accounts and 485,000 accounts, respectively.

In 2008, an estimated 30 percent of large employers offered HSA-qualified plans and that figure is expected to increase in 2009.

Are individuals changing their health care decision-making when they participate in the HSA? According to the 2009 ACS|BNY Mellon HSA Solution survey of account holders:

- 52 percent monitor health care costs more closely
- 38 percent evaluate health care costs before services are received
- 34 percent better plan health care throughout the year
- 24 percent actively choose less costly services more than before
- 21 percent use primary and preventive care more
- 20 percent monitor diet more effectively and engage in health-related improvements

## HDHPs/HSAs — MEDICATION FOR AN AILING BENEFIT PLAN

Employers are using HDHPs/HSAs to:

- Immediately impact medical spend through increased deductibles
- Capture the attention of employees through shifting of payment responsibility
- Package wellness and other HDHP components with financial responsibility and ownership
- Offset the deductible increase through account contributions
- Incent employees by funding HSAs based on collaboration in health care
- Fund a long-term medical savings vehicle
- Support lower paid employees by shifting costs to those who are higher paid

How are account holders using medical services? The vast majority of account holders, typically 80 percent to 90 percent, use the same or more recommended medical services including therapy, lab, radiology, and surgeries. Account holders do, however, pay much more attention to medical costs. Forty-eight percent pay more attention to medical bills now that they have an HSA, 46 percent understand medical costs better, and 41 percent discuss medical costs with providers more often than they did prior to having an HSA.

The fundamentals of HSAs and HSA-qualified plans are well understood by most human resource executives. However, questions abound regarding the options for how employers access HSA products and services from a carve-out approach, accessing a local bank, or accepting the program offered by a health plan.

## ACCESSING AN HSA ADMINISTRATOR

Employers have a wide array of HSA options. Buck Consultants estimates that more than 1,500 HSA administrators exist in the market today compared to 300 when an article — also written by Tom Hricik — was published in 2006. Interestingly though, HSA accounts are concentrated in a select number of administrators. According to the CDHwire (March 2009), 81 percent of HSA accounts and assets are concentrated with the nation's five top administrators. Assets with these administrators are approximately 2.8 billion and growing exponentially.

Employers need to have a clear line of sight on how their benefit objectives align with the HSA administrator.

Most commercial banks and credit unions that offer an HSA product are primarily focused on "increasing share of wallet" — or an increase in the revenue a bank garners from customers, both corporate and retail — with both employers and account holders. Employers need to thoughtfully consider the value-add that a bank may bring to employees in offering other banking products and services in comparison to the benefits objectives of the employer.

Several HSA business models have emerged over the past few years beyond name brand banks offering the product. For example, some third party administrators are branding and offering an HSA product and health plans have entered the business through owning the HSA product.

Employers need to be cautious about their selection since the HSA market has matured and some custodians are beginning to consider whether or not they should remain in the market. Firms are realizing that HSAs are growing rapidly; however, both the revenue and margins are very slim on the product. The result: a large number of accounts are needed to operate a viable product. Employers also need to consider how difficult it would be to uncouple from the administrator if they are not satisfied with the offering.

Business models typically followed by financial services firms offering HSAs are summarized below.

### **Wholesale**

Financial services firms contract with health plans to offer an integrated HDHP/HSA solution to employers and, ultimately, to individual consumers of the health plan. Under this scenario, individual consumers can enroll in an HSA at the time of establishing an employer-sponsored HDHP. To date, this model is the most popular with 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 require customization and a highly integrated model typical of large employers. Other reasons include the employer utilizing multiple health plans and desiring a single HSA product or, more simply, the employer wants to pick the best-in-class administrator with product features desired by the employer.

### **Retail**

Financial services organizations offer the HSA product on a retail basis enabling accounts to be directly established and then funded by consumers. Very little integration exists with the employer or health plan under this model.

### **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 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.

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

This approach is relatively easy to implement since the health plan is responsible for HSA administration. The employer can hold the health 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 well suited to deliver this. Health plans typically have an infrastructure including sales staff, brokers, and an IT platform that enables this type of communication.

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, the additional HSA fees can increase the total overall fee by 5 percent to 20 percent.

Since the introduction of HSAs, employers have been predisposed to view them as a health care product and, therefore, are more likely to utilize the HSA product offered by their health plan. However, an HSA also is a retirement savings vehicle, a voluntary benefit, and a part of a spending account solution. HSAs are now competing with more traditional retirement savings vehicles, such as the 401(k), since the HSA has all the advantages of the 401(k), plus the additional tax advantage of spending on health care at any age with no penalty.

The second method 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.

Although direct contracting adds one step in the set-up process prior to open enrollment, employers often select this option because it:

- Provides HSA features that a health plan may not offer
- Offers focused customer service and customization for the employer
- Facilitates intensive communications effort
- Enables employer-specific reporting
- Provides greater flexibility to switch health plans in the future
- 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 more common approaches, employers are exploring other alternatives to gain access to an HSA administrator. For example, employers are using an HSA administrator tied to other employer services: payroll

*“Large employers that maintain multiple plans or require customization may find carving out attractive.”*

administrators, spending account administration, employer associations, trade groups, and specialty TPAs. Still others are opting to tap the retirement benefits administrator to offer an HSA program as an integrated savings program.

## HSA ADMINISTRATOR SELECTION CRITERIA

The next issue employers should consider is the criteria for selecting 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 since the product is costly to administer and revenue is absolutely needed from the product. Other 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.

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 fund performance
- Account access options including debit card, checkbook, and online
- Employer payroll interface options
- Communications capabilities and support
- Employer reporting capabilities
- Other tools available to employers and account holders
- Vendor commitment to HSA marketplace

Based on experience, most of the national consulting firms are capable of assisting with HSA vendor searches and have pre-populated questions that address each of the above categories.

## EMPLOYER HSA FUNDING CHOICES

The overwhelming majority of large employers are funding their employees' HSAs. According to the 2009 ACS|BNY Mellon HSA Solution survey, 79 percent of respondents said that employer funding was important or very important in the decision to select the HSA. 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. Large employers typically view the set-up and monthly maintenance fees as part of their ASO fees to administer benefits for employees.

Employer procedures for making HSA 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

Employer contributions to accounts are taking several forms.

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.

## INCENTIVES AND HSAs

Incentives are likely the next plan design feature that will impact HSAs. Several large employers are blazing the trail by:

- Offering wellness and health improvement programs to employees
- Providing incentives to employees to participate
- Funding the HSA when employees participate in the wellness/incentive programs

Health plans are also pursuing this strategy and employers will likely begin hearing about such programs during 2009.

*"The overwhelming majority of large employers are funding their employees' HSAs."*

## CRITICAL SUCCESS FACTORS

As happens with any 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 and improved health and cost management. Four primary factors are predictive of the degree of success:

**Plan Design** — Is the HDHP plan design different enough from other plan designs to distinguish the new plan? What other design options are competing with the HDHP and what design features distinguish the plan. How has the plan design integrated health improvement, HSA establishment, and HSA funding?

**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 absent an extensive communications program.

**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?

**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. Sixty-seven percent or more of account holders who participated in the 2009 ACS|BNY Mellon HSA Solution survey said that thoroughly explaining the HSA program was an important or very important employee engagement initiative, and that regular employer communication was critical to employee engagement. The most important communication components cited were phone-based education, ongoing communication throughout the year, employee meetings, and paper communications, in that order. Many employers successfully

consider and act on the first three factors, 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 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

HSAs have become very popular with employers of all sizes and are readily available in the market. Employers need to be thoughtful about the choice of custodian, considering how the product and related services fit with the benefits framework today and in the future. HSAs have proven to complement a long-term goal of increased personal responsibility for health and medical costs and are an important part of an employer's benefit offering.

## About the Author

Tom Hricik is the National Distribution Director for the ACS|BNY Mellon HSA Solution. He is also an advisor to health plans and employers throughout the nation on their implementation of HDHPs/HSAs. Tom can be contacted at [thomas.hricik@acs-inc.com](mailto:thomas.hricik@acs-inc.com) or at 412.394.3278.