
HSAs Explained

Discussion & Analysis

2008

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Introduction to HSAs

Health savings accounts (HSAs) give consumers incentives to manage their own health care costs by coupling a tax-favored savings account used to pay medical expenses with a high-deductible health plan (HDHP) that meets certain IRS requirements for deductibles and out-of-pocket expense limits. Most HDHPs cover preventive care services (e.g., routine medical exams, immunizations, well-baby visits) without requiring the enrollee to meet the deductible. The funds in the HSA are owned by the individual and may be rolled over from year to year.

Who is eligible to set up an HSA?

- Those covered by a high-deductible health plan (HDHP) that meets federal requirements. For 2008, this requires (1) a minimum deductible of \$1,100 for individuals and \$2,200 for families and (2) an out-of-pocket expense limit no greater than \$5,600 for individuals and \$11,200 for families. (These amounts are indexed annually for inflation.)
- Individuals cannot have other health insurance, with the exception of some limited-benefit policies such as accident-only and worker's compensation.
- They cannot have Medicare, or be claimed as a dependent on someone else's tax return.

What is the maximum contribution into HSA accounts for 2008?

- \$2,900 for individuals and \$5,800 for families.

What are the federal tax benefits of HSAs?

- Employer's contributions to an HSA are not taxable income.
- Employer contributions are not subject to withholding for FICA or FUTA.
- Individuals can deduct the amount of their HSA contributions from their taxable income, whether or not they itemize.
- All investment earnings on HSAs are tax-free.

What kinds of expenses can HSAs pay?

Individuals can withdraw HSA funds tax-free to pay qualified medical expenses, as defined by the IRS. These include, but are not limited to:

- Doctor's office visits.
- Hospital care.
- Dental Care.
- Vision care.
- Prescription drugs.
- Over-the-counter medications.
- Copayments.
- Deductibles.
- Coinsurance.

Source:

1. "Health Care Spending Accounts: What You Need to Know about HSAs, HRAs, FSAs, and MSAs," *America's Health Insurance Plans*, July 2005.
2. "Health Savings Account Survey Results," *Wolters Kluwer Financial Services*, 1/24/08.

Analysis: HSA Penetration into Group Markets

A periodic census by American's Health Insurance Plans of U.S. health insurance carriers shows that 4.5 million people were covered by HSAs/HDHPs in January 2007, up 1.3 million from the 3.2 million figure reported in January 2006.

Group Market:

- Overall, enrollment rose to almost 3.4 million in January 2007 from 1.4 million in January 2006.
- Slightly over 1 million were enrolled in the small-group market and 2 million in the large-group market.
- HSA/HDHP products accounted for 17% of new policies in the small-group market and 8% of new policies in the large-group markets.

Coverage Options:

- The large group and individual LOBs have > 90% of HSA enrollees in PPO products.
- Approximately 85% of enrollees in small group HSA/HDHPs were in PPO products.

Preventive Care / Disease Management:

Most companies responding to the census offered HSA/HDHP options with preventive benefits covered before the deductible is satisfied.

Most companies provided disease management services; common programs included services for patients with asthma (82%), chronic obstructive pulmonary disease (65%), congestive heart failure (84%), coronary artery disease (84%), and diabetes (91%).

Consumer Information Tools (data for HSA participants):

- 95% had online access to health education tools.
- 86% had access to quality information about specific hospitals.
- 50% had access to physician-specific quality information.
- 88% had access to some healthcare cost information.
- 70% had access to Personal Health Records (PHRs).

Sources:

1. "HSAs and Account-Based Health Plans," *America's Health Insurance Plans*, June 2006.
2. "January 2007 Census Shows 4.5 Million People Covered by HSA/HDHPs," *America's Health Insurance Plans*, April 2007.

Discussion – Implementing HSAs Successfully

Successful Health Savings Account programs (HSAs) have not only helped employers achieve cost savings, they've also helped companies address the underlying causes of cost increases by emphasizing shared responsibility and encouraging better health and health care decision making among employees.

In fact, HSAs offer employers a powerful way to promote consumerism in their health programs, foster healthy behaviors and build a broader culture of health for the organization. With account ownership to offset relatively high up-front deductibles and support increased cost transparency at the point of care, HSAs can raise consumer awareness of and accountability for their healthcare decisions. This gives employees an incentive to manage their expenses over time, shifting the focus away from a traditional one-year term insurance approach toward a long-term financial management vehicle. HSAs can ergo serve as one of a number of tools that manages costs and risks for the long term in an era of rising health care costs and shrinking retiree medical benefits.

During 2007, Towers Perrin surveyed 350 large U.S. employers on their health benefit objectives, approaches and experiences. The sample included 150 companies that currently offer HSAs, along with 200 that offer traditional plans only. The results of the employer study were then compared with a comprehensive survey completed earlier in the year on the attitudes and perceptions of 1,000 randomly selected employees of large to midsize companies. Half were enrolled in HSAs and half participated in a traditional plan though offered an HSA alternative.

Findings show that success depends on a host of factors, some of which employers might not consider part of the benefit program universe. A well or poorly implemented plan can stem from or lead to broader issues and outcomes for the organization. Here is a summary of the study findings:

- HSA sponsors believe their programs have brought improvements in their companies' overall health benefit program experience over the past two years.
- However, the current state of the plans (evidenced by average enrollments, participation in savings accounts, etc.) suggests that performance, on average, is less than optimal.
- Meanwhile, HSA participants are less satisfied with their experience than participants in traditional plans are, although these gaps seem to be based more on perception than reality.
- HSA participants are looking for something different in their health care experience compared to participants in more traditional plans, including the opportunity to manage their costs more effectively and take advantage of enhanced preventive benefit services.
- Relatively few HSA participants are responding in ways that suggest they are looking beyond their prior experiences with traditional plans, thinking differently about how they get care, or taking a longer-term view of health issues. They are comparing their HSA experience to more traditional plan options and, in many cases, coming away less than satisfied.

Survey respondents with high-performing programs offer evidence that the right approach to implementation, delivery and consumer engagement can be a win-win for employers and employees. A close look at high-performing programs in the study provides valuable insights into the key ingredients for success:

1. Plan design and vendor management are important but not sufficient to drive desired outcomes. Success requires building a new mindset around health and a broad commitment from both employers and employees.
2. Helping employees gain confidence in their ability to manage financial risk is essential when guiding employees to embrace the responsibilities inherent in HSAs.
3. More so than with traditional health plans, success with HSAs depends on the organization's overall climate, including factors such as trust in management and a sense that the company cares about employees' well-being.
4. Strategic, thoughtful change management initiatives, along with targeted, ongoing communication and visible leadership go a long way toward building trust and a healthy work environment.

HSAs: Consumerism at Work

The overall aim of HSAs is to offer employees company-provided financial protection from significant, relatively unpredictable health care costs, while shifting accountability for lower-cost, predictable needs and discretionary spending decisions (such as generic versus name-brand prescription drugs) to the consumer. Combined with enhanced benefits for preventive care and other health promotion features, this approach gives employers an opportunity to lower costs by reducing utilization, both by reducing unnecessary services and supporting health and wellness, rather than by shifting costs to employees. HSAs may be employers' most recent response to ongoing health care cost challenges, but their emergence reflects the broader cultural and behavioral shifts that have supported the sharp rise in consumerism over the last decade.

Conclusion: 'Renters' Must Become 'Owners':

Employers should approach HSA implementation as both a workforce education initiative and a "relearning exercise." Employees have spent the last several decades in a world where health care and health care coverage has been about the episodic experience: going to the doctor when something seems wrong and paying a small, predictable copayment for treatment. Today's consumer-driven plans are overturning that model by promoting prevention, planning for the future, and balancing current expenses with long-term risk management.

Many consumers are still approaching HSAs with a short-term, "renter's" mentality when long-term ownership is the goal. Just as home ownership offers better tax efficiency, equity accumulation and long-term financial control than a monthly rental, so do HSAs. However, these benefits can only be realized by employees who are willing to accept increased responsibility in exchange for long-term benefits. The new thinking required to take advantage of this potential runs counter to what employers and employees have come to expect from experience with traditional health care models.

Work on building the new mindset must begin with employers themselves, who may be just as likely as employees to view HSAs through the same lens as traditional plans. Simply put, the level and nature of communication used to maintain traditional plans (often limited to the annual enrollment decision) is not sufficient or effective in gaining employee understanding and confidence in a new HSA approach. Organizational communication and education re: HSA plans are crucial to help employees understand and feel more comfortable with the level of financial risk inherent in HSAs.

Sources:

1. "Account Based Health Plans: What Works – and Why," Towers Perrin, December 2007.
2. "A Survey of Preventive Benefits HSA Plans," AHP, July 2007.