

Early Adoption of HSAs Indicates

Strong Growth Potential



By Cora M. Tellez, CEO, Sterling HSA

When we began Sterling HSA™ last year, our team of former health insurance managers believed that adoption of health savings accounts would be slow at first, then ramp up as more and more employers and individuals learned of it. We assumed that self employed individuals and small group business owners would adopt early, in part because affordable health insurance is a critical concern for many of them. HSA compatible health insurance products, we knew, would be priced much less than a comprehensive product in most areas of the state. And we felt that mid-size and large groups would lag behind.

I'm happy to report that we were wrong about the adoption rate of HSAs.

At Sterling HSA (and perhaps with other administrators), we have seen quite an increase in interest and subsequent enrollment in HSAs. The interest surged right after the November election when President Bush, the industry's strongest proponent of health savings accounts, was re-elected. With uncertainty about the legislative future of HSAs removed, more employers and individuals signed up. The recent IRS ruling on the non-rollover feature of flexible savings accounts was another signal that HSAs would be seen as the favored vehicle for attracting consumers interested in health savings options, but with the flexibility afforded by HSAs.

As CEO of Sterling HSA and a 25 year health insurance industry veteran, I am very encouraged with the rate of adoption of HSAs. While I do not believe that HSAs are the "silver bullet" that will solve all of our financing woes, I do believe that they offer a tangible financial incentive for consumers to make more thoughtful decisions about their medical care. And in time, I believe HSAs will serve as an important catalyst to promote transparency in reporting medical outcomes and in pricing.

Like others in our industry, it is still too early in Sterling's experience to make definitive conclusions about how consumers are using their accounts. I am pleased to report on some emerging themes based on data from our client base.

The mental model held by critics of HSAs is that they are useful principally for the young, healthy and wealthy. Sterling collects no data on the health status or financial backgrounds of our clients. We do gather data about age.

Sixty-three percent of our clients are over 41 years old. Indeed, fully 20% are between the ages of 56 and 64. This early data would suggest that HSAs appeal to young baby boomers to a greater extent than younger individuals.

When we began installing health savings accounts, I worried that chronically ill people would find the notion of deductibles worrisome. A broker gave me sage advice when she noted that consumers, regardless of health status, are perfectly capable of doing the math in determining whether HSAs are right for them. And anecdotal evidence suggests that the math works just fine for certain chronically ill consumers who want a high deductible product coupled with a health savings account. In many cases, such consumers have experienced savings in out-of-pocket expenses. The savings come in the form of reduction in health insurance premiums (how much depends on geographic location), reduction in taxes, and out-of-pocket expenses once the out-of-pocket maximum is reached.

Our customers are using their accounts to pay for medical care and to save money. We routinely process payments for drugs, medical, and dental bills. We were surprised to see 70% of the payments are for qualified health plan pre-deductible expenses versus IRS qualified expenses, which include such things as dental and OTC drugs. (We had assumed that consumers would utilize a



broader set of qualified expenses that are IRS approved, but not within the scope of their health plan covered services.)

Nearly every health plan in California that offers an HSA compatible product is represented in our client base. Not surprisingly, health plans that focus on HMOs do not appear on our roster. We greet with enthusiasm announcements by Kaiser, Health Net and Pacificare of their introduction (current or planned) of HSA compatible products in 2005 and 2006. And we note with pleasure the six-fold increase in the number of HSA compatible products offered in California since May 2004. It suggests to us that health plans are seeing a strong shift in interest in HSA compatible products and are responding affirmatively.

In offering HSA to their employees, employers appear to be motivated by different things. Some experience a drop in health insurance premiums and appreciate the savings. Others like the idea of helping their employees fund a medical retiree benefit without recording a future financial liability (HSA contributions thus are seen as a defined contribution benefit, not a defined benefit plan.) Still others have discussed with us their perception that the greatest value of an HSA lies in inculcating cost-consciousness among employees that could lead to a moderation of health care cost in the future.

We are watching with interest how employer contribution to their employees' health savings accounts impacts adoption rates. Emerging data suggests that where employers contribute to their employee's HSA accounts, adoption is faster. Frankly, there is not enough experience to tell us definitively what contribution levels predict certain adoption rates.

With respect to group size, Sterling is enrolling mid-size and large groups in 2005, a year earlier than our projections suggested. It appears that broker interest has been a key catalyst in accelerating adoption by larger groups. We know of one case in which a broker offered an HSA compatible plan plus HSA accounts to keep a large group employer from dropping health insurance coverage altogether.

With contribution limits increasing in 2005 to \$2,650 for individuals and \$5,250 for families, along with \$600 in pre-tax "catch up" contributions in 2005 for those age 55 to 64, the inclusion of those over 65 and not on Medicare as HSA eligible, and significant tax advantages to employers and employees, we expect to see growth accelerate in the coming year.

Despite our bullish attitude towards HSAs, we at Sterling are mindful that there are challenges that must be successfully overcome for adoption to be widespread.



"...health plans are seeing a strong shift in interest in HSA compatible products..."

This is a new product and educating brokers, consumers and employers is a key to adoption. That's why you'll find me and members of my team in various forums offering CE classes to brokers, attending open enrollment meetings, and meeting with current and prospective clients of brokers to discuss health savings accounts. We help brokers present HSAs to their clients in ways that keep brokers in the center while we work in the background to help them. And we stress excellent customer service to reduce the risk inherent in moving to a new product.

In the meantime, we're happy to be proven wrong in our assumption about HSA adoption rates. We are excited about what 2005 will bring by way of new learning from consumers, employers and brokers about how HSAs are perceived, adopted or rejected, and how savings accounts are used. ■

Cora M. Tellez, Sterling HSA CEO, is a 25 year veteran in health care finance and delivery. Prior to founding Sterling HSA, Tellez was President of the health plans division of Health Net, Inc., an insurance provider that operated in seven states and achieved revenue of \$8 billion from health plans. She has also served as President of Prudential's western health care operations, CEO of Blue Shield of California, Bay Region and Regional Manager for Kaiser Permanente of Hawaii.

An expert on HSAs, Cora is a national speaker on the issues of health care management change and health savings accounts.

As an independent HSA administrator, Sterling HSA serves the needs of insurance carriers, employers and consumers. The company offers a comprehensive range of services, such as payment of medical bills, education, collection, customer service and reporting to establish and manage HSAs. Sterling HSA delivers a simple, reliable and personal approach to paying for health care while saving for the future.

For more information about Sterling HSA or to schedule a Sterling HSA speaking engagement, please visit call us at 800-617-4729 or visit our website at www.sterlinghsa.com.

