Emerging trends in HDHPs and HSAs:

what every employer should know

by Nora Blay, Sterling HSA

High deductible health plans and health savings accounts have been steadily gaining ground and acceptance with employers and consumers since their inception in January 2004. After four years, trends are emerging on what makes an HSA program successful for employers, as well as the issues to avoid. This article briefly examines:

- HSA background;
- HSA advantages;
- Catastrophic claims and the high deductible;
- Employer best practices;
- Communicating with employees to increase adoption; and
- Emerging profile of the consumer directed healthplan consumer.

Health savings accounts background

HSAs originally grew out of medical savings accounts that were created in 1996 under then President Bill Clinton. They were legislated into law with the Medicare Modernization Act of December 2003. Built on the chassis of Individual Retirement Accounts, their basic principles of pretax savings and accumulation of interest on a tax-free basis are structured under this construct. They are regulated by the Department of Treasury and best described as a medical IRA.

HSA advantages

There are advantages for employees and employers to invest in HSAs, if the health plan is the right choice for employees and their families.

Employee advantages:

- Individual contributions can be deducted from gross earnings;
- Contributions and interest grow tax free[1];
- Payment of qualified medical expenses[2] on a pre-tax basis;
- Employer contributions are not taxable to the employee;
- Funds are vested 100 percent to the employee and are portable;
- Tax advantaged vehicle for asset accumulation;
- Source of funding for medical retiree benefits;
- Source of funding for medical, dental, vision and long term care benefits for self and family; and
- Involves employee as a key decision maker in their healthcare.

Employer advantages:

- Employer contributions can be claimed as a tax deduction;
- Lowers medical costs and reduces the actual spend rate in future years;
- Lowers workers' compensation, FICA/FUTA base if taken as a deduction from payroll;
- Helps fund employee medical benefits without recording a liability on the employer's books; and
- Employer contributions are not taxable to employees.

Catastrophic claims and the high deductible

Employees have been shielded from the real escalation in healthcare with the advent of managed care in the early 1990s. Thus, the introduction of a HDHP creates anxiety of an employee's exposure to high cost claims. There are several ways to address this concern:

- The IRS allows the rollover of IRA funds on a one time basis up to the limit of the allowable HSA contribution for that year.
- Employers may accelerate contributions or fund up to the maximum of the deductible for year one, limiting exposure.[3]
- Flexible Spending Accounts or Health Reimbursement Accounts rollover of funds can occur during the two and-a-half-month grace period allowed by law.[4]
- Payment plans with the healthcare provider(s) can be structured with the healthcare provider.

Employer best practices

After four years of experience with HDHPs and HSAs, employers are speeding adoption based on successful best practices:

- Choose plans where preventive and wellness services are not subject to the deductible and are covered 100 percent day one, thus encouraging preventive care.
- Address worries about catastrophic claims immediately and discuss options.

Nora Blay is director financial channel and national accounts for Sterling HSA. More information about Sterling HSA can be found on its Web site at www.sterlinghsa.com.

- Fund the account (deductible) as much as possible, especially in year one, so that employees don't feel vulnerable to high medical costs and begin to build HSA balances.
- Offer to age pre-65 retirees.
- Strong management endorsement.
- Communicate frequently to allay employee concerns.
- Choose knowledgeable and experienced HSA administrators who help educate employees and employers.

Emerging profile of the CDHP consumer

Results from a Kaiser Study[5] show a consumer more involved in their health and wellness and aware of how their healthcare dollar is spent:

- CDHP members are more engaged in wellness programs.
- They plan and save for healthcare vs. those in traditional health plans.
- Seventeen percent are more likely to exercise.
- Twenty percent participate in smoking cessation programs vs. 6 percent in traditional plans.
- Twenty-two percent participate in stress management programs vs. 8 percent in traditional plans.
- Sixty-three percent track their healthcare expenses vs. 43 percent in traditional plans.[6]

Summary

Consumer Directed Healthcare and HSAs are not a magic bullet in the escalation of healthcare costs. However, individuals who understand and accept a financial responsibility for their healthcare make better choices. The profile that is emerging in the CDHP market is of a wiser and healthier consumer. **CB**

[1] *Four states currently do not exclude state taxes: California, Wisconsin, New Jersey and Alabama.*

[2] *For a complete description see IRS code 213 (d).*

[3] *Comparability rules must be followed, in order to avoid discrimination.*

[4] *The maximum rollover is the balance in the FSA or HRA as of Sept. 21, 2006, or year-end. To qualify, FSA plans must be amended to be limited purpose FSAs. One rollover is allowed until January 2012. Individual must be enrolled in an HSA qualified plan for 12 months following the rollover.*

[5] Kaiser Foundation Family Survey, *November 2006.*

[6] Blue Cross Blue Shield Study *released September 2007.*