HSA Trends in Tough Times

by Cora Tellez

When health savings accounts were created in 2004, no one anticipated that our nation's economy would be as distressed as it is today. This article describes the changes in employer and employee behavior we are seeing through the lens of HSA activity.

Changes in HSA Accountholder Behavior

The following observations are based exclusively on data from accountholder activity at a third party administrator of health savings accounts. Comparing our experience in 2007 versus 2008, tough economic times have made liquidity concerns a big driver of consumer behavior. This view is affirmed in a review of three data points:

1. The average disbursement per accountholder has increased 10% from $1,140 in 2007 to $1,258 in 2008. During the same period, the average contribution per accountholder was up only 3% from $2,047 in 2007 to $2,109 in 2008. So we're seeing only modest increase in contributions, but significantly more disbursements.
2. The increase in disbursements has had a pronounced effect on the average ending balance of accounts. In 2007, the average ending balance per accountholder was $2,200 after a steady increase of deposits net of distributions, year-over-year since 2004. In 2008, the account balance dipped to $1,814. As of March 1, 2009, our average account balance is $1,896.
3. In 2007, fifty-seven percent our accountholders saved their funds. Today, that percentage has dropped to 30%. Clearly, our accountholders are facing liquidity concerns, probably prompted by layoffs and business closures. Because we pay the bills for our clients, we're seeing more HSA funds go toward COBRA premium payments, which is another sign of a distressed economy.

What About Employer Behavior?

In the vast majority of cases, employers continue to adopt HSAs and contribute funds toward their employees' HSA accounts, but some employers are not being as generous in funding their employees' HSA accounts. In some cases, employers have stopped funding entirely. In still other cases, employers in severe financial distress have simply stopped providing health insurance coverage. As employees scramble to get health insurance on their own, many withdraw funds to pay for COBRA or close HSA accounts.

Not surprisingly, we've seen an increase in what we consider "involuntary terminations," that is, terminations due to employer action, such as the closing a business or laying people off. We caution our accountholders that funds that are disbursed as a result of closing accounts must be reported to the IRS as an unqualified distribution. But our accountholders appear more concerned about paying bills and less concerned about regulatory action.

HSA Adoption Continues to Grow

At the same time, we continue to see an increase in employer adoption of HSAs. The poor economy and the affordability of HSA-compatible plans have clearly affected employers' decisions. Consistent with other public reports, we see an in-group growth year-over-year trend in which employers install HSA plans. We're also noticing that adoption spans every industry classification, every size group. It spans private companies as well as municipalities and non-profit organizations, and more Taft Hartley groups, suggesting that HSA appeal is broad and widespread.

Surviving Tough Times

Health savings accounts are effective tools in conserving assets and paying qualified medical expenses with federal tax-free money during difficult times. Now more than ever, we advise employers and their brokers to consider HSA qualified plans, primarily because the economics of paying lower insurance premiums can be compelling.

We also advise employers to contribute to their employees' HSA accounts and to be especially generous in the first year. Why the first year? The risk of incurring out-of-pocket costs is obviously highest when accounts have just been opened and accountholders have not had enough time to accumulate savings. Moreover, Californians face a special cultural challenge. Since managed care has dominated the health insurance landscape in California for many years, Californians have to adjust their mindset from co-pays to deductibles. They have to adjust from having first-dollar coverage to only having coverage, other than preventive care, after meeting the deductible. Employer contributions toward the HSA accounts can increase the employees' peace of mind that funds are available to pay for healthcare expenses. And national experience shows that HSA adoption increases predictably when employers contribute.

We advise existing HSA employer clients to provide steady and continuing funding of their employees' HSA accounts to the extent possible. Now is the time to emphasize even more how important it is for employees to be proactive about their health. Cost conscious behavior translates to improved healthcare utilization, which logically should result in lower insurance premiums.

Current accountholders should continue funding their HSA accounts and use them for the purposes for which they are intended, including COBRA payments during periods of unemployment. HSA accounts are proving useful in helping accountholders weather difficult economic times. These accounts provide yet another resource for employers and employees to face uncertain times with confidence. ❑

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