



Grand Rapids Area
Chamber of Commerce

Task Force on HSAs

What Members Need to Know

Introduction and Summary of Intent

Since 2001, premiums on the employer-sponsored healthcare market have increased 61%, and as of 2007, only 59% of employers with 3-199 employees in the United States offer health care benefits – a decrease of 9% in that same time period.¹ Employers spend thousands of dollars each year in healthcare benefits for each employee, and, accordingly, health care is a top concern for Chamber members. The “Task Force on Health Savings Accounts (HSAs)” was created to investigate whether HSAs and the high-deductible health plans (HDHPs) with which they are associated are a viable solution to this escalating problem and to explore what should be communicated to the broader Grand Rapids Area Chamber of Commerce membership on the subject.

The Health Care & Human Resources Committee of the Grand Rapids Area Chamber of Commerce published its *Consensus Principles for Health Care Delivery* reflecting our principles for the development of governmental and employer-sponsored health care policy. Two of our long-standing policy priorities to stem rising health care costs include: (1) advocating for increased personal responsibility over one’s health and health care costs, and (2) the utilization of preventative care. In the opinion of this Task Force, HSAs and their coordinating high-deductible health plan model support these two principals and can help moderate escalating healthcare costs for employers.

This document discusses what employers and employees need to know to successfully implement HSAs into their benefit structure - reviewing HSA basics, plan design and consumer education. The Task Force also focused on whether HSAs could be structured to promote wellness and preventative care utilization.

Key findings:

- HSAs give employees a financial stake in their health care since they not only pay a greater portion of their health plan costs, but also retain what they don’t spend.
- The transition to HSAs from traditional plans requires a willingness from both employers and employees to consider a different approach to health care. Both must embrace increased individual responsibility and a different payment paradigm
- The biggest obstacle to successful adoption of HSAs is consumer unease in using HSAs. Employers must make an effort to educate employees on how HSAs work and how they can get the most out of them.
- HSA plans should include 100% preventative care coverage with no dollar limitations in order to support wellness and preventative care utilization.
- Whenever possible, employers should also look to make a contribution to employees’ HSAs to help defer out of pocket costs.

HSA Basics

HSAs are an alternative to traditional health insurance and a different option for individuals to obtain health care. A periodic census by America’s Health Insurance Plans (AHIP) of U.S. health insurance carriers shows that overall employer-market enrollment in HSAs rose to almost 3.4 million in January 2007 from 1.4 million in January 2006. (Including the individual market, January, 2007 saw a total of 4.5 million in HSAs – up 1.3 million from January, 2006) Slightly over 1 million were enrolled in the small-group market and 2 million in the large-group market. Additionally, HSA/HDHP products accounted for 17 percent of new policies in the small-group market and 8 percent of new policies in the large-group market.²

¹ Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2007

² AHIP, January 2007 Census

What is a Health Savings Account (HSA)?

A Health Savings Account (HAS) is a special tax-sheltered savings account that is similar to a traditional Individual Retirement Account (IRA), but designated for medical expenses. An HSA allows you to pay for current health expenses and save for future qualified medical and retiree health care expenses on a tax-free basis. Contributions, earnings, and qualified distributions are all exempt from federal income and Social Security (FICA) taxes. The funds can roll over from year to year and they are transferable from job to job.

Who is eligible for an HSA?

Anyone who is:

- Enrolled in a qualified high-deductible health plan;
- not enrolled in another medical health plan that is not a qualified high-deductible plan;
- not enrolled in a Health Reimbursement Arrangement or Flexible Spending Account, unless these accounts have restrictions;
- not enrolled in Medicare; and
- not eligible to be claimed as a dependent on another person's tax return

How does an HSA work?

There are two parts to an HSA program – the bank account (the HSA) and a special type of high deductible health plan (the “HDHP”). The HSA works in conjunction with the HDHP to provide health insurance coverage at a significantly reduced cost. The insurance company pays covered expenses in excess of the deductible and the consumer can pay any costs below the deductible with tax-free money from the HSA. Unlike a health reimbursement arrangement or flexible spending account, unused HSA contributions roll over from year to year and accumulate to be used for future qualified health care expenses

An individual funds an HSA with pre-tax contributions. The employer can also contribute to the HSA, just as some employers contribute to its employees' 401(k) plans. A high-deductible health plan exchanges low monthly premiums for higher deductibles. HSA funds may be used to pay for the cost of you and your family's deductibles, coinsurance, co-payments for services covered by the high-deductible health plan. They can also be used to pay any other IRS qualified health care expenses like dental, vision, and medical expenses not covered by your health plan, so long as they are not considered cosmetic in nature. HSA funds can also earn interest and be used for medical expenses during retirement. HSAs provide a financial incentive for you to make wise decisions about your health care.

A significant amount of money can be put into an HSA on an annual basis. (In 2008, you can put up to \$2,900 in the account if you're covered by a single HDHP and \$5,800 if you're covered in a family HDHP. An extra \$900 can be added as a “catch-up” contribution for individuals 55 years and older.) Like 401(k)s, money is typically invested in mutual funds. However, there is a wide variety of investment options on the market. Depending on age, family status, health, and whether the employer also makes contributions, one could amass a substantial amount of money in an HSA in just a few years. Money can also be withdrawn from HSAs for reasons other than medical expenses – for example, Medicare premiums, COBRA premiums, long-term care premiums, premiums for individuals receiving state or federal unemployment benefit, and retiree healthcare premiums if you are 65 or older. For individuals under age 55, if HSA money is used for non-qualified medical expenses (for example, to pay for groceries), there is a 10% penalty and ordinary income tax; at age 65 one would only pay ordinary income tax and the 10% penalty goes away.

Federal legislation creating HSAs defines a high-deductible health plan in 2008 as having a minimum annual deductible of \$1,100 for an individual, or \$2,200 for a family plan (2 or more on the policy). The maximum out-of-pocket expense for an individual is not to exceed \$5,600, or \$11,200 for a family plan. These limits

are tied to inflation and may increase every year. (AHIP's January 2007 Census cites average deductibles for HSA/HDHPs in the small-group market averaged \$2,282 for single coverage and \$4,541 for family coverage, with average annual out-of-pocket limits at \$3,404 for single coverage and \$6,611 for family policies.)

Overcoming Concern

At first glance, high deductible health plans and HSAs may not seem like the best option for some individuals. However, this Task Force encourages employers and employees to always “do the math.” In many circumstances, the reduction in premium cost offsets the total outlay for both the employer and/or employee, making HSAs the better financial bet. During the open enrollment process employers should take the time to meet with employees as a group and/or individually to work out how the transition to a high-deductible health plan and HSA will impact them. If employees choose the high-deductible HSA, there is the potential to save a great deal tax-free.

HSAs – Plan Design

As with any benefit choice employers face, there are a number of factors to weigh. With high deductible health plans and HSAs, it is important to consider your workforce, different plan design options and tools to assist you when making this transition.

The Task Force has determined that an “ideal” plan design includes 100% preventative care coverage that is not subject to the plan deductible. If there is any cap on preventative care coverage, be sure that the cap is high enough to cover the cost of important care like mammographies and colonoscopies, which can be expensive.

Also, there must be sufficient funding of the HSA—either through employer contributions or through employee premium savings as compared to other health plan coverage options. The ideal contribution amount covers a substantial portion of the high deductible. Otherwise, the high deductible will become a disincentive to seeking care, which may lead to a higher incidence of chronic diseases and higher health care costs for the plan in the long-run.

When designing the high deductible health plan and HSA option, you must also consider how this plan will coordinate with a company wellness program. (See attached Wellness Program Basics.) For example, you may not be able to offer a lower deductible to individuals who qualify for wellness program benefits. You would, however, be able to offer lower copays once employees have met the deductible, or cash benefits and prizes.

Ultimately, there are many good HSA and high-deductible health plans available to employers. The Task Force urges employers to weigh their choices when selecting a plan so that the plan is not stripped down to the point that it is unusable or unattractive to employees.

Education Tools – Making the Transition to HSAs

Successful implementation of a high-deductible health plan and an HSA option in the workplace requires a commitment to education on the part of the employer and the employees. HSAs encourage individuals to think differently about how health care is utilized, and it is necessary for everyone in the workplace to understand how this benefit operates. Employers must be prepared to engage their work force with an array of tools to make a long-term transition.

Education tools such as health coaching, written and web-based materials should all be considered by employers. Small, 20-30 minute classes throughout the year on how to use the HSA can increase participation and successful use of this product. Peer to peer interactions and the sharing of “success stories”

between employees can be one of the most powerful ways to increase participation. It is also important for employers and employees to understand that the transition to an HSA may not mean a reduction in benefits.

In order for consumer-driven health plans to work as anticipated, participants need access to information about the costs of health care. While this is improving—especially in the area of prescription drug costs—there is still not enough information available as to the costs and quality of health care providers and services for participants to truly “shop” for health care. In coming years, this will hopefully improve. For current cost and quality information, an employee’s best resource would be insurer and/or provider websites; however, there are a number of both private and government-sponsored websites that may also prove helpful.

Strengths and Challenges

The Task Force established perceived “Strengths and Weaknesses” of HSAs as a method of evaluation:

Strengths of HSAs:

- Creates educated consumers - People spend their own money differently than they spend an insurer’s, so this helps keep unnecessary use of the healthcare system in check.
- Rewards wellness
- Cost savings for employers
- More healthcare options for employers
 - New options created by 2006 federal legislation – IRA rollovers, etc. (See more in HSA Basics)
- Once a consumer reaches the deductible – same benefits as traditional plans
- Releases market forces in the health care system.
- Preventative care can be covered up front prior to the deductible
- Employee can decide how to spend premium savings
- Personal freedom over health care choices allow for tailoring to an individual’s needs.
- Ability to use debit cards streamlines payment process.

Challenges of HSAs:

- ***Need to change mindsets about health care and behaviors***
 - Conflicts with lifestyles
 - New way to think about paying for health care
 - Similar to the change in mindsets from pensions to 401(k)s
- Need to incorporate wellness
 - The degree of effort needed from human resource departments.
- Education
 - How to use this new type of product
 - Difficulty accessing information on health care costs hinders effective utilization
 - Need to educate on total cost of plans
- HSA product can be stripped down to the point that it is unusable for employees and conflicts with focus on preventative care.
- Irrational Behaviors with managing money
 - Do individuals forgo necessary health care with HSAs?
- Disease Management
 - Are chronic diseases managed effectively with HSAs?
- Employer loses authority to dictate use of dollars

Summary

In order for consumer-driven solutions to work, these plans require increased individual responsibility. Products like HSAs encourage behaviors that could profoundly change the health care system as more information on costs and quality of health care becomes available. Even today, with limited information available, patients with HSAs are more inclined to ask simple, but important questions such as, “Why?” and “Is this the only option?” to health care providers and themselves when seeking medical care.

HSAs could be an important stepping stone in our evolving health care system. Yet, as this paper explains, implementation of HSAs is not without some challenges. High-deductible health plans must be designed so as not to serve as disincentives to maintaining health. Moreover, employers sponsoring such plans must embrace the need to educate participants on their individual responsibility to learn how to effectively use HSAs and to lead healthy lifestyles.

The Grand Rapids Area Chamber of Commerce can assist by shaping public policy or promoting removal of barriers to experimentation, and by helping members develop workable solutions to issues surrounding health care. By monitoring different approaches to controlling health care costs, the Grand Rapids Area Chamber of Commerce will be in a better position to understand these efforts and communicate the results to its members.

Task Force on HSAs Members

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PLEASE NOTE: This document was prepared to give general information and public policy responses to health savings accounts and potential limitations. Numerous other resources on health savings accounts can be easily accessed with a search of the Internet. Employers should review their own circumstances with their insurance consultants and legal counsel before responding to the issues raised or adopting any of the recommendations of this document.