



‘LEARNING’ OBJECTIVES

WHAT’S
HOLDING
BACK
HSAs?



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While December 2019 marked the 16th anniversary of legislation that created Health Savings Accounts (HSAs), many still regard the HSA as a new, untested innovation. And while not exactly a “new” option, many plan sponsors and workers are not well versed in HSA-capable health coverage requirements. Even today, workers with access to an HSA option often misunderstand the opportunity, confusing it with the “use it or lose it” requirements of the better known and more prevalent health and dependent care Flexible Spending Accounts (FSAs). In fact, a recent survey confirmed that only 11% of employees and only 7% of employers surveyed could correctly identify four basic attributes of HSAs.¹

Little wonder that 60% of employer-respondents to the Plan Sponsor Council of America’s inaugural survey on HSA design and use said that employee education was their dominant concern about this important health care account.

Employers vying for talent in an increasingly competitive labor market have found that today’s HSA can be a valuable component of an employer’s total rewards/total relationship strategy. The 2019 HSA Survey confirms the growing convergence of health and retirement savings and the continued evolution among plan sponsors who increasingly deploy the HSA as part of their retirement savings strategy – empowering workers to realize the HSA’s full potential.

And yet, even after 16 years, only 26% of plan sponsors that offer health coverage offer an HSA-capable health option.² Further, many that do offer an HSA-capable health option position it as less valuable than other PPO or HMO coverage options. Clearly, the education challenge also extends to plan sponsors.³ This paper outlines both the opportunities and the education challenges that, a decade and a half later, are still holding back HSAs.

POSITION ‘ZING’?

Similar in some respects to when the 401(k) was first introduced as a “salary-reduction savings plan,” or when automatic enrollment was once labeled “negative election,” HSA-capable health options are often positioned on the benefits menu as a “high deductible” choice. That accurate but arguably

negative labeling focuses attention only on the deductible – the “here and now” expense. And as the “new” option on many benefits menus, the combination means that inertia similar to that which has long hindered 401(k) savings may also be at work here. Consider that the 2019 PSCA HSA survey found that only 29.4% of employers automatically enroll employees in the HSA if they enrolled in the HSA-qualifying health option, while just 9.8% of employers use a default or suggest an HSA contribution rate.



Percentage of organizations that automatically enroll employees in the HSA if they enroll in the HSA-qualifying health option

ORGANIZATION SIZE (NUMBER OF TOTAL EMPLOYEES)	PERCENTAGE OF ORGANIZATIONS
1-49	34.8%
50-199	37.9%
200-999	20.0%
1,000-4,999	26.9%
5,000+	35.5%
All Plans	29.4%

Other surveys show that of the minority of employers that offer an HSA-capable option, most:

- offer the HSA-capable health option as a choice;
- do not reposition other coverage options so that their coverage structure is consistent with the HSA-capable option;
- effectively discourage or dissuade selection of the HSA-capable option by labelling it the “high deductible” plan or by incorporating the deductible amount in the option’s name (e.g., “the \$1,500 option”); and
- understate the HSA’s value and capability by linking it/comparing it to a Health Flexible Spending Account – in fact, some market their HSA as a “super-FSA.”

The 2019 PSCA HSA survey found that more than one in five (22.0%) of the surveyed plans provide employer contributions as a set dollar amount per employee, and 69.3% offer a set dollar amount that varies based on the tier of health coverage elected (single, non-single, etc.). Another 6.0% link employer contributions to other criteria (wellness initiatives, etc.). However, only 2.7% encourage workers to contribute to their HSA on the same basis that most use in their 401(k) – a match of employer contributions.

HSA's 'SWAY'?

With financial stress taking a toll on workplace productivity, and many unable or unwilling to maximize even their 401(k) or 403(b) plan limits, why should employers encourage workers to save in the HSA? Unlike 401(k) assets, HSA assets can be distributed tax free to cover qualifying medical expenses – today and in the future.

HSA assets offer specific value for today's retiree and her spouse – when used to deliver tax-free reimbursement of deductibles, copays, coinsurance,

What's in a Name?

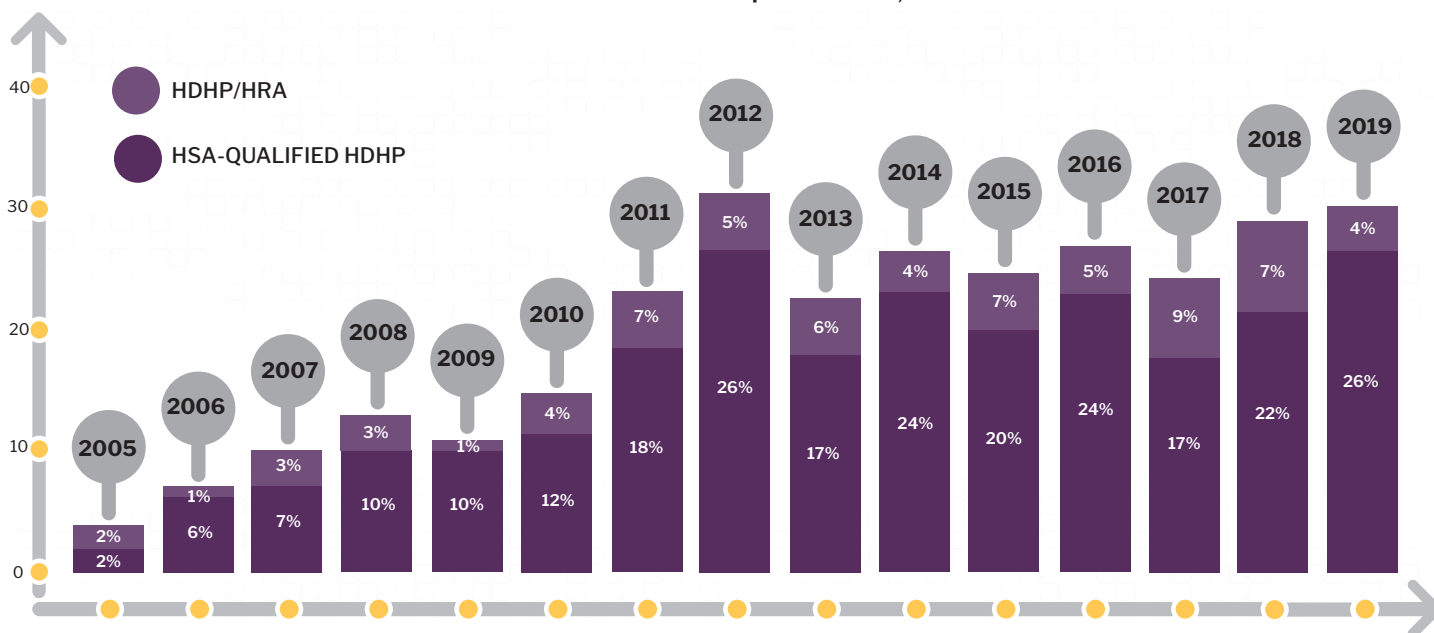
Intentionally or unintentionally, when plan sponsors and/or insurers present point-of-purchase cost sharing (deductibles, out-of-pocket expense limits, etc.), workers often read this information as a form of “shorthand” designed to steer or “nudge” them in selecting health coverage. And, too often, enrollment materials highlight the deductible, or worse, use the deductible amount in naming the coverage option. Today, most HSA professionals still refer to HSA-capable health options as “high deductible health plans.”

Consider the language and plan designs often found in enrollment materials:

- “annual” enrollment – draws attention to the next 12-month period;
- copay prevalence in HMO/PPO designs (rather than deductibles and coinsurance);
- acronyms, complexity (e.g., FSAs and HRAs); and
- highlighting “high” deductibles while misstating their relative size.

More and more, plan sponsors, service providers and insurers have renamed their HSA-capable health options to remove all references to the deductible. At one of the authors' firms, HSA-capable coverage was “rebranded” as the “health savings option.”

Among firms offering health benefits, percentage that offer an HDHP/HRA and/or an HSA-qualified HDHP, 2005-2019



* Estimate is statistically different from estimate for the previous years shown (p<-.05).

NOTE: Among all firms that offer health benefits, 1.6% offer both an HDHP/HRA and an HSA-qualified HDHP. Consequently, this may not add to 100%.

SOURCE: KFF Employer Health Benefits Survey, 2018-2019; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005-2017.

and even premiums. Medicare Part B premiums (\$3,252), Medicare Part D premiums (typically more than \$800), Medicare Supplement premiums (typically more than \$3,300), and average out-of-pocket expenses (\$6,332).⁴ That’s about \$13,700 a year – likely more, much more, in the future. This “triple” tax advantage means that HSA savers can get all the tax benefits of both a 401(k) and a Roth 401(k) – and apply savings to an element of retirement expenses that looms ever larger for pre-retirees and retirees alike.

Finally, employers can provide a significant benefit – and help individuals lower their cost of coverage as retirees. Employers can adopt employer-sponsored, retiree-pay-all, fully insured, Medicare Supplement or Medicare Advantage options as retiree medical coverage. This no-employer-cost, no-employer-liability coverage qualifies for tax-free HSA reimbursement – unlike commercially available Medicare Supplement or Medicare Advantage.

EDUCATION ‘PRECEDENTS’

Sixty percent of respondents to the 2019 PSCA HSA survey said that employee education was their dominant concern. Here, the similarities to the early years of 401(k) plans are striking – gaps in access to

tax-preferred saving, a greater focus on current versus future needs, savings inertia, financial and investment illiteracy, etc.

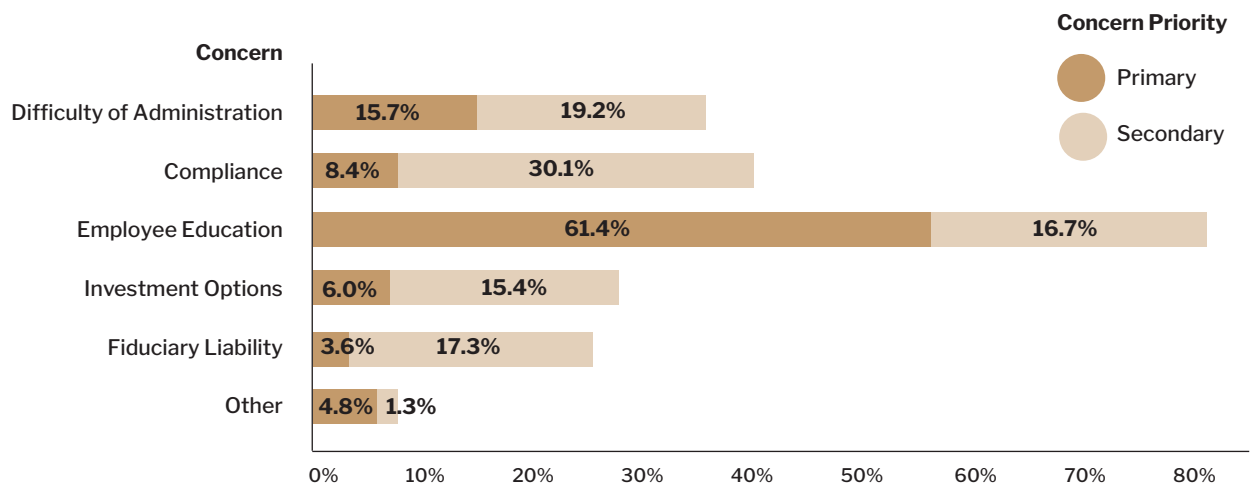
Saving in an HSA, like saving in a 401(k), is disrupted by turnover. Where they are offered, HSAs, like 401(k)s, often include unique features that vary from employer to employer – sometimes the learning process must start over.

Like the 401(k), HSA value is maximized where workers:

- enroll when first eligible;
- obtain the full employer financial support;
- contribute the maximum;
- accumulate, roll over monies and consolidate accounts; and
- invest assets for the long term.

The HSA, like the 401(k), succeeds only when savings accumulate throughout a worker’s career because early monies have an outsized value. And, much like the first 15 years after the first 401(k) was introduced, few sponsors of HSA-capable health options deploy behavioral economics choice architecture – few default participants to the HSA-capable health option during annual enrollment, and fewer still deploy automatic enrollment, escalation and/or investment features with respect to employee HSA contributions.

PRIMARY AND SECONDARY HSA CONCERNS



To increase the likelihood that workers will succeed in maximizing the HSA's value, plan designs should:

- differentiate FSAs from HSAs (eligibility, eligible expenses, contributions, “use or lose,” changing contributions, etc.);
- allocate or prioritize savings between a 401(k) (or 403(b)) and the HSA;
- overcome “Deductiphobia” – the fear of deductibles; and
- “level the playing field” by ensuring all options use the same coverage structure as the HSA.

CONCLUSION

More than 75% of employers fail to offer their workers access to America's most valuable benefits tax preference: the HSA. Even where an HSA-capable health option is offered, plan sponsors:

- fail to anticipate worker biases;
- structure coverage choices and processes in ways that impede HSA enrollment; and/or
- fail to adjust other coverage options to facilitate worker transitions to HSA-capable designs.

Why prioritize adding HSA-capable coverage? Without adding to costs, offering HSA-capable coverage will differentiate the employee value proposition – adding unique, greater value to total rewards (compared to simply paying workers higher wages) by making available:

- tax preferences only available in employer-sponsored plans;
- coverage not available in the individual marketplace; and/or
- added value from efficiencies through better risk management and economies of scale.

The 2019 PSCA HSA Survey confirms the growing convergence of health and retirement savings and the continued evolution among plan sponsors who

increasingly deploy the HSA as part of their retirement savings strategy – empowering workers to realize the HSA's full potential while concurrently gaining a competitive advantage as an employer of choice. ●

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Footnotes

¹ Bank of America, *2019 Workplace Benefits Report*. Accessed 10/9/19 at: <https://www.benefitplans.baml.com/publish/content/application/pdf/GWMOL/WBR-Infographic.pdf>

² Kaiser Family Foundation, *Employer Health Benefits, 2018 Annual Survey*, September 2018. Accessed 8/13/19 at: <http://files.kff.org/attachment/Report-Employer-Health-Benefits-Annual-Survey-2019>

³ K. Long, K. Rettger, “Top 10 Myths and Misconceptions about Health Savings Accounts,” *PSCA Defined Contribution Insights*, Spring 2018. Top 10: (1) FSAs and HSAs work the same way, (2) My employer controls my HSA, (3) HSA contributions must always be used for eligible health care expenses, (4) HSA contributions can only be made through payroll deduction, (5) HSAs don't earn anything, (6) HSAs have high fees, (7) HSAs limit portability, (8) HSAs are only for healthy people, (9) HSAs are just a way for employers to lower costs, (10) There is a time limit on when I can be reimbursed for my expenses.

⁴ Kaiser Family Foundation, “An Overview of Medicare, Average Out of Pocket Spending on Services and Premiums By Traditional Medicare Beneficiaries in 2016,” February 2019. Accessed 10/9/19 at: <https://www.kff.org/medicare/issue-brief/an-overview-of-medicare/>