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EMPLOYER DRIVEN BENEFITS

Health Savings Accounts; A Short Term Remedy
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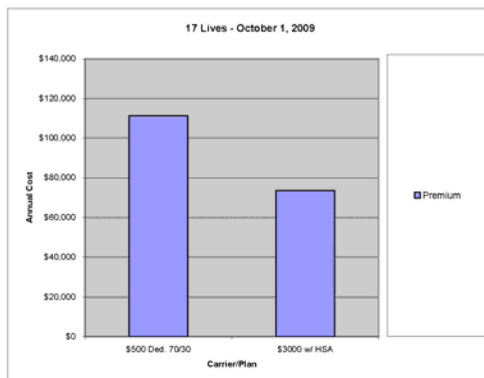
The Health Savings Account (HSA) in concept goes back as far as 1984 and takes its root in the Individual Retirement Account (IRA) and later from Medical Savings Accounts (MSA). Over a period of 25 years, the HSA "idea" has evolved to what we know today. Initially intended to be a medical or healthcare savings vehicle for individuals who were financially frugal, the HSA has become a means by which employers both small and large could lower, or at least control the cost of providing benefits to employees. Unfortunately, employers who had hopes of lowering premiums and overall plan cost while providing a rich benefit package for employee retention are seeing results other than what was expected.

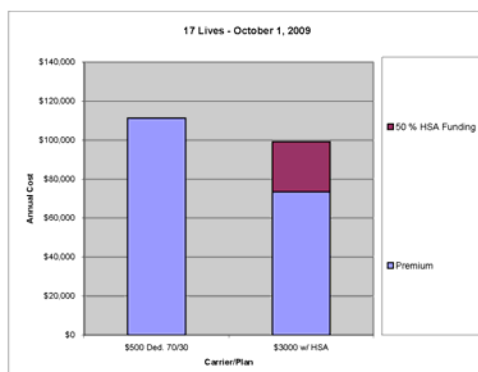
What a great concept
An HSA is a tax-sheltered account for individuals enrolled in a high deductible health plan (HDHPs) and is not a health insurance policy in itself. The HSA is a financial vehicle for HDHP members, who may use tax-free HSA dollars to purchase health care up to their required deductible. HSAs and HDHPs are part of a family of health insurance products that are often referred to as consumer-directed health care. Supporters of this type of health insurance reason that a higher deductible will encourage individuals to be wiser consumers, since they are responsible for the cost of health care below the deductibles.

So, what's the problem?
To begin with, most employers have been funding the HSA for employees. Seems like a reasonable way to lower cost overall and still maintain a healthy benefit package for employees. However, employers have run into a couple of obstacles. If the employer is funding the HSA, he/she may not be lowering the costs on the health plan after all. Take a look at the chart below.



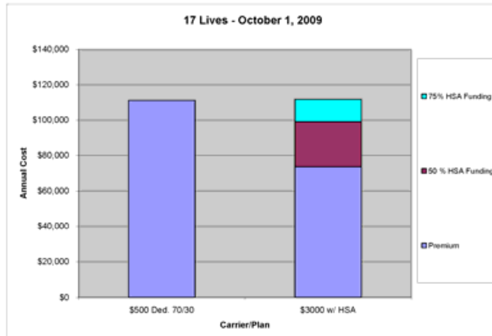
This is a 17 life group which switched from its traditional $500 deductible 70/30 coinsurance plan, to a $3000 HSA. The premium went from $111,192 annually to $73,536. This employer got an instant decrease in cost of $37,656. Good results. However, in this scenario the employees now have a high deductible health plan with no additional benefits built in. The employees will not enjoy benefits until they have paid $3,000 out of pocket. Not quite the attractive employee retention package we mentioned above.

How do we make it attractive? By funding the employee's deductible.



Let's assume the employer only funds 50% of the deductible. It would look something like the chart to the left.

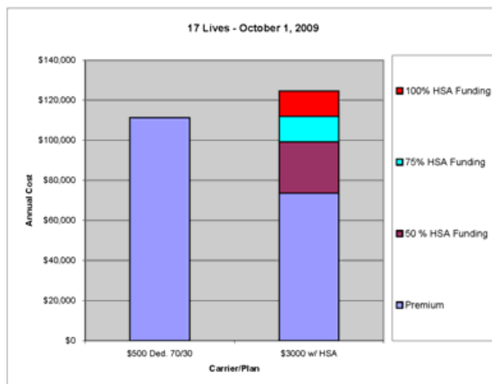
The employers cost is now $99,036 annually because it has just added $25,500 to its cost. The employee will enjoy $1,500 of benefits paid at 100% by the employer and the employer will see its annual savings drop to $12,156.



Now, 50% is on the low end of the scale. Many employers are funding 75% of the deductible for its employees.

If you noticed the employer is now spending more on its health plan than it did with the traditional plan it had, you read it right. The employer is now paying $111,786 annually. Cost was increased by $594 and the employees now get a plan that has 100% coverage up to $2,250. That's a good deal for the employee…not so good for the employer.

I could stop there, but I will take this one step further and show you the lack of cost reduction for those employers who still choose to fund the HSA at 100%.



The employer is paying $124,536 as opposed to the $111,192 it had before putting the HSA in place and funding it. The employee has a plan with 100% coverage under the deductible resulting in no employee accountability and the concept of creating a wiser consumer just went out the door.

Problem two

What happens when the employer doesn't fund the account?

We experience unhappy providers. Many health care providers are seeing a growing trend with unpaid medical claims, under-funded HSA accounts, and additional accounting expenses in trying to collect for unpaid bills. Employees often cannot afford the expense of taking on the higher deductibles. This affects health care providers, employers, and employees.

The employees don't value the plan. Employers can no longer attract or retain good employees with their company's medical plans. Whether employees actually use the plan or not; they are seeing their out of pocket cost go up in two ways. They see increased payroll contributions and an out of pocket maximum which can reach over $10,000 per year on the most popular of plans. Many employees opt out of receiving much needed care because they can't afford the rising costs.

What's the end result? Providers are being stuck with the burden of patients dealing with illnesses that could have been prevented if the patient would have undergone basic preventive care, but because the patient did not have funds in the HSA, the care was overlooked.

Problem three

The numbers reflected in the charts above are actual rates for the 17 life group shown as of October 1, 2009. However, many of you are aware that you will be delivering renewals on your client's HSA Plans with a 40-55% increase on average.

If you are a thrill seeker, you may be enjoying the roller coaster we call HSA premiums. Although I am sure that the majority of us would prefer more stability. We are seeing a plethora of insurance carriers come into the market with rates that are far below other plans being offered. You help your clients find the right plan with the most savings only to discover that one year later, the premiums have increased drastically and you are shopping again. We saw this in 2006, 2008, 2009 and it appears that 2010 is going to be a record year for premium increases on the HSA plans.

Most employers, who have been funding the HSA for their employees, can no longer afford or are unwilling to continue to do so. This leaves the employee with catastrophic coverage because employees are unwilling or unable to fund their HSA account.

Often times we see employers become disenchanted or down-right angry with their plan because the HSA Plan premium just went up 40-60%. In addition employers see that some of their employees have stockpiled employer-paid money in their HSA account in an economy in which the employer is fighting to keep its doors open.

One more major problem
Education; many members don't know how the HSA works and do not recognize its value as a new way of financing health care.

It is becoming clear that the insurance industry's short term solution of a HDHP and HSA is creating a long term problem; which may explode into an even larger problem. HSAs can be a successful funding mechanism for frugal thrifty employees when funded by employees. However HSAs implemented with the employer funding the employee's HSA is seldom a workable or successful strategy and leads to the problems stated previously.

Employers who were faced with years of double-digit increases thought they had found a solution by offering their employees HDHPs with an HSA in place. Unfortunately what these employers are now discovering is that these plans come with a higher out of pocket expense for the employees and as stated clearly above, extreme instability in the rates. It comes down to the employer giving its money to the employees, or the employer relying on the employees to fund the account. Not a win-win situation for the employer.

Hang in there, you've got options
Many employers have not thrown out the HDHP portion of the plan, but have replaced the HSA concept with a Health Reimbursement Arrangement (HRA) or Medical Expense Reimbursement Plan (MERP). A standard HRA/MERP tends to save the employer 30-50% in its overall plan cost and it provides the employees with a plan that looks and feels like a traditional plan. The employee and the employer share responsibility up to the deductible increasing accountability and keeping some skin in the game for the employee. The employer saves, the employee values his or her plan, and providers get paid. Overall a win-win-win situation. The good news…your HSA employers will welcome the concept and you can be the benefit hero you want to be.

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