

# HSAs: Making the Most of Healthcare *and* Health

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### Managing the Rising Costs of Healthcare

It's no mystery that the cost of living is rapidly rising all around us: gas, food, consumer goods, the prices keep going up. And healthcare is no exception. Since 2002, health insurance premiums have increased over 70%, with average out-of-pocket costs rising 115%. Americans spend more than \$2 trillion dollars per year on healthcare—more than any other country on a per capita basis—and the growing expenses are taking their toll: according to a Harvard study, of the bankruptcies declared in 2005, 50% can be attributed to unpaid medical expenses.



Figure 1: Since 2000, the costs of healthcare have risen steadily.

How can we manage these rising costs without sacrificing comprehensive health coverage? One smart approach is to invest in Health Saving Accounts (HSAs).

## HSAs: Health Savings for Today and the Future.

In 2003, to help defray rising costs of health care, Congress introduced HSAs as part of the Medicare Prescription Drug and Modernization Act. An HSA is a tax-advantaged account used to pay for current—and future—qualified medical expenses, from office co-pays and prescriptions to dental and chiropractic care. The maximum annual contribution to an HSA is \$2,900 for individuals, \$5,800 for families; any remaining funds roll over from year to year, accumulating interest tax-free and growing in value. Like a 401(k) plan, both employees and employers can make contributions to HSAs—and like 401(k)s, HSAs can prove extremely valuable come retirement age.

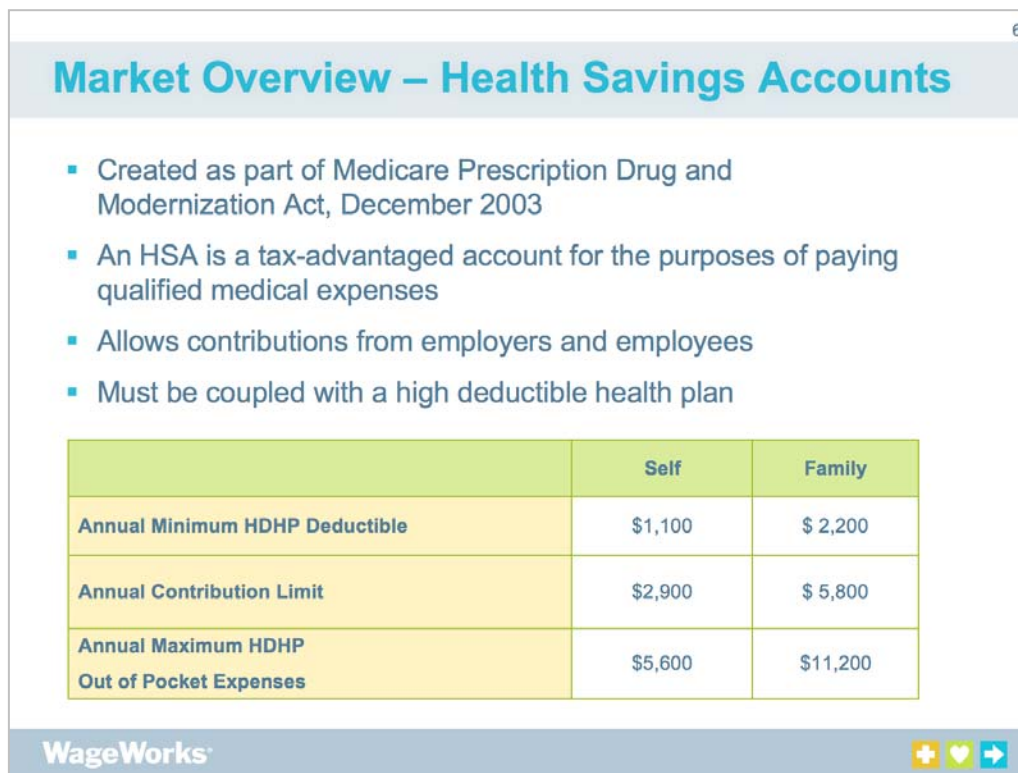


Figure 2: HSAs: a smart, tax-free way to save for healthcare expenses, today and in the future.

In order to open an HSA, it must be linked to a high deductible health plan. True to their name, these plans have high deductibles, but in return very low premiums. Their annual minimum deductibles are \$1,100 for individuals, \$2,200 for families; their annual maximum out-of-pocket expenses could be as much as \$5,600 for individuals, \$11,200 for families.

## The Truth about HSAs

Despite HSAs' benefits, several misconceptions prevent most Americans from taking advantage of them. In order for these savings accounts to grow in popularity, it is important to dispel the myths.

First, there is a concern that those who invest in HSAs do not contribute enough to roll over funds from year to year, and thus the savings accounts do not help save for future medical expenses. This is not the case. In fact, 86% of HSA owners roll over funds at the end of the year, with an average rollover amount of more than \$861.

In addition, there is some speculation that only the young and healthy or the affluent invest in HSAs. Research shows, however, that those most likely to open HSA accounts are actually over 40 years old. In addition, almost one-fourth of all people who open HSAs make less than \$25k per year.

Finally, a popular misconception is that you cannot open both an HSA and a Flexible Spending Account (FSA). In fact, you can have both accounts. Keep in mind, however, that an FSA must be used for limited medical purposes, such as dental and vision.

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### Myth Busters – Consumer Behavior

- Initial thoughts: Contributions and balances were going to remain low
  - Increases in contribution limits and the “saver” group driving higher than expected balances
    - 86% rollover balances from year to year, avg rollover amount is \$861
    - Average total contribution of \$1,861
    - Average annual spend \$1,000
    - Participation rate: 8-10%
- Initial thoughts: Only young and healthy would adopt
  - Most likely to open account > 40 years old
  - HSA Adoption (% of eligible employees who open account)
    - 23% income less than \$25K
    - 39% income between \$25K and \$49K
    - 50% income between \$50K and \$99K
    - 58% income greater than \$100K

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Figure 3: Misconceptions about HSAs have prevented them from becoming a popular choice among Americans.

As the false impressions fade, HSAs will become a more prevalent choice for managing healthcare costs. Already, the HSA participation rate has increased to 8%-10%, from the original 5%. Increasingly, people are not shying away from HSAs, but instead learning to take advantage of them.

## A New Way to Think about Health Insurance

Despite growing participation, HSAs are still not the first choice for many when it comes to healthcare options. How can we change the minds of those who are reluctant? By changing the way they look at health insurance.

A great deal of reluctance is linked to the fact that, in order to open an HSA, one must subscribe to a high deductible health plan. High deductibles, however, do not mean reduced coverage. Think of high deductible plans like auto insurance: a *higher* deductible means *lower* premiums—but the actual coverage remains the same. These plans offer financial protection and coverage should a catastrophic illness or event occur, plus the benefits of an HSA: you can contribute funds on a pre-tax basis, collect interest on a pre-tax basis, and withdraw funds for any kind of illness or service related to healthcare—free of tax.

## Investing in Your Health

Traditionally, healthcare is purchased on a 12-month, short-term cycle. But with account-based health plans, (high deductible plans linked with HSAs), people have the unique opportunity to accumulate equity over their working lifetime due to healthy behavior. How does this work?

Consider the well known “80/20” model which states that roughly 20% of patients are responsible for 80% of all medical claims. While the percentages remain the same year after year, the actual patients change since the need for medical care increases with one’s age. Short-term, regular insurance does not take advantage of this concept. If you have regular insurance over your lifetime, you will have overpaid 80% of the time, (when you’re young and don’t tend to need comprehensive insurance). With an account-based health plan, however, you can contribute to an HSA on a tax-free basis and roll over unused funds until you really need the money, for that 20% of the time.

Even chronically ill patients can benefit from a well-constructed, account-based plan that enables them take advantage of the good years (with relatively low medical expenses), vs. the bad years (with quite high medical care).

With HSAs, health should be viewed as a long-term, financial asset. Just as people save for retirement by investing in an employer’s 401(k), an HSA offers the opportunity to accumulate equity over one’s working lifetime, associated with health and healthy behavior. Staying healthy means less frequent medical care, and therefore more money accumulating in an HSA, ready to be used when necessary. Of course, there are many benefits to staying healthy including a better quality of life and a potentially longer lifespan. But an HSA offers yet another incentive for staying healthy—a *financial* incentive: take care of your health, and it will benefit you financially years from now.

## Mestek Inc: Putting HSAs to Work


To understand how HSAs can truly impact a company and its employees, consider Mestek, Inc., a self-insured, mid-sized manufacturing company that adopted an account-based health plan in 2005.

Mestek switched from a standard PPO plan to a high deductible health plan with HSAs to help offset the rising costs of health insurance. Initially, employers at Mestek were concerned that they would lose employees due to the transition; they worried people would opt out of the insurance, or simply leave the company altogether. In actuality, there was very little attrition.

As they introduced the new health plan, Mestek leadership emphasized the *wellness* aspect, encouraging employees to invest in their own health as a long-term goal, both for quality-of-life and financial reasons. They hired a full-time Wellness Manager to spearhead efforts, as well as offered free preventive exams and Weight Watchers programs—all with the intent of making it easier than ever to get, and stay, healthy.

### High Points of Behavioral Change

- Wellness has become a key topic:
  - Weight Watchers, Westfield Wellness Center (3 more in process), connection to community resources wherever we operate
  - We have a full-time Wellness Manager spearheading our efforts!
- People are making better choices:
  - they think twice before going to the doctor for a cold
  - they are using “generics” vs. brand drugs
  - they are taking advantage of new options – e.g. \$4 generic drugs (30-day supply) at Wal-Mart
- Anecdotal evidence reveals that employees and their families are not skipping needed medical care or necessary prescription drugs
- CIGNA study: CDHP enrollees receive more preventative care and have lower utilization rates
  - claims data for over 38,000 people over 2 years
  - Claims down 5.5% vs. others whose claims were up 11.9%








Figure 7: Making wellness a priority at work benefits employers and employees alike.

The end result? Mestek employees started making smarter choices regarding their health care: purchasing generic prescriptions, thinking twice before going to the doctor, and in general, taking better care of themselves.

By changing to a high deductible health plan with HSAs, Mestek’s premium rates actually went *down* 10% between 2005-2007. Annual family premiums were \$1,200 less than the average PPO plan premiums. Because of the wellness focus, per capita medical claims were well below the national average, and decreased 16% from 2004-2006. In 2007, the average employee’s HSA contribution was over \$2,000. And because Mestek matched these contributions, the savings grew faster year after year.

As for Mestek, the company enjoyed a net savings of \$363,000 in the first year alone, and a per capita reduction of 12%. Switching to a high deductible health plan coupled with HSAs was a beneficial choice for everyone.

## **Benefiting the Employer and the Employee**

Ultimately account-based health plans and HSAs will succeed because they prompt individuals to change how they purchase, and use, healthcare.

When it comes to HSAs, both the employer and the employee benefit. By offering an account-based health plan, the company enjoys lower insurance costs and satisfied employees who focus more on staying healthy.

The employees, in return, can contribute funds on a tax-free basis into a savings account and/or investments, as well as receive matching contributions from their employers so that their savings grow faster. And of course, there is the added incentive to stay healthy — which, in the end, is a benefit that can truly last a lifetime.

For more information on HSAs or how WageWorks can work with your company to find the right account-based health plan, contact a Solutions Specialist at 1-866-602-3887.