HSA INSIDER

Health Savings Accounts: Politics, Regulations and Industry News

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The Ten Most Common Mistakes Employers Make When Rolling Out an HSA

Health Savings Accounts are different than Health Reimbursement Accounts (HRA) or Flexible Spending Accounts (FSA), and an employer must think differently about Health Savings Accounts to understand them and to roll them out properly to their employees.

Here is a short and true story that may help illustrate how to think differently about HSAs. This summer, I took my children to an amusement park -- one of these places where once you are in the gates, all the rides are free. Since my older kids wanted to go off on their own, I gave the three of them $40 each for the day, and told them that's all their money for the day at the park -- for food and everything they want to spend it on - games, the arcade, hats, t-shirts, the works.

Three and half hours later, I was asked "Dad, do you have any more money?"

"What happened to the money I gave you?" (They were standing their empty handed, no large stuffed animals, no new hats or t-shirts.) Well, the telescope that took quarters ate about $10, then they played a bunch of games to win prizes, and the arcade and food took the rest.

"No, I have no more money," I told them.

During the summer, their cousins visited and another road trip to the amusement park was on the agenda. This time after handing out the cash, I told my kids and their cousins, "Here is your money for the day. What you don't spend you can keep."

Curious behavior followed: some of them ordered water for lunch; some skipped lunch and had an ice cream cone. I actually heard my daughter argue with a clerk about whether she was given the

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Sound Bites

New FSA Extension Expected to be Little Used From Accounting Pros:

"A new Internal Revenue Service rule relaxes the 'use it or lose it' rule in flexible spending accounts by extending the period during which expenses may be incurred beyond the end of the plan year.... 'Most vendors and carriers aren't excited about the change,' said Bryan Brenner, CEO of an Indianapolis-based Benefit Associations Inc., which advises clients on various benefit plans, including flexible spending accounts. 'The only thing it really does is extend the plan year by 2-1/2 months. Those who used to rush out in December to buy glasses and contact lenses so they could use up their account money will now simply do it in February,' he said."

To read the entire article, click here.

General Motors Offers HSAs to its Salaried Employees

According to the October 24th edition of the Detroit Free Press, "General Motors Corp. is rolling out that option this fall during open-enrollment time for 2006. GM offers health savings accounts to its 36,000 active salaried employees. It's also available to thousands of salaried retirees."

Whether the contract negotiations with GM's unionized employees will result in an HSA being offered is yet to be determined. Chrysler and Wal-Mart are among the other large U.S. Corporations which have announced they are rolling out an HSA option for their employees this fall.

Shopping for Health Care, American Style

In a refreshing article from Health Leaders titled "Hospital Pricing Transparency," Lola Butcher's lead sums up the current state of affairs up reasonably well:

"If there's one thing Americans know, it's how to shop. And no self-respecting American shopper would patronize a store that

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right change. Games for prizes were out, so was the arcade and anything in the souvenir shop. They wanted some candy for the ride home, and so they bought tootsie rolls, the least expensive candy they could buy.

Some discrete inquiries discovered the fact that most of my children and their cousins had saved about 40% of the $40 given to them.

So, if you give employees cash, and tell them you can only spend that money on health care and on nothing else (as is the case with an HRA or an FSA) - that is exactly what they will do.

It is rational economic behavior - I can only spend money on this - so I will.

But because the money in a Health Savings Account is the employees, they will treat that money the same way my children treated

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Sound Bites

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charges $4,781 for something readily available across town for $921. Unless, of course, you're talking about the quirky marketplace of healthcare, where for most insured shoppers, $4,781, the list price for an abdominal CT scan at one San Francisco Bay-area hospital, effectively equals $921-the scan's sticker price at another."

To read the full article, click here.

Making Car Parts and a Profit in Michigan

In an article from the Detroit Free Press titled "Parts firm finds way to pay good wages," Shannon Precision Fasteners lets the cat out of the bag about how they pay $20 an hour and still make a profit: "What's different is the benefits package. No more defined-benefit plans for pensions and health care. 'We have Health Savings Accounts for everyone....'" To read the entire story, click here.

Meanwhile, in an announcement that is likely to stir the health care debate pot, General Motors, according to Reuters, said: "It will cut about 30,000 jobs or 9 percent of its total work force, close or curtail operations at 12 plants in North America and slash the amount of vehicles it produces by 1 million as it attempts to reduce costs by $7 billion."

Speaking of Stirring the Pot

The Rand Corporation recently released a study finding, as reported by Health Day News, "that undocumented immigrants account for up to a third of the increase over the past two decades in the number of people in the United States who don't have health insurance."

Among the two most emotional issues Congress deals with are health care and immigration. Joining them together will likely delay any action on either.

To read the Health Day News article, click here.

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the money that I gave them to spend or keep, their choice.

I did not hear, "Dad, can I have some more money." Instead, after handing out the cash I had happily shocked children and cousins who thought this was great. (As employer offering health insurance, you have the cash to deposit into your employees' health savings account, but instead, you are now giving it to your insurance company in the form of premiums.)

For employers that fund the account, what you are really funding, is an incentive for the employee not to purchase health care services in a reckless, who-cares-I'm-not-paying manner. This obviously saves you money, and has a deflationary affect on health care inflation.

This dynamic has already been confirmed by United Benefit Advisors, who

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recently conducted one of the largest studies of its kind this year. United Benefit Advisors reviewed more than 12,000 health plans at more than 8,000 employers.

They found that the average increase in health insurance premiums for consumer driven plans in 2005 was 3.4%, but the average increase for all health plans in 2005 was 9.6%. In real dollar terms, a 3.4% increase on a HSA qualified plan for a family is less than $15 a month, or about $180 a year - whereas the increase for a traditional family health insurance plan equates to a $90 a month increase, or more than $1,000 a year.

> An employer who would rather give their contribution to an insurance company, instead of in a pre-tax deposit to their employee, is guaranteeing continued and significant increases in their insurance premiums year after year. . .

An employer who would rather give their contribution to an insurance company, instead of in a pre-tax deposit to their employee, is guaranteeing continued and significant increases in their insurance premiums year after year, because employees with traditional low deductible, high premium plans will get into their insurance coverage much more often than will employees with high deductible, low premium plans. These employees will consume more health care once they are into their health insurance coverage.

The key point is: by funding your employees' HSA you are paying them not to get into their insurance coverage. Today, unless a very small number of your employees get into their health insurance coverage, you are guaranteeing that your health insurance premiums will go up the next year - which is where employers really get hurt.

The HSA Plan Designer Worksheet in this newsletter will help you design a popular HSA, and will immediately stop your health care cost increases by showing you how not to spend a single dime more than you are spending this year for next year's health benefits.

The simplest and easiest metric of whether your HSA was designed and communicated properly is the rate of HSA adoption by your employees.

If your adoption rate is less than ten percent, something is wrong with your plan design. First year HSA adoption rates by employees among companies that properly design their HSA, and give employees a choice of other plans, ranges from 25% to 45%, but some have been as high as 72%.

With that preamble, before completing the worksheet, please review the most common mistakes employers make when implementing an HSA.

<u>Mistake Number One</u>: The employer does not fund the health savings account.

Do not offer an HSA unless you fund the account. It is a waste of your time as an employer, and a waste of the employees' time as well.

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Unfunded HSAs are really just a high deductible health plan in the mind of employees. The adoption rate is usually less than 5%, provided the employees have a choice of another health plan.

Mistake Number Two: When presenting HSAs to employees for the first time, employers talk about the amount of the deductible first.

This mistake is guaranteed to poison the well against HSAs - and very difficult to recover from. (I learned this lesson the hard way. I came home and told my wife we had a new health plan with a $3,000 deductible.)

Instead, talk about the money that the employer will deposit in the account first, not about the deductible. This is exactly what you should say: "Those single employees who choose the HSA will have $2,500 deposited in your account over the course of the year to be used to meet your health care needs. If you spend all that money during the year, your insurance kicks in."

Creative employers have distributed envelopes with a check for $2,500 made out to single employees (or $5,000 for employees with families) at the benefits meeting. Then the check is collected and the employees are then told: those who choose the HSA will have this money deposited into their account. Employees immediately understand it is their money, which they can have, if they choose the HSA.

Here is another tip, have spouses present when you explain the new health plan.

Mistake Number Three: Employers do not choose an HSA qualified plan with 100% coverage above the deductible.

Blue Cross Blue Shield of Vermont offers HSA qualified plans with 100% coverage after the deductible is met. It is no coincidence that 70% of all broker business in 2005 brought to Blue Cross Blue Shield of Vermont is either 100% replacement HSAs, or includes an HSA option. It is their best selling policy.

Employers need to shop for an HSA qualified health plan which has the deductible equal to the maximum out-of-pocket cost, which is insurance-speak for once you pay your deductible you are covered 100% -- for everything. Employers that fully fund the account and use an HSA with 100% coverage above the deductible will find employees very receptive, and will dramatically reduce the amount of anxiety among their employees about having a high deductible, plus will have a significantly higher adoption rate - not to mention have a much easier time explaining it to your employees.

Mistake Number Four: Employers do not select a high enough deductible, to create a big enough drop in the plan premium, to free up enough cash to fund the account.

The reason a high deductible plan is required by law is so that money which was going to the insurance company in the form of monthly premiums, can instead go in the employee's pocket (HSA). Congress did not expect employers or employees to pay for a traditional insurance plan, and then come up with several thousand dollars to deposit into the HSA - that would have been unrealistic and unworkable.

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The high deductible plan mandate is there for this very specific reason, and employers should use the HSA tool the way it was designed. Employers should not select the minimum allowable deductible - but should shop at the upper end of the HSA allowable deductibles.

Mistake Number Five: Funding one type of health plan more than others.

Do not provide more employer funds for one type of plan over another. For example, the employer contribution should be an equal dollar amount for an HMO, for a PPO and for the HSA.

As soon as the employer favors one plan over another, the HSA usually gets funded the least, and the employer usually ends up subsidizing the more expensive traditional plan, which is exactly not what an employer should be doing to control their health costs.

Mistake Number Six: An employer has no response or plan if employees ask: "What happens if I have a serious health problem, early in the year, when I only have a few months deposit in my account?"

Employees should be told: "First, the likelihood of that happening is small. However, should it happen, we [the employer] will advance our entire annual HSA contribution at that time, and deposit it into your account so that you have access to those funds."

There are two other strategies that an employer can use to answer this question. First, ask your insurer if they have a hospitalization rider or an accident rider to be able to offer the employees along side the HSA. These riders will pay the policy holder the amount of their deductible should they be hospitalized or have an accident, and are generally used in the first or second year of moving to an HSA. (For more details, including an example of a hospitalization rider, click here.)

Second, move from a calendar year HSA to a plan year HSA, which will allow fully funding the account regardless of the time of the year you switch your company to an HSA.

Mistake Number Seven: An employer spends their scarce health benefit dollars on things other than fully funding the account or helping with the premium.

As soon as an employer begins to spend their scarce employer contribution on anything other than first putting that money towards fully funding the account, and then towards helping the employee with the premium, that employer is hamstringing their HSA offering. (This includes prescription drug benefits, dental and vision.)

If there are any funds left over after fully funding the account and paying for the health plan premium, offering a hospitalization rider or access to a 24 hour nurse hotline should be at the top of the list. Some employees do not want to feel that they are completely on their own when it comes to their health decisions. There is considerable comfort in having a 24 hour nurse hotline that they can call if they have a question about whether they should go to the doctor or not.

Employers should make sure that their employees know about WebMD where they can find a doctor, request an appointment or, research any symptoms that may have for free.

Other employers have set up an internal company web site where employees can give each other advice about good and bad doctors, where to get the best price for a certain prescription drugs, and generally create a community of interaction among their employees to trade advice about purchasing health

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products and services in their community.

Employees with families need to be told that if their account has $5,000 deposited into it by the employer, the employer has just saved any employee in the 25% tax bracket $1,250 in taxes, and for single employees in the same tax bracket, a $2,500 deposit into their HSA saves them $650 in taxes. Employees also need to understand that in order to get this tax break, an HSA account must be opened.

If employees will be paying the account opening and monthly fees for the Health Savings Account, these fees need to be put in the context: sure, you will have to pay a small monthly fee to the bank for your HSA, but look at the tax savings you are getting in return.

Mistake Number Eight: Scarce health benefit resources are spent on wellness plans first.

This is a mistake that merely drains funds from the HSA and paying for the premium, hospitalization rider, nurse line or account fees.

Think back to when you had your first car, and the first time you thought something might be wrong with it. Most teenagers wait until the car breaks down, and thus learn the lesson early in life that it is cheaper to fix something when it is a small problem, as opposed to a large one.

HSA policy holders understand this lesson. That is why Assurant Health told Congress their HSA policy holders use 32% more preventative care service than the policy holders with a traditional health plan.

The reason is simple: people with an HSA have a financial incentive use prevent care. If they wait until a health problem becomes an expensive one, they pay, not the insurer or the employer. Therefore, they use more preventative care, so they will pay less out of their account.

This behavior has been documented among the less healthy and among the healthy who have an HSA: they take more interest in their health care, go to the emergency room less and use more generic drugs.

Mistake Number Nine: Offering a "limited purpose FSA" alongside the HSA, which also violates the KISS rule.

Qualified HSA expenses include dental and vision expenses (braces, for example, are allowed) and introducing a "limited purpose FSA" for these expenses merely complicates any HSA offering in the mind of the employee. Why have an FSA which has more restrictive rules, where the employees have to turn in their receipts to be reimbursed, and have to spend all the money they put into the account, or they lose it?

Mistake Number Ten: Employers who cannot afford to offer their employees health insurance, do not contribute to their employees' HSA their employees have purchased on their own.

Yes, employers that do not offer health insurance can make a deposit into every employee who has purchased their own HSA qualified health plan, and who has opened an HSA.

Mistake Number Eleven: Employers set up their HSA without using the HSA plan designer worksheet found in this newsletter.

The HSA Plan Designer Worksheet for Employers

This worksheet will convert any employer from a traditional low deductible, high premium health plan (a defined benefit plan) to an HSA qualified health plan (a defined contribution plan) through which the employer can control, on a year-by-year basis, the amount they pay for health care benefits.

The employer fully funds the Health Savings Account first, and then with any employer contribution remaining, contributes towards funding the premium for the HSA qualified health plan. The entire portion of the employee contribution is allocated to the HSA qualified high deductible health plan.

Therefore, the variable cost of any future premium increase will be borne by the employee, and the employer can control the rate of increase of their health care costs through a set contribution amount which goes to the health savings account first, and any remaining funds go towards the high deductible premium.

The result is that the employer can modulate their annual contribution to the amount of last year's expenditure, or at an increase of say, the rate of inflation.

INFORMATION TO ENTER	DOLLAR AMOUNT
1. Enter the total monthly employer contribution per family for Health, Vision, Prescription Drugs and Dental:	
2. Enter the total monthly employee contribution per family for Health, Vision, Prescription Drugs and Dental:	
3. Enter employer and employee (family) dollars saved by not adding any additional funds this plan year for Health, Vision, Prescription Drugs and Dental (assume a 10% increase):	

Select the Correct Deductible for Families:

4. Enter proposed HSA qualified health plan deductible for families:	
5. Fund the Account at 100% of the deductible:	
6. Enter the Annual Premium for the HSA health plan per family employee for the deductible selected in line 4:	

Directions: Add the figures from lines 1 and 2 and multiply by 12. Subtract the sum of those figures from the figure in line 5. Any remaining positive number, subtract from line 6. Any remaining positive number can be saved by the employer, or shared with the employee or be spent on a nurse hotline, hospitalization rider or be applied towards the set up or monthly fees of the Health Savings Account.

An Example of the HSA Plan Designer Using the National Average Cost for a Health Plan in the U.S. for Families

INFORMATION TO ENTER	DOLLAR AMOUNT
1. Enter the total monthly employer contribution per family for Health, Vision, Prescription Drugs and Dental:	$546[1]
2. Enter the total monthly employee contribution per family for Health, Vision, Prescription Drugs and Dental:	$381[2]
3. Enter the annual amount of employer and employee dollars saved by not adding any additional funds for this plan year for Health, Vision, Prescription Drugs and Dental:	$1,112 (assume a 10% increase in the annual premium)

Select the Correct Deductible for Families:

4. Enter the proposed deductible of the HSA qualified health plan for families (with 100% coverage above the deductible):	$5,000
5. Fund the Health Savings Account at 100% of the deductible:	$5,000
6. Enter the Annual Premium for the HSA Qualified plan for family employees for the deductible selected:	$5,400[3]

Directions: Add the figures from lines 1 and 2 and multiply by 12. Subtract the sum of those figures from the figure in line 5. Any remaining positive number, subtract from line 6. Any remaining positive number after subtracting from line 6 can be saved by the employer, or shared with the employee, or spent on a nurse hotline, or on a hospitalization rider or be applied towards the set up or monthly fees of the Health Savings Account.

First, the employer pays $5,000 into the employee's family HSA.

Second, the employer applies the remaining balance of their annual contribution ($1,552) to employee's family HSA plan premium.

Third, the employee applies their $4,572 to their HSA plan premium.

Therefore, the remaining employer contribution available for the HSA plan premium ($1,552) is added to the available employee contribution ($4,572) for a total of $6,124. Subtract $6,124 from the HSA plan premium of $5,400, which leaves an additional savings of $724.

This $724 could be saved by the employer, or shared with the employee, or used by the employer for a nurse hotline, a hospitalization rider or to fund the HSA account set-up fee and monthly fee of the HSA for each employee.

This $724 savings is in addition to the savings from not increasing the amount of money for the employer coverage by 10% for this plan year. Nor does this count the considerable tax savings to each employee.

1 & 2 This does not include the Vision, Dental or Rx costs. This number is only the national average price for a family health plan in the U.S. in 2005, according to the "2005 UBA/Ingenix Employer Opinion Survey" conducted by United Benefit Advisors.

3 This is a premium estimate by HSA Insider, and the actual premium will vary by state and insurer.

HSA Plan Designer Worksheet for Employers with Single Employees

This worksheet will convert any employer from a traditional low deductible, high premium health plan (a defined benefit plan) to an HSA qualified health plan (a defined contribution plan) through which the employer can control, on a year-by-year basis, the amount they pay for health care benefits.

The employer fully funds the Health Savings Account first, and any employer contribution remaining goes towards funding the premium for the HSA qualified health plan. The entire portion of the employee contribution is allocated to the premium of HSA qualified high deductible health plan.

Therefore, the variable cost of any future premium increase will be borne by the employee, and the employer can control the rate of increase of their health care costs through a set contribution amount which goes to the health savings account first, and any remaining funds go towards the high deductible premium.

The result is that the employer can modulate their annual contribution to the amount of last year's expenditure, or at an increase of say, the rate of inflation.

INFORMATION TO ENTER	DOLLAR AMOUNT
1. Enter the total monthly employer contribution per single employee for Health, Vision, Prescription Drugs and Dental:	
2. Enter the total monthly employee contribution by single employees for Health, Vision, Prescription Drugs and Dental:	
3. Enter the total annual employer and employee dollars saved by not adding any additional funds for this plan year for Health, Vision, Prescription Drugs and Dental:	
Select the Correct Deductible for Singles:	
4. Enter the proposed deductible for the HSA health plan for single employees:	
5. Fund the Account at 100% of the deductible:	
6. Enter the Annual Premium for the HSA health plan per single employee for the deductible selected in line 4:	

Directions: Add the figures from lines 1 and 2 and multiply by 12. Subtract the sum of those figures from the figure in line 5. Any remaining positive number, subtract from line 6. Any remaining positive number after subtracting from line 6. can be saved by the employer, or shared with the employee, or spent on a nurse hotline, or a hospitalization rider or be applied towards the set up or monthly fees of the Health Savings Account.

An Example of the HSA Plan Designer Using the National Average Cost for a Health Plan in the U.S. for Singles

INFORMATION TO ENTER	DOLLAR AMOUNT
1. Enter the total monthly contribution for singles by employer for Health, Vision, Prescription Drugs and Dental:	$274[4]
2. Enter the total monthly contribution for singles by employees for Health, Vision, Prescription Drugs and Dental:	$53[5]
3. Enter the annual amount of employer and employee dollars saved by not adding any additional funds for this plan year for Health, Vision, Prescription Drugs and Dental:	$392 (assume a 10% increase in the annual premium)
Select the Correct Deductible for Single Employees:	
4. Enter the proposed HSA qualified health plan deductible (with 100% coverage above the deductible) for single employees:	$2,500
5. Fund the Account at 100%:	$2,500
6. Enter Annual Premium for HSA Qualified plan for single employees for the deductible selected:	$1,300[6]

Directions: Add the figures from lines 1 and 2 and multiply by 12. Subtract the sum of the figures from the figure in line 5. Any remaining positive number, subtract from the figure in line 6. Any remaining positive number after subtracting from line 6 can be saved by the employer, or shared with the employee, or spent on a nurse hotline, or a hospitalization rider or be applied towards the set up or monthly fees of the Health Savings Account.

First, the employer pays $2,500 into each single employee's HSA.

Second, the employer applies the remaining balance of their annual contribution ($888) to each single employee's HSA health plan premium.

Third, the employee applies their $636 to the HSA qualified plan premium.

Therefore, the total employer and employee contribution available for the premium is: $1,524 (plus $888 from the employer, plus $636 from the employee.) The premium of $1,300 is paid, leaving an additional annual savings of $224.

This $224 could be saved by the employer, or shared with the employee, or used by the employer for a nurse hotline, a hospitalization rider or to fund the HSA account set-up fee and monthly fee of the HSA for each single employee.

This $724 savings is in addition to the savings from not increasing the amount of money for the employer coverage by 10% for this plan year. Nor does this count the considerable tax savings to each employee.

4 & 5 This does not include the Vision, Dental or Rx costs. This number is only the national average price for a family health plan in the U.S. in 2005, according to the "2005 UBA/Ingenix Employer Opinion Survey" conducted by United Benefit Advisors.

6 This is a premium estimate by HSA Insider, and the actual premium will vary by state and insurer.