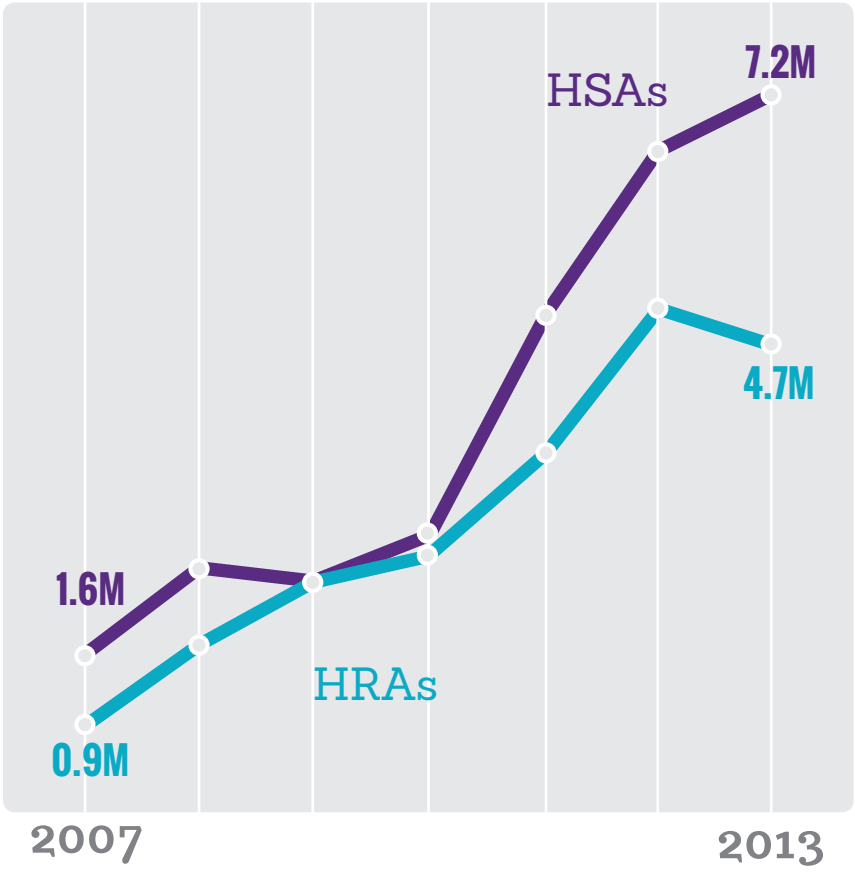
THE CDHC SHIFT OF 2013

HRAs decline while HSAs see dramatic growth



HSAs continue to grow

In 2013, Health savings accounts (HSAs) continued to grow as health reimbursement arrangements (HRAs) declined for the first time. There are multiple factors that contribute to the positive growth and cost savings for CDH plans that utilize HSAs. This article offers insight for a thoughtful approach to a consumer-directed plan, and demonstrates examples of effective strategies that might include HSAs, HRAs or both.

Written by
William J. West, Jr. MD

Graph source: EBRI Issue Brief No. 395, January 2014

HealthEquity®
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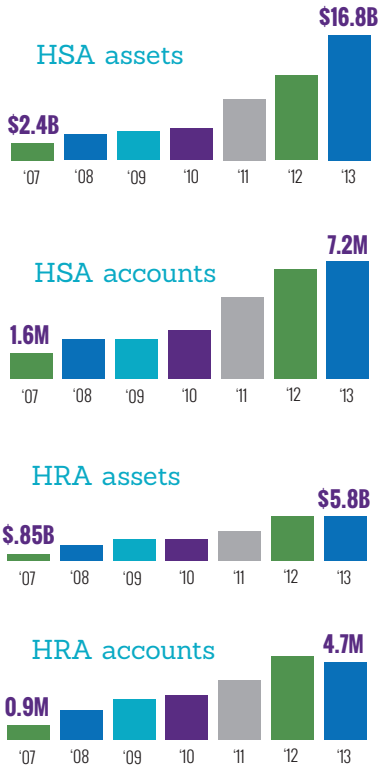
HSA AND HRA STATISTICS

INTRODUCTION

The January 2014 Employee Benefit Research Institute survey* presents annual consumer-driven health care account statistics for health reimbursement arrangements (HRAs) since 2006 and health savings accounts (HSAs) since 2007. The data collected shows a continued positive growth trend for both of these accounts, with the exception that HRAs began to decline in 2013 for the first time.



Source: EBRI Issue Brief No. 395, January 2014

HSA GROWTH

HSAs saw significant asset growth in 2013, growing from $11.3 billion to $16.6 billion. In addition, the number of accounts was up from 6.6 million to 7.2 million. HSAs have grown in both assets and accounts every year since 2007 with one minor exception. In 2009, the number of accounts decreased insignificantly, while HSA assets still increased.

New contributions that remain unspent have also steadily increased. Mid-year data** for 2013 indicates that of the $16.7 billion in new deposits from June 30, 2012 to June 30, 2013, HSA account holders spent only $12.9 billion. $3.8 billion was carried forward, which indicates that many HSA users leverage their accounts as an effective savings tool.

HRA DECLINE

In 2013, for the first time, HRAs saw a decline in assets and accounts. Assets decreased slightly, but accounts fell from 5.1 million to 4.7 million.

We conclude that the decline in HRAs is from employers shifting their CDHC strategy into more flexible HSAs.

ROLLOVER AMOUNTS

The amount rolled over by account holders each year has fluctuated over time, but recent data indicates that several factors contribute to larger rollovers.

Length of time with an account

Of the individuals who had their HSA or HRA for more than one year, 23% rolled over $2,000 or more in 2013. At least 56% of the same group rolled over $500 or more. Only about 10% did not have money to roll over to the next year, which means more and more account holders use an HSA to save for long-term medical expenses.

The level of individual contribution

When individual contributions were examined (for HSAs) it was shown that those who contributed at least $1,000 had an average rollover of $1,440 compared to $871 for those who contributed less.

The level of employer contribution

Employer deposits of $1,000 or more resulted in an average rollover of $1,205, versus $1,153 for those who received less than $1,000 in 2013.

*EBRI Issue Brief No. 395, January 2014
**2013 Devenir HSA Research Report

ACCOUNT BALANCES

Account balances are also affected by the factors discussed above, which encourage higher rollovers. Individuals who have had an HSA or HRA for five or more years have an average of $3,491 in the account. Interestingly, those with an account less than six months had an average balance of $1,965, but between six months and one year, the average drops to $1,607. The average balance then climbs to $2,090 for one to two years and $2,703 for three to four years. Again, this demonstrates that consumers use these accounts to save long-term.

When individual contributions were at least $1,000 (for HSAs), average balances were $3,196. Individuals who contributed less only averaged $1,569. Employer contributions of at least $1,000 resulted in average account balances of $2,889 in 2013. Those who received smaller contributions averaged $2,140. This shows that contribution rates have a significant impact on overall savings.

Average rollover by length of time in 2013

Average rollover by individual contribution rate in 2013

SUMMARY

HSAs continue to grow as more and more employers offer them and incent employees to participate in their CDH programs. For many employers, the path to an HSA offering begins with a consumer health plan that includes an HRA or a "dual option" which allows employees to choose between a CDH plan and traditional health care coverage. There are indications that employee engagement results in more significant long-term cost savings for employer plans. As employers evaluate their benefit offering, consideration should be given to communication strategies that clearly position the benefits of the consumer plans offered. Appropriate plan design and employer contributions to HSA accounts are imperative for successful adoption.

COMMITTING TO CDH

ADDRESSING SKEPTICISM

Employers who consider expanding their current consumer-driven health care offering or those who implement a consumer-driven plan often face challenges or criticism from within their organization. While there may not be a one-size-fits-all solution, there is strong support that says much of the initial skepticism is unfounded, and can be countered with evidence. The American Academy of Actuaries released a monograph in 2009* that looked at some of these criticisms, and offered the following conclusions:

CDH plans result in real cost savings, and there is evidence to suggest that they result in long-term favorable trends beyond the first year

According to the data reviewed, first-year cost savings for employers was as much as 12-20%. This figure is based on the difference between renewal rates and the resultant consumer plan rates, and this information is consistent among multiple independent reports.

Studies also indicate that premium trends over time are 3-5% lower than traditional PPO plans, and that consumer plans paired with an account component are more effective than a high-deductible plan on its own.

*American Academy of Actuaries, Emerging Data on Consumer-Driven Health Plans, May 2009

The favorable results of CDH plans represent a real benefit. They are not skewed by favorable selection bias on the part of healthy participants

Published studies that demonstrate cost savings have appropriately targeted continuously enrolled members to reduce the possibility of this selection bias affecting the data. They used control groups that were not enrolled in consumer plans and other standard control methods. The favorable results are due to behavioral change and are real, not secondary to selection bias.

Cost savings are not a result of delayed or inappropriate avoidance of necessary medical care

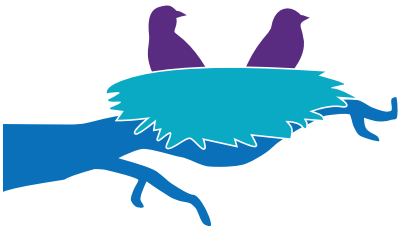
Many studies reveal that CDH members receive more preventive care on average than those in traditional plans. The studies also indicate that these individuals in CDH plans take their medications as prescribed by their providers at higher rates than non-CDH members. (CDH members utilize generics at much higher rates as well.) The rates of inpatient services, emergency and acute care spending are lower overall for CDH members.

There is also a strong indication that physicians follow evidence-based care protocols at a higher rate with CDH plans than with traditional plans*. These protocols are developed to promote more favorable health outcomes for patients who require care.

CDH plans are not simply a method employers use to shift more cost to employees

While cost sharing can be increased under consumer plans, it should be pointed out that the same is true for traditional plans. In fact, recent trends have shown that many employers choose to do this in the form of increased deductibles, co-pays and premium cost sharing, regardless of health plan design.

Overall, most employers who implement consumer plans have not used the change to shift additional cost to employees. In fact, in many instances the CDH option results in the same or lower cost-sharing.



THE NEST

Helping employees make the switch to consumer plans can be challenging. There are a few different approaches an organization can take. Imagine that your current traditional plan is like a nest, and your employees are represented by birds who are not yet comfortable taking their first step out of the nest and exploring other health care options.

Coaxing the nest

To coax employees out of the nest, an employer can offer a consumer plan option as a choice versus a traditional health plan option. Employee cost sharing is usually a bit less for the consumer plan, and often a small employer contribution is offered to help with up-front medical costs.

Adoption is usually modest in this scenario. It is possible that employees will perceive the higher deductible as a barrier to choosing this option, without looking closely at the modest cost-sharing differences.

Tipping the nest

Tipping the nest comprises of creating real incentive for employees to switch to the consumer plan option. Employees are still offered more than one plan option, but cost sharing is typically much lower for employees who choose the consumer plan. Also, employer contributions to the employee HSA or HRA are significant and largely front-loaded rather than spread throughout the year.

Adoption increases significantly, when this approach is used, since the reduced cost is very clear and there is an assurance that up-front needs have been accounted for in the form of a generous employer contribution.

*American Academy of Actuaries, Emerging Data on Consumer-Driven Health Plans, May 2009

Dumping the nest

Dumping the nest means removing the option for employees to keep the traditional plan. This strategy, also known as "full replacement", might be implemented in the first year or sometime after offering the plan as an option. It is interesting to note that groups who implement a full replacement strategy with an HSA have reported savings of 17-20% the first year. In addition, full replacement HSA plans can result in little or no premium increases in future years (0% trend).

A soft landing

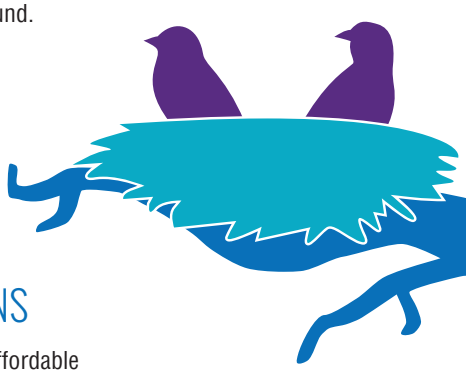
We encourage employers to take a thoughtful approach to their overall CDH strategy and make sure it aligns with the goals of the organization. Regardless of which approach is used when implementing the consumer plan, employee education and communication are key. When employees consider the option more fully and begin to take those first steps, they realize that the nest is not actually far from the ground.

Excise or "Cadillac" tax

Beginning in 2018, employers whose health plan premiums exceed $10,200 for individuals and $27,500 for families will be charged a 40% excise "Cadillac" tax on the premiums above that amount. The tax will be paid by the "plan sponsor" and will include both self-funded and fully insured plans. Employers must evaluate their current plan costs and annual cost increase trends in order to take steps necessary to avoid this tax. CDH plans, which have lower premiums and modest cost increase trends, provide an opportunity to avoid this tax provision.

HSA-powered plans

HSA plans are a sure win with health care reform. They provide the necessary coverage and encourage responsible health care consumption. The plans comply with the requirements of the Affordable Care Act, encourage consumerism and contribute significantly to a lower cost trend.



ADDITIONAL CONSIDERATIONS

New regulations in the Affordable Care Act have significant implications for employers. There are many considerations for employers that make consumer plans an attractive solution.

CONCLUSION

Among our own clients, HealthEquity has observed growth of both HSA and HRA accounts. However, we concur with the data we have seen presented, which illustrates the superior effectiveness of HSAs as a CDH cost savings solution.

It is vital that employers look at consumer plans, and take a thoughtful approach to their implementation in order to adequately comply with the Affordable Care Act. Dedicated communication strategies and employee support can help facilitate a smooth transition for groups making the switch from traditional plans to CDH. Failure to control healthcare costs in the future will result in a greater chance of paying the "Cadillac" tax. CDH plans lower costs for employers and employees, and result in higher use of preventative services, chronic medications, and generic drugs, with lower use of emergency rooms and inpatient facilities.

The consumer directed reality is that the CDH ground lies just below the nest, and rarely requires a big jump.

Consider emptying your nest.

Dr. William J. West, MD

Dr. West is a board certified OB/GYN and graduate of Jefferson Medical College. He founded First MSA (later First HSA) in 1999 as one of the first companies of its kind. First HSA was acquired by HealthEquity in 2011.

Dr. West has been actively involved in the Consumer Directed Healthcare (CDH) industry. He is a member of the HSA Coalition, the AHIP HSA Council, the American Bankers Association HSA Council and many other committees and councils.

He has participated in town hall meetings with former President George W. Bush and continues to work with members of Congress and other regulatory agencies on CDH products, rules and regulations. Dr. West is Senior Vice President of Business Development for HealthEquity.

Building Health Savings℠

HealthEquity empowers Americans to build health savings by providing powerful tools for health savings accounts (HSAs) and other health financial services. We manage over $1.6 billion in deposits, which makes us the largest dedicated health account custodian in the nation. Our convenient solutions serve more than 900,000+ accounts, owned by individuals at more than 23,000 companies across the country. With member support available every hour of every day, our team provides around-the-clock insight to maximize health savings.

Our solutions include:

- Health Savings Accounts (HSAs)
- Health Reimbursement Arrangements (HRAs)
- Flexible Spending Accounts (FSAs)
- Health Incentive Accounts (HIAs)

HealthEquity®

15 West Scenic Pointe Drive, Suite 100
Draper, UT 84020
877.694.3942 • employerservices@healthequity.com
www.HealthEquity.com

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