The Value of High Deductible Health Plans/Health Savings Accounts in the Era of Healthcare Reform

An AliCare White Paper

FOREWORD

Hailed as landmark legislation, “The Patient Protection & Affordable Care Act” (PPACA) signed into law in 2010 has introduced a myriad of concerns for employers of all sizes and industries. For employers, the higher costs associated with their employees’ healthcare are a chief concern. Their employees too are concerned about how their health coverage will be affected and what the financial ramifications will be for them. PPACA has ushered in a clear mandate calling for more responsible, cost-effective healthcare consumption on the parts of both employers and employees. This mandate has brought to the forefront greater attention on consumer-driven health plans (CDHPs), also known as high deductible health plans (HDHPs) offered with health savings accounts (HSAs).

Based on the latest figures from America’s Health Insurance Plans, nearly 15.5 million Americans are now enrolled in a HDHP/HSA. An HDHP is a plan with an annual deductible of not less than $1,250 for an individual or $2,500 for family coverage. Annual out-of-pocket expenses cannot exceed $6,250 for self-coverage ($6,350 in 2014) or $12,500 for family coverage ($12,700 in 2014). Employers offering HSAs are required to make comparable contributions to the HSAs for all of their comparable participating employees in a given coverage period. To understand why HDHPs and HSAs are becoming a focus of many organizations requires more insight into the challenges employers now face under PPACA, the unknowns and how these alternative health plans may be exactly the remedy needed.

THE QUESTIONS AND ISSUES EMPLOYERS WILL HAVE TO ADDRESS

For employers, PPACA has raised some serious questions, including:

- Will they be able to absorb the increased costs associated with PPACA compliance and its requirements (e.g., no lifetime or annual limits, coverage for dependents under age 26, increased administrative costs, etc.)?
- To what extent will the insurance exchanges be available to them and their employees, and will their lower-waged employees be eligible for subsidized coverage on the health insurance exchanges? Health insurance subsidies will be offered to individuals earning between 100 – 400% of the poverty level (e.g., $11,490 to $45,960 for a single person, $60,000 for a family of two, $90,000 for a family of four) who purchase insurance on the exchanges.
- How will the Cadillac Tax which will go into effect in 2018 affect their plans? The Cadillac tax is a 40% excise tax levied on the health insurance plans which cost more than $10,200 per year for individuals and $27,500 annually for families.

- Will the higher costs of health care under PPACA force them to simply stop offering insurance and absorb whatever fines the government inflicts upon them, believing the fines to be the lesser of the two evils?
- Will they be forced to cut employee hours in order to limit their number of full time employees and remain out of PPACA's mandated category for employers with 50 or more employees to provide coverage?

MAKING THE HDHP/HSA DECISION TO BENEFIT EMPLOYERS AND PLAN MEMBERS

What is clear is that most employers want to continue to do the right thing for their employees. Change is never easy, but many companies are now weighing the cost increases under PPACA and how they will be able to continue providing coverage. What has emerged as a viable alternative is a transition from a traditional health insurance plan to a HDHP/HSA.

These plans are not new. Over the past decade, there has been a growing trend toward HDHP/HSAs as evidenced by many studies and surveys on the subject:

- Based on a survey conducted by the benefits consulting firm of Towers Watson, 70% of large companies surveyed expected to be offering high-deductible insurance combined with an HSA in the year 2013.
- A Towers Watson/National Business Group on Health Study estimated that in 2012, the percentage of U.S. companies offering a HDHP/HSA plan had grown to 41% from just 2% in 2002.
- The same study found that companies with at least 50% of their employees in a HDHP/HSA spent $1,000 less per employee than those without these plans.
- A Rand Corp. report projected that by 2022, half of all employees at employer-sponsored health plans including those working for the government would be covered by a HDHP/HSA.

The reasons for the shift to these plans are directly related to their clear value proposition. Employers incur lower costs. A multi-year study conducted by health insurer, Aetna found that plan sponsors that changed from a traditional plan to a HDHP/HSA linked plan realized lower annual costs over five years. Specifically, the study found savings of almost $21.5 million per 10,000 enrolled members. The average plan sponsor saved almost $9 million per 10,000 enrollees when an HSA was provided as a plan option. This is directly linked to the shared accountability between employer and employee in the employee's health care decisions. These plans are intended to promote more responsible health care consumption with the assumption being the more financial responsibility placed on employees, the more prudent they will be when making medical appointments, asking medical tests and procedures, etc. It is also anticipated that healthier lifestyle choices will also be encouraged when employees have more financial responsibility. Studies regarding the effect of HDHPs on consumer behavior have found that HDHPs do play a role in reducing unnecessary medical services without negatively affecting quality of medical care.

Employer contributions are not taxable to the employer and employee contributions can be made with pre-tax dollars. Funds in the HSA can be used to pay for deductibles, co-pays and services which are not covered by the employees' health insurance, but not for premiums except for qualified long-term care. The HSA funds can also be used to defer income in accordance with annual contribution limits, as well as pay for eligible retiree medical premiums. Employees can roll-over the unspent funds in their HSAs to the next year to effectively reduce and/or eliminate their share of the deductible in subsequent years. Since HSAs are employee-owned, they are also portable. Therefore, employees who are terminated can have their HSA funds transferred to another HSA administrator at their discretion.

HOW THE HIGH DEDUCTIBLE HEALTH PLAN/HSA IS FUNDED

Under a HDHP, employees/plan members keep track of the funds in their HSA . In the event that an employee's account funds are used up before their deductible is met in a given plan year, the employee must pay the difference until they meet their plan deductible. Once they have met the deductible, the plan performs similar to a traditional preferred-provider organization (PPO) plan wherein the plan assumes the cost of covered services and the employee contributes a cost-sharing amount (varying based on the plan) until the maximum out-of-pocket spending limit is reached. At that point, the plan pays 100% of the costs for covered services.

When it comes to preventive health care (i.e., annual physicals, medical screenings and vaccines) under an HSA-linked plan, coverage must be provided on a "first-dollar basis" and not as part of the deductible.

CONCLUSION – DIVERSE BUSINESSES BENEFITING FROM CDHPS

The best reason to consider a CDHP comes directly from the business community. There are countless examples of organizations who have realized significant benefits from their CDHPs. They range from large publicly-held and middle market businesses to professional firms and closely-held companies. The Coca-Cola Bottling Company, Cigna and Whole Foods Market are just some examples. There is also the law firm of Fowler White whose CDHP has effectively ushered in big savings stemming from more prudent healthcare consumption and improved employee health and wellness behaviors by its employees. Since its implementation in 2006, Fowler White has increased its CDHP enrollment each year, earned the "American Heart Fit Friendly" designation for four consecutive years (2007, 2008, 2009 and 2010), won Jacksonville, Florida's "Healthiest 100 Award," was named one of the "15 Fittest Companies in America" by Men's Fitness in 2008 and was a finalist in the Tampa Bay Business Journal's "Healthiest Employer" contest. However, accolades aside, what really counts are the savings Fowler White's CDHP produced. Specifically, before its implementation of a CDHP and associated wellness program, the firm was experiencing an average 14% annual healthcare cost increase. After the CDHP was implemented, that figure dropped to a 6% increase with minimal plan design reductions. In addition, as of August 2010, Fowler White had 76% of its employees participating in its wellness program which features a boot camp, yoga events, walking program, biometric screenings, lunch and learns, health and benefit fairs, and smoking cessation program.

Like Fowler White, Whole Foods Market also realized significant benefits. In its case, the company was able to record an incredible first year medical cost savings of 42.8% per employee. For the many other American businesses relying on CDHPs to reduce their healthcare costs, the examples run parallel to the positive experiences of both Fowler White and Whole Foods Market. With the higher stakes introduced by the PPACA, all businesses should be taking a hard look at CDHPs for their organizations.

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