

The image features a decorative graphic on the left side, consisting of a globe with a grid of latitude and longitude lines. The globe is partially obscured by a dark blue vertical bar on the far left. The word "Hewitt" is written in a white, serif font in the upper left corner of the image.

Hewitt

# **Current State of HSAs in the Large Employer Market**

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**Hewitt ([www.hewitt.com](http://www.hewitt.com)) is a leading global provider of human resources consulting and outsourcing services. The firm consults with more than 2,300 companies and administers human resources, health care, payroll, and retirement programs on behalf of more than 300 companies for millions of employees worldwide. Our clients include more than half of the Fortune 500® companies and more than one-third of the Fortune Global 500® companies.**



## **Discussion Agenda**

**Prevalence of High Deductible Health Plans**

**Prevalence of HSAs**

**Employee Participation**

**Why employers and employees might want HSAs**

**Key impediments to HSA adoption by large employers**

**Areas where the Administration proposals are helpful**

**Areas where more needs to be done**



# Prevalence of High Deductible Plans in the Large Employer Market

## Hewitt Data on Large Employers (1,000+ employees)

- 19% currently offer HDHP + health account
- 10% are adopting one in 2006
- 54% are considering for a future date
- 18% have no interest

Source: Hewitt Associates, Health Care Expectations: Future Strategy and Directions 2006

# Prevalence of HSA Qualified HDHP

## Hewitt Data on Large Employers

- 8% currently offer HDHP + corresponding HSA
- 5% are adopting one in 2006
- When offered, 90% do so as an option among other plan options
- Vast majority are for salaried employees only, not bargained employees

Source: Hewitt Associates, Health Care Expectations: Future Strategy and Directions 2006



## Employee Participation Where Offered

**Large employers expect modest participation when offered as an option**

- More participation in some situations
- Higher if employer contributes to HSA (roughly half of large employers do so)

## **Why Employers May Want HDHP/HRA or HSAs**

### **Assumption:**

- Employees spending their own money and aware of costs will spend more carefully

### **Majority say they are effective at reducing cost growth**

- 16% say very effective, 45% say somewhat effective (KFF/HRET)

### **Wellness and prevention benefits may be provided at zero deductible**

- Depends on plan design

### **Potential way for employees to accumulate assets to offset future health costs**

### **Appeal to some employees**



## Why Employees Might Want HDHP/HRA or HSA

- Lower employee contribution to premiums
- Tax effective
- Freedom to allocate dollars in a way that fits their health care needs and circumstances
- Chance to accumulate some assets toward future costs



## Key Impediments to HSA Adoption by Large Employers

- Rx drugs are generally subject to HSA deductible
- Unclear whether greater HSA contributions may be given to lower-paid or those with greater health needs
  - Final regulations pending with IRS
- Cannot limit use of HSA contributions for health care only—unlike HRA where they can
- Restrictions on using FSAs and HRAs along with HSAs
- Inability to rollover HRA balances to HSA
- Contribution limits make it harder to accumulate substantial assets for future health needs

## Areas Where the Administration Proposals Are Considered Helpful

- Increasing the maximum HSA contribution creates potential for greater asset accumulation for future health care needs
- Employer could “convert” existing HRA amounts to HSA
- Employer could make higher HSA contributions on behalf of individuals with chronic illness
- Enables employee-owned national portable HSA insurance plans to which employers could contribute
- Improve health care transparency re: prices/quality
- But uncertainty and concerns about where the funding will come from?

## Areas Where Further Action Is Considered Needed

- Permit coverage of Rx drugs outside the high deductible
- Allow employers to vary contributions in a nondiscriminatory way and across business segments
- Allow coordinated use of FSAs and HRAs with HSAs
- Permit rollover of unused FSA balances to HSA account
- Allow more flexibility in the health plan design, e.g., not tie the account just to the HDHP approach
- A broader program to encourage tax effective savings for health and long-term care expenses in retirement
  - Regardless of plan type



## Conclusions

### **Account-based plans seen as important and interest is growing**

- Slow growth in HSAs in the large employer market (to date), partly because of existing impediments

### **Generally not a full replacement plan**

- Though some are

### **Too early to forecast too much about HSAs without more cost data and utilization experience**

- Also takes time to clear up some misconceptions

### **Proposed changes could make accounts more attractive**

- Large employers still perceive need for additional flexibility