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Employee Benefit Plan Review

Plan Sponsors Adopt Key Strategies for Building Health Equity Among Plan Members

By Christine Cooper

In today's complex health care environment, plan sponsors often feel at a loss for how they can help employees offset health care cost inflation without impacting the bottom line.

Medical cost trends for health care claims are poised to increase at a moderate rate, but the impact of the COVID-19 pandemic remains an unknown for plan sponsors. In the meantime, underlying cost trends in the United States are projected to continue to increase.[1]

Experts believe that, for now, employers can effectively mitigate these costs using proven strategies, such as plan design changes, vendor oversight and chronic condition management. Group health plan premiums increased between 4.7% to 5.2% in 2022, despite cost-management initiatives.

While employers may be able to absorb health care cost increases today, they face considerable uncertainty. Experts predict that members who have avoided basic health care due to the pandemic could be dealing with more severe health conditions than usual due to unmanaged or undiagnosed chronic conditions, and a rise in behavioral health issues.

Employers understand that health care affordability is a priority for their plan members, especially among lower-wage workers, who often live paycheck to paycheck. Equitable access to health coverage alone will not be enough to achieve equity in outcomes for those who are financially fragile – including those whose compensation or career opportunities have been impacted by racism, sexism or implicit bias. To be effective, plan designs must incorporate ease of access – with plan designs and administrative processes that deploy automatic features and enhanced liquidity.

All workers are not lined up at the same starting line. Many middle-aged adults and Black Americans are already weighted down by medical debts. In response, employers are in search of strategies that will help employees retain as much of their income as possible while removing barriers to care.

A Look at Basic Strategies

In recent years, employers have adopted a range of strategies to address affordability. For instance, 89% of employers offer coverage for tele-behavioral mental health services, such as counseling for alcohol or drug abuse. Employers also offer worksite health and wellness promotional activities, and a growing number of employers have begun to evaluate the staggering costs of specialty drugs. In fact, 54% evaluate specialty drug costs and health outcomes through their medical plan.[2]

Sending employees to centers of excellence for a higher level of cost-effective care is gaining momentum among plan sponsors for procedures, such as joint replacement or cancer treatment. About 31% of employers offer access to concierge services with integrated care management programs and 30% are considering limiting their in-network doctors and hospitals to higher-quality and/or lower-cost health care providers. Also, a growing number of employers structure employee contributions based on pay levels or job grades.

Looking beyond these strategies, proactively building savings and managing costs through health savings accounts (HSAs), rather than focusing on cost-containment, holds considerable promise for helping lower-wage employees build health and wealth equity.

Evolution of Health Savings Accounts

Years ago, HSAs were viewed as having limited value for a small number of people who used them – mostly individuals with disposable income. More recently, new thinking around HSAs has shifted toward viewing them as part of a "health and wealth" rewards strategy. Not only do HSAs fund current or future out-of-pocket medical costs, they can also be used to pay Medicare premiums and HSA assets can provide additional income in retirement. Any residual is passed along to the named beneficiaries after the account holder's death. When it comes to paying retiree medical expenses and Medicare premiums, saving in an HSA can be 60% more valuable than a comparable contribution from take-home pay to a 401(k) plan.

Medical costs represent potentially the largest expense in retirement. For this reason, plan sponsors are re-evaluating HSAs with the goal of providing a tax-favored opportunity to fund retiree medical costs for those who enrolled, met all the eligibility conditions and contributed to an HSA.

For participants in employer-sponsored health plans, the best option is to build savings by leveraging the employee and employer tax preferences available only by deploying HSA capable coverage. Contributions to an HSA, whether made by an employer or employee, are excludable from the employee's income. So, the employer contribution is tax deductible as a business expense, and for employment taxes as well – including FICA (Social Security) and FICA-Med (Medicare Hospital Insurance).

Overcoming Challenges and Barriers

The challenge is that most employers do not offer HSA-capable coverage, and when they do, they often fail to adjust their enrollment processes to encourage employees to consider the HSA. Employees may not enroll in HSA-capable coverage when it is offered, those enrolled in HSA-capable coverage may fail to open the HSA account and others may fail to contribute to the HSA or fail to maximize their HSA contributions.

Today, most plan sponsors deploy annual enrollment processes that focus employee attention on near term and predictable medical needs. Complicating the issue, plan designs frequently overlook the diverse needs of their employee population and fail to effectively address barriers to enrollment, which include a:

- Focus on deductibles, which often shifts enrollment away from HSA-capable coverage;
- Failure to highlight expenses beyond the coming year or post-employment;
- Lack of a savings target for future HSA-eligible expenses; and
- Failure to position HSA-capable coverage against the minimum requirements of health care reform, confirming HSAs-capable coverage is almost always more valuable than what is required – affordable, minimum essential coverage of minimum value.

Too many plan sponsors place a larger out-of-pocket expense maximum on the HSA-capable option compared with preferred provider organization (PPO) and/or health maintenance organization (HMO) alternatives.

In addition, the standard summary of benefits and coverage is often a fragmented comparison that excludes the difference in employee contributions, and even the employer contribution to the HSA. Moreover, the plan sponsor may inadvertently contribute more to the traditional PPO or HMO than to the HSA-capable option.

Given that most people in the U.S. worry about medical bills, HSA assets have the potential to improve wellness by funding these expenses, COBRA premiums, and/or medical premiums while unemployed.

When it comes to cost sharing, a plan with copays may appear to be more valuable but may lead to over-insurance. For employees who live from paycheck to paycheck, the plan with the lower copays and/or deductibles typically has higher contributions.

The key to overcoming these challenges is to incorporate HSAs as part of an overall health and wealth rewards strategy and to effectively convey to employees the many advantages of these accounts.

Value of HSA Accounts for Employee Benefits

HSAs offer a number of important benefits compared with other benefits or income tax strategies.

HSAs Versus Flexible Spending Accounts (FSAs)

- More items qualify as eligible expenses under HSAs than under health FSAs;
- FSAs are subject to "use or lose" forfeitures; HSA assets remain in the account;
- HSAs have higher contribution maximums than FSAs;
- Unlike FSAs, participants can change HSA contributions midyear without a change in status;
- Many HSAs qualify for employer contributions;
- HSAs do not need to be fully funded in advance or with irrevocable elections prior to incurring qualifying expenses; and
- Unlike FSAs, HSAs offer investments where earnings can fund future, postseparation, and retiree out-of-pocket costs and premiums.

HSAs Versus Itemized Tax Deductions

Fewer Americans itemize federal tax deductions since the government raised the standard deduction and limited the deductibility of medical expenses. Furthermore, itemized medical expenses don't qualify for tax-favored treatment when it comes to state income taxes, FICA and FICA-Med.

HSAs Versus 401(k)s

Where the individual contributes the same amount from their net paycheck to an HSA and a 401(k), the HSA contributions avoid FICA and FICA-Med taxes. Also, when an HSA is allowed to accumulate and used later for retiree medical expenses and Medicare premiums, it can offer 60+% more value.

Health plan sponsors should reconsider how HSA-capable coverage is communicated to employees to fuel greater adoption or optimization of these accounts. They can start by conducting full-positive annual enrollments. When the default is the HSA-capable coverage for those enrolling in medical coverage, an employee must take affirmative action to opt out to a different coverage option.

The default process forces workers to reconsider their current election. Opening the HSA on the first day of coverage with a nominal employer contribution gets them on the right track sooner. Also, adding midyear HSA re-enrollment and escalation processes, and introducing a new HSA-capable option, can help, as does altering the default investment from capital preservation to longer term investments.

HSAs also offer a layer of additional advantages. For example, for year-end tax planning, employees can adopt a new or additional HSA-capable coverage option every December 1 using a 13-month deductible to fund an HSA so workers can max out two years of contributions during the 13-month period of coverage.

As a legacy benefit, HSAs are vested immediately and never forfeited. Plan sponsors should periodically encourage HSA owners to review and update their beneficiary designations. Also, HSA contributions can be timed to occur in periods with high marginal federal and/or state income taxes. Because there are no required minimum distributions, participants control the account and timing of payouts.

Given that most people in the U.S. worry about medical bills, HSA assets have the potential to improve wellness by funding these expenses, COBRA premiums, and/or medical premiums while unemployed. Perennially soliciting HSA rollovers may remind HSA owners of the value of consolidating HSA assets, especially where a capital preservation minimum investment is required.

Optimizing Medical Plans

To get the full benefit of HSAs on behalf of employees, plan sponsors should consider partnering with a medical billing partner that is fully invested in making sure that employer-sponsored, self-insured plans integrate the most optimal strategies available today.

This includes effectively designed HSA-capable coverage, along with reference-based pricing, adequate participant protections against balance billing, participant advocacy and litigation support as needed, and features and transition provisions that specifically address the needs of lower-income workers.

Notes

1. https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/health-plan-cost-increases-return-to-pre-pandemic-levels.aspx#:~:text=Employers%20in%20the%20U.S.%20expect,according%20to%20recent%20employer%20surveys.
2. https://www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/income-based-premiums-help-make-health-care-affordable.aspx.

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