Workplace Financial Wellness Programs Help Employees Manage Health Care Changes

Employers and employees are navigating major changes in health insurance benefits, including the move to high-deductible health plans in conjunction with health savings accounts (HSAs). The HSA offers unique benefits that could prove instrumental in helping workers both navigate current health care expenses and build a nest egg for much larger health care costs in retirement. Yet employees often don't understand the HSA and how to best use it. How can employers help employees make wise benefits choices that work for their personal financial circumstances?

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It's no secret that health care costs have risen dramatically over the last half century. According to national health expenditure data, health care spending accounted for 17.5% of the gross domestic product in 2014.[1] The *Milliman Medical Index* shows costs for the typical family have more than tripled since the index began tracking costs in 2001.[2] With average premiums for family health coverage exceeding $17,500 in 2015, according to a recent Kaiser Family Foundation and Health Research & Educational Trust survey, employers are seeking sustainable employee coverage options that both support worker health and financial wellness and do not risk the firm's long-term profitability.[3]

High-Deductible Health Plans

High-deductible health plans (HDHPs) were developed to offer employers and consumers another health plan option, and higher health costs and passage of the Affordable Care Act (ACA) have accelerated their adoption in the workplace.[4] Kaiser survey findings confirm that 24% of covered workers were enrolled in HDHPs in 2015; enrollment in these plans has increased over time from 13% of covered workers in 2010.[5] Further growth is expected as employers attempt to manage benefit cost increases. The 2015 PwC *Health and Well-being Touchstone Survey* indicates 62% of employers have adopted or will consider implementing an HDHP-only plan lineup in the next three years.[6]

Furthermore, a National Business Group on Health survey reports that 83% of employers already offer HDHPs, and 56% offer an HDHP with a health savings account (HSA).[7] Recent National Bureau of Economic Research findings show why: Employers that offered HDHPs reduced health care costs over three years.[8]

The shift in health coverage at work is in motion, but are American employees ready for it? Some signs aren't encouraging. The Financial Finesse *2015 Financial Stress Report* indicates 85% of employees are under some level of financial stress, and just over half of employees reported having an emergency reserve fund.[9]

With most covered workers facing additional out-of-pocket costs when they use health care services, one large, ill-timed medical expense could throw employees into a financial tailspin if they're not properly prepared to make best use of their HDHP.[10] Unfortunately, a recent California study shows many employees simply don't understand HDHPs. Fewer than one in five knew that their HDHP covered preventive care and tests, and about one in five delayed care because of these misunderstandings.[11]

Health Savings Accounts

HSAs were created in 2003 so HDHP-covered individuals could receive tax-preferred treatment of funds saved for medical expenses.[12] HSAs can be funded by both employees and employers, and the incentive to contribute is significant. They are the most tax-advantaged type of account among all employer-sponsored benefits. Contributions are pretax, and earnings and distributions are tax-free if used for qualified medical expenses.

HSAs are employee-owned and portable, and unused balances can be rolled over for use in future years and invested. Annual contributions are capped at $3,350 per individual and $6,750 per family in 2016 (with $1,000 catch-up contributions available for those aged 55 and older). The HDHP must have a minimum deductible of $1,300 for an individual plan and $2,600 for a family plan for the employees to be eligible to contribute to an HSA. As mentioned earlier, distributions are tax-free for qualified medical expenses. Distributions not related to medical expenses are taxed, plus subject to an additional 20% penalty if taken before the age of 65.

HSAs can also be used like a "retirement health savings account."[13] Unlike the flexible spending account (FSA), there is no requirement to spend contributions in the same year they are made. Balances can accrue for future expenses, and many plans allow employees to invest unused balances for growth. For most employees, the HSA is a highly underused but valuable benefit, as it offers the ability to accumulate funds "triple tax-free."[14] Employees may consider an HSA difficult to afford and hard to understand or compare it with a medical FSA or health reimbursement arrangement (HRA). These comparisons sell each account option short and can hinder acceptance of the HDHP among the employee population.

HRAs represent another option to supplement HDHPs as well as to manage retiree health costs.[15] HRAs, used in some larger companies, were formalized in 2002 but have been around in some form since the 1960s.[16] HRAs can also be a source of confusion for employees, as HRAs are funded solely by employers and are not taxable to the employee. Generally, benefits are not portable, and certain HRAs can be used to pay insurance premiums on HDHPs.

Educating Employees

Fortunately, an effective, comprehensive workplace financial wellness program can counsel employees on HDHP options along with common concerns like retirement readiness, budget implementation and debt elimination. Since medical circumstances and employee families are unique, a one-dimensional education plan cannot adjust to varied learning styles and situations employees face.

Employers may consider offering targeted educational workshops/webcasts, print and e-mail communications and personal financial coaching to help employees understand and maximize these benefits. This includes ways to (1) review the coverage and out-of-pocket costs they have today, (2) understand and compare plan options, (3) decide which option is best for their unique situation and (4) prepare for changes they'll need to make in their cash management to take full advantage of the value of an HSA.

Many employers with HDHPs already offer online tools

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and information sessions to employees on how HSAs and HRAs work, but too often these solutions focus on the account features without considering an employee's holistic financial health. Online education alone is definitely not enough. Employees generally do not understand these plans well and may incorrectly suspect that they are getting a raw deal.[17] Regardless of what benefits the HSA offers, employees who are insecure about their budget or retirement funding may underutilize them or make inadequate voluntary contributions. For those workers with inadequate emergency funds, this decision could send them into spiraling debt if they have an unexpected health emergency.

Peer interaction paired with experienced financial facilitators can spark employees to investigate HSA and HDHP options themselves. Workshops and webcasts also can help employees connect the dots between high health care costs in retirement and the value of the HSA in preparing for them. Finally, an interactive workshop or webcast offers employees practical guidance on how to use the HSA for maximum advantage, e.g., by paying for routine out-of-pocket expenses with other funds and letting the account balance grow for future retirement health care expenses.

Depending on how employees learn best, online tools and individualized coaching via an in-person coaching session with a financial planner can help employees assess their entire financial picture and determine the advisability of the HDHP and HSA funding decision. The availability of unbiased coaching—where the financial coach does not sell any financial products or services—is important to avoid conflicts of interest in the HSA funding or use of the HDHP. Employees who feel forced into these plans or suspect the advisor or employer has a vested interest may hesitate to participate.

Employers should consider offering targeted employee communications through all internal channels (intranet, e-mail, team meetings, etc.) to highlight the key facts and benefits of HSAs and the HDHP and how employees can take advantage of them. They may also want to consider mailing high-impact communications directly to the employees' homes so spouses can be more informed participants in the health insurance decision. Communications can be effective during the year (prior to the open enrollment decisions period) to remind employees to maximize their contributions and at the end of the year to remind them that account balances do not expire.

Smaller employers may be even more enthusiastic to reduce health care costs but may find employee education solutions more limited. Targeted workshops and limited-time help-line coaching can offer these employers cost-effective yet individualized counsel, giving their employees optimal education and a competitive advantage among similar-sized firms.

Conclusion

Our experience affirms that many employees don't initially grasp how an HSA can be a strategic wealth accumulation tool for them. Our workshops and educational materials have been upgraded to feature this benefit, particularly for employers that offer investment options and employer contributions. Employees often are surprised to hear us recommending the HSA as the second-most beneficial place to save for retirement, next to a 401(k)/403(b).[18]

While employees don't yet generally understand just how great a benefit that is, employers can change that with help from a comprehensive financial wellness program. Having a well-accepted HDHP and a financially secure and well-informed employee base generate savings that can help the wellness program pay for itself. BQ

Endnotes

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