

What Lies Ahead for Health Benefits: An Employer Watch List

Although it is difficult to forecast the benefits environment, many employers continue to think ahead and are keeping watch to see what unfolds. We believe four key trends will dominate the health benefits space:

1. Uncertainty will remain a certainty, especially in the regulatory environment

After years of pressure to repeal and replace the Affordable Care Act (ACA), it is unclear how the Republican Party, now in control of the executive and legislative branches, will respond. Repeal is the simple part, according to Senator Orrin Hatch (R-Utah), but finding a replacement is harder.¹

It appears more likely that some portions of the ACA could remain in place, such as the ban on pre-existing condition limitations, and coverage for dependents to age 26. The provision for the Cadillac Tax, previously delayed until 2020, may yet be repealed. Other “fixes” may take years to implement, so as not to disrupt millions of people in the health care system. But with premiums rising and some insurance companies pulling back from selling coverage altogether, the pressure may be on legislators to come up with viable alternatives.



Implications for employers:

Employers should diligently follow developments in the health care reform space. Be sure to check news and viewpoints on the [Bank of America Merrill Lynch Retirement & Benefit Plan Services Workplace Insights™ page](#).

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\$34
BILLION
THRESHOLD

with

18.2
MILLION
ACCOUNTS²

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2. HSAs will continue to be a force and play a prominent role in the larger retirement picture

The trajectory of HSAs shows no signs of abating. HSA assets have surpassed the \$34 billion threshold, with the number of accounts now at 18.2 million, according to Devenir.²

The growth isn't surprising, given the savings of HSA-eligible plans over other types of health plan options. But while awareness of the role of the HSA as a viable retirement savings vehicle is climbing, too many employees still consider their HSAs as a short-term spending account versus a long-term savings strategy, according to Bank of America Merrill Lynch's Workplace Benefits Report.³ Employees need more education to learn how to earmark funds for long-term growth and how to maximize an HSA more effectively as a retirement savings vehicle.



Implications for employers:

Employers need to provide guidance to employees on how and why to save and invest through an HSA, helping them understand the importance of keeping a portion of their account, but not all, in cash, and to invest the rest. Employers should be sure to emphasize that employees will be able draw upon this account to pay for health care expenses later in retirement, but only if the funds are there in the first place.

3. A renewed focus on saving and investing in HSAs

Experts continue to view an HSA as an important strategy to manage health care costs and as a positive opportunity to accumulate savings for retirement. HSA investments are at an estimated \$3 billion, with the potential to grow to \$11.5 billion by 2017 and to \$40 billion by 2020, averaging just north of 50 percent per year compound annual growth.⁴ With a renewed focus on saving and investing in an HSA, it's critical that the underlying funds be as efficient and cost effective as possible.



Implications for employers:

Employers should expect a continued push within the industry to optimize HSA investment vehicles, resulting in greater efficiency and choice. Beyond the triple tax advantage⁵ offered by an HSA (contributions are pre-tax, any earnings grow tax-deferred, and withdrawals for qualified medical expenses are tax free), it's expected that investment options for HSAs will continue to improve, including the availability of lower-cost options.

4. Innovation will win the day

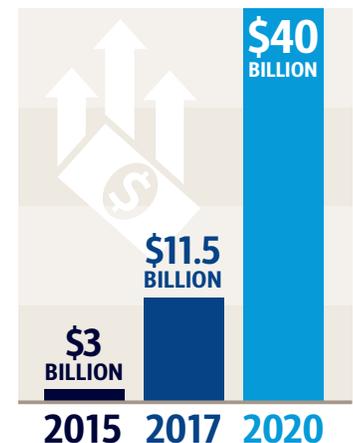
As the health care industry and provider marketplace evolve, employers will continue to favor providers who focus on innovation and remain committed to the business, even as some providers consolidate or exit the business altogether.



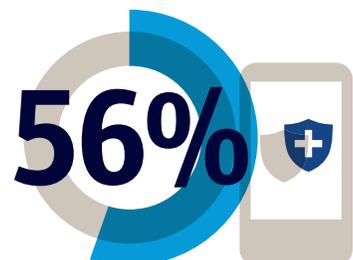
Implications for employers:

Online tools and apps will continue to proliferate, with a focus on approaches that are more intuitive and engaging for employees and help them make more informed decisions, not only during annual enrollment but year round.

HSA investments (estimated)⁴



Tapping into technology



of employers use mobile technology to support employee health engagement⁶

How we can help

In the face of change, be sure to let us know what we can do here at Bank of America Merrill Lynch to make your job easier and help you improve your benefits program to attract and retain top talent. We continue to believe an HSA is a critical component of financial wellness and we are investing heavily in our Health Benefit Solutions business.

We will continue to introduce enhancements intended to improve the employee and plan sponsor experience, making managing health care expenses easier, reducing the administrative burden for the employer, and motivating employee learning. We are also taking steps to enhance our HSA investment offering to respond to employer and employee needs, especially important given the prominent role HSAs play in overall financial wellness. Our focus continues to be on innovating, delivering value and providing a positive experience that will encourage your employees to prioritize saving for retirement and live their best financial lives.

TALK TO US

Contact us to learn more about our Health Benefits Solutions and for insights on ways to educate your employees.

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“When you think about living expenses in retirement, health care is a wild card, and people are concerned about it. What we try to do is bring ideas like longevity and its health-expense implications to the table. With HSAs, folks are still trying to understand what they are and what they’re not. This is a topic that needs to be incorporated into the overall employee education about finances and retirement.”

Lorna Sabbia, managing director, head of Retirement and Personal Wealth Solutions

¹ Edney, Anna, “Republicans find replacing ACA is easier said than done,” Employee Benefit News, November 17, 2016.

² “Health Savings Account Assets See Another Period of Over 20 Percent Growth, Exceeding \$34 Billion”, Devenir HSA Survey, August 16, 2016.

³ 2016 Bank of America Merrill Lynch Workplace Benefits Report.

⁴ “The Coming HSA Investment Age,” HSA Consulting Services, LLC, June, 2015.

⁵ About Triple Tax Advantages: Participants can receive tax-free distributions from their HSA to pay or be reimbursed for qualified medical expenses they incur after they establish the HSA. If they receive distributions for other reasons, the amount withdrawn will be subject to income tax and may be subject to an additional 20% tax. Any interest or earnings on the assets in the account are tax free. Participants may be able to claim a tax deduction for contributions made to the HSA. We recommend that applicants and employers contact qualified tax or legal counsel before establishing a HSA.

⁶ “Emerging Technology to Promote Employee Wellbeing” study, Xerox HR Services in conjunction with National Business Group on Health, released March 2016.

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