RETIREMENT & BENEFIT PLAN SERVICES

Education: The Next Frontier of Health Care Engagement

While the use of health savings accounts (HSAs) continues to grow as more employers adopt consumer-directed health plans, employees are struggling to manage their financial health and adapt to a new environment requiring them to be more actively involved in their health care decisions. This paper explores the need for education to help employees better manage their health care responsibilities and provides considerations for employers.

While HSAs paired with consumer-directed health plans can be a key part of an individual's financial wellness strategy, there is still confusion over how they work.

The opportunity — no longer just picking a health plan option

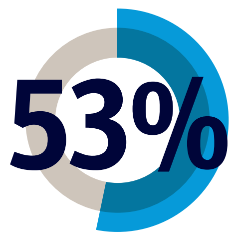
Not so long ago, employers had simple health care plan designs and employees' choices were limited to fairly traditional medical plan options. And many employees stayed in the plan they had always been in, mainly because they were comfortable sticking to what they had.

But those days of relative simplicity are gone, and the stakes are now higher, with cost pressures and complex plan design issues continuing to challenge employers. And with the health care benefits environment shifting toward individual responsibility for health care costs, it's clear that with their own dollars on the line, employees must take a more active role in their decision-making.

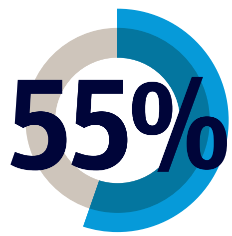
But today's employees must do more than pick a health plan option. They need to be aware of and engaged in all facets of managing their health care finances. But are they up to the task?

Research suggests otherwise, although there are some signs of progress. Studies show that employees are struggling to understand the basics of health benefit terminology and to interpret the cost and value implications of the different options offered by their employers.[1] While HSAs paired with consumer-directed health plans can be a key part of an individual's financial wellness strategy, there is still confusion over how they work, and according to Bank of America Merrill Lynch's 2016 Workplace Benefits Report, many employees use them as short-term spending vehicles versus using them to save for retirement expenses.[2] This study also revealed that 55% of employees who participate in an HSA usually spend down the entire balance each year.[2]

Employees are not taking full advantage of the opportunity to save for future health care costs in health savings accounts.



of HSA participants consider them short-term health savings vehicles.[2]



of employees who participate in an HSA usually spend down the entire balance each year.[2]

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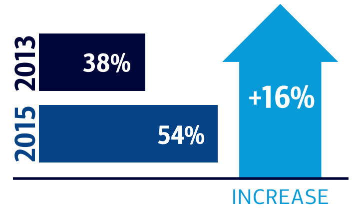
That means that employees are not taking full advantage of the opportunity to build their savings for the future. But as employers increasingly rely on HSA-eligible plans in their benefits program designs, it's never been more important to educate employees on the advantages these account-based health solutions offer.

Some bright spots

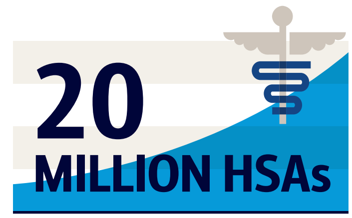
On the positive side, efforts to increase HSA awareness are beginning to show signs of paying off. It's important to note that HSAs continue on their rapid growth trajectory year after year. Devenir, a leading HSA solutions provider, reports that there are more than 20 million accounts, with $37 billion in assets as of December 2016.[3]

Plus, interest in HSAs has picked up among younger generations such as Millennials. While this age group shows slower growth in balances than other users overall, as they are still building their earnings potential early in their career, Millennials have contributed 20% more to their HSAs in 2016 than the year prior.[4]

HSA participation on the rise



Source: 2016 Workplace Benefits Report, Bank of America Merrill Lynch.



Source: Devenir, as of December 2016.

The education gap — considerations for employers

While consumer-directed health plans and HSAs offer value and flexibility for employees, they are still relatively young in the marketplace and not well understood. Paul Fronstin, Director of the Health Research and Education Program at the Employee Benefit Research Institute, says "People who have had their health savings accounts open longer are more likely to invest their contributions. There is a learning curve in grasping how the accounts work."[5]

Just as there are many facets to designing a health care benefits plan menu, there are just as many aspects to consider when communicating with employees about HSA and related plans. Here are some suggestions for employers to consider:

1. **Keep education coming year round.**

   When employers introduce or make changes to a consumer-directed plan, it's important not to take a "one and done" approach just at annual enrollment. Awareness and education efforts should continue on an ongoing basis to break through employee inertia. Continuous education can help some message points stick. Emphasize preventive care. For example, employees may not be aware that preventive care is covered by the Affordable Care Act and they do not have to pay out of pocket for these visits.

> *"It's important to communicate why HSA-eligible plans are part of your benefits offering, the role they play in your employees' financial wellness, and to reinforce the positive opportunity they provide to help your employees accumulate savings."*[6]
>
> **Eric Remjeske,**
> President
> Devenir

2. **Review and revisit your terminology.**

   According to Eric Remjeske, president of Devenir, naming conventions that employers use are a good place to start and usually overlooked. "Very often, employees look at the label "high-deductible health plan" and believe that they have to pay more, when in fact, these plans may have lower overall cost associated with typically lower premiums," he says. "Employers may want to consider changing their terminology from 'high-deductible health plan' to 'HSA-eligible health plan' and, depending on their plan design, stress the support they provide in terms of any matching contribution."[6]

   Research supports Remjeske's advice. A recent survey revealed that 69% of consumers claimed that deciphering health care jargon was a significant barrier to their decision-making.[1]

3 Promote the triple tax benefits and portability.

Remind employees that HSAs pack a triple punch of tax benefits:		
Contributions (via payroll deduction) **are pre-tax.**	**Investment earnings and interest grow tax-free.**	As long as employees use the funds for qualified medical expenses, **withdrawals are tax-free.**

Savings that are not used for eligible, current medical expenses have the potential to accumulate year over year. These dollars can add up quickly and encourage additional contributions. What's more, employees own their accounts and can take them with them to help pay for future expenses wherever their lives lead them.

4 Help employee do the math and consider their future needs.

When it comes to what they will need for health care in retirement, employees need a healthy dose of realism. Current estimates show that a couple retiring at age 65 need an estimated amount of $265,000 to cover medical expenses during retirement.[7]

Helping employees do the math associated with HSA-eligible plans can help them make better decisions. Employees may struggle to determine how much to put in for short-term expenses, and how much to invest for long-term expenses. They may, for instance, assume they should just put in the amount of their plan deductible, but they will need more for out-of-pocket expenses than they may think and should consider putting in as much as they can afford.

Beyond how much to contribute, they need help on figuring what to keep in cash and what to invest in their HSA, which can be a tricky subject. To help provide guidance to your employees on this subject, consider sharing this handy checklist:

HSA cash management

Keep some in cash, invest the rest

Planning tip	Consideration
Think ahead to how much you may need to spend on health expenses this year.	Some expenses you may be able to predict. If you expect little or no health care expenses, you may be comfortable putting in an amount up to your plan's deductible in your HSA.
Consider how much your deductible is, and put at least that amount into the HSA, then bump it up a bit to how much you can afford.	If you think you could have health care expenses that are more than the deductible, you may want to put a bit more cash into your HSA.
Not sure what you'll spend? Think about your out-of-pocket limit.	If you're not sure how much you'll spend on health care expenses, but want to minimize your risk, consider keeping the full out-of-pocket limit in cash in your HSA.
Once you determine the cash amount, invest the rest.	Consider an investment mix for the balance of your account that reflects your timeframe until retirement: • Close to retirement (5–10 years), consider a conservative mix. • 10–20 years, consider a balanced mix. • More than 20 years, consider a growth mix.
Revisit your cash versus investing approach in your HSA each year.	Review your spending to see how the year went. Based on your experience, make any necessary adjustments to your contribution amount and investment mix.

$265,000

Projected health care costs for couples who retire at age 65.

Source: Employee Benefits Research Institute, January 2017.

5 Be realistic and understand employee stressors.

Financial wellness has been elusive for many employees — 56% of employees surveyed in our Workplace Benefits Report said they are stressed when it comes to their financial situation. And 53% of these employees report that the stress interferes with their ability to focus and be productive at work.[8] This makes it understandable why they are using HSAs as a short-term spending vehicle. And year-over-year health care cost increases may have eroded their ability to take positive financial actions.

6 Promote guidance tools.

Emphasize guidance and modeling tools available to help them make more cost-informed decisions. In particular, employees need rational, realistic estimates of how much they will need for health care expenses in retirement.

7 Acknowledge their communication preferences.

Some employees may prefer to read communication on their phones or tablets, others may prefer print materials mailed to their homes. Many may prefer face-to-face opportunities to ask questions. Employees are more likely to engage when a combination of digital and personal assistance is offered.

8 Promote the power of two — 401(k) and HSA — but realize the differences.

According to Remjeske, "With the 401(k), typically the emphasis has been on what you will need "post service" to enjoy your retirement years, whereas with an HSA, the message needs to center on what you will need both "post service" AND "in service" to cover your out-of-pocket health care expenses. It's an important distinction, and one that should be pointed out," he says.[6]

Insights informed by experience

At Bank of America Merrill Lynch, we believe it's important to put a primary focus on education and engagement, working to ensure that your employees fully understand their health benefits and recognize how those benefits fit within their total financial picture. We know what matters to health plan participants because we ask them, and use the findings to inform our work.

HSA education case studies

For example, after extensive analysis of participant HSA savings and investment adoption rates, we conducted two case studies to examine the impact of HSA communications and analyzed the resulting data to help us refine our efforts:

Case study

20% INCREASE

in HSA account contributions following employee engagement campaign

One case study focused on an employee engagement campaign for one of our clients that stressed the benefits of an HSA account and saving for medical expenses. In the quarter following our client's employee campaign, HSA account contributions increased 20%, with a 14% increase across the entire year. In contrast, the control group of employees in a company of a similar size who did not have an employee engagement campaign experienced only a 2% increase in contributions.[9]

Simply taking a "If you build it, they will come" approach won't get you the level of participation you desire. Be sure to focus on whether your employees are maximizing the long-term growth opportunities offered by their HSAs.

Case study

3% → 6%

increase in investment adoption following employee engagement campaign

Another case study focused on educating participants about the investment opportunity in an HSA account. Prior to the campaign, our client had experienced an average investment adoption rate of 3% each quarter. In the quarter following the campaign, they experienced a 6% adoption rate — a 200% increase.[9]

These successes attest to our ability to help design and deliver programs and education that generate positive outcomes. Our sole focus is helping individuals achieve better financial lives and helping them make the connection between their life priorities and their financial priorities. It's a vision we share with you as an employer, and it's why we continually enhance our systems, services and support to help improve your employees' financial literacy and encourage positive decision-making during their life journey, especially when it applies to their health care.

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

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[1] 2016 Alegeus Health care "Moments of Truth" Research Report.
[2] 2016 Workplace Benefits Report, Bank of America Merrill Lynch.
[3] 2016 Year-End Devenir HSA Research Report, February 2017.
[4] Benefitfocus, The State of Employee Benefits, 2017.
[5] "Most Health Savings Account Owners Stick With Conservative Options," NPR, September 3, 2015.
[6] Interview with Eric Remjeske, President of Devenir, July 27, 2016.
[7] Employee Benefits Research Institute, January 2017.
[8] 2017 Workplace Benefits Report, Bank of America Merrill Lynch.
[9] Bank of America Merrill Lynch Health Benefits Solutions proprietary data, April 2016.

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