Hello, I’m Bob Kaiser, head of health benefit solutions for Bank of America and Merrill Lynch. Welcome to our program.

81% of employers surveyed in a workplace benefit study, they report facing increased health care costs\(^1\) and chief financial officers in our CFO outlook survey have ranked rising health care costs as their top concern for two years running. \(^2\)

It’s clear we’re in a new era of health care with macro trends in cost, consumerism and government policy all converging and shifting responsibility for health care to employers and to their employees. With challenge comes opportunity, an opportunity for employers to stay ahead of increasing cost, promote financial wellness and continue to attract and retain quality talent.

To give us perspective on strategies for today’s employers, let me welcome our guests:

- Rob Banuelos, National Benefit Solutions Manager,
- Jim Huffman, Senior Vice President, Global Benefits for Bank of America Corporation, and
- Eric Remjeske, President and co-founder of Devenir, a national leader in providing investment solutions on research and health savings account.

Welcome gentlemen.

Rob, we’ve talked about cost, the cost of health care making a big impact in terms of how employers manage and deal with offering complete benefit packages? What’s been your experience in terms of the opportunities and challenges associated with these costs?
MR. ROB BANUELOS:

Well Bob we have seen chief financial officers or executives of the finance area become a player at the table alongside their health and welfare professionals really engaging on some of the health care strategies that they develop for their employees. That’s certainly a challenge and it’s a challenge because it’s tied to labor cost.

So that means it’s going to impact your bottom line, right? I think the other impact that we see with our employers - and chief financial officers certainly identify that - is longevity. Our workforce is aging, so with that comes a need for more health care services

MR. KAISER:

What about the Affordable Care Act? What impact has that had?

MR. BANUELOS:

Well Bob that’s certainly been a driver in the increase of these high-deductible health plans. There are many things that have been rolled out with the Affordable Care Act over the last several years. The next big milestone in the Affordable Care Act is the Cadillac Tax, So essentially that is going to mandate some sort of a penalty if employer groups are offering benefits that are too rich, so that’s really forcing employer groups to look at their health plans and health care strategies to really make sure that they’re meeting the guidelines within that Cadillac Tax.

Certainly employers do not want to get hit with a penalty so they’re having to really re-tool some of the health plan offerings that they’re providing to their employees, and again that’s been a big driver for these high-deductible plans.

MR. KAISER:

Now what about the HSA, the health savings account, the 401(k). There’s these different retirement saving programs. Is there any synergy at all between those two?

MR. BANUELOS:

Absolutely, I think that’s created a great opportunity for both employers and employees. Really the employers want to educate their employees that they’re going to need these dollars in retirement and a big portion of those are going to go towards health care expenses. About a third of a retiree’s income today is spent on health care expenses.
**MR. KAISER:**

The high-deductible health plans along with the health savings account seem to be a bright spot for employers to maybe reduce some of the cost. What are you finding out with your employer groups?

**MR. BANUELOS:**

You’re right. Those are attractive plans because they do come with a low premium. So that’s really a win-win for the employer but also for the employee. What is also does, it really engages the employee. Now they’re responsible for the up-front cost of their health care expenses, so it’s going to really force them to really pay attention to the services that they utilize and really be more mindful about staying healthy. Since those up-front dollars are theirs they really want to be better consumers of health care.

Another big advantage is really the tax savings. So from the employee’s standpoint there’s triple tax savings. Any dollars that they put into these health savings account they can do it on a pre-tax basis. Any dollars that they earn with respect to interest in those health savings account tax-free, and then when they go to spend from that health savings account and they buy qualified health care expenses that’s on a tax-free basis.

**MR. KAISER:**

Well Jim let’s kind of shift over to you here. With the advent of the Affordable Care Act and other corporate trends there seems to be a movement towards individualism in consumerism. How does that fit into the overall approach you’re taking at Bank of America?

**MR. JIM HUFFMAN:**

It’s a whole new world. Employers are moving employees into these high-deductible plans and asking them to be more responsible, more accountable for their health and their health care cost.

So we’ve seen the emergence of all kinds of tools, whether it is these cost calculators that all of the insurance companies have on their web sites or the proliferation of these health care accounts from flexible spending accounts to the limited-purpose flexible spending account to the health savings account, but many employers that we benchmark with across our industry and across Fortune 500 firms have moved into this environment where they’re asking their employees and their family members to be more responsible, more engaged, and some employers have even backed that up now to be more healthy.
MR. KAISER:

I’ve heard people say it’s kind of like living now within the deductible as opposed to living within the co-payment. Your whole behavior starts to change, you start to become a consumer of health care and basically you start to look at things differently, a new world all the way around.

MR. HUFFMAN:

Sure, and many employers have chosen to fund accounts or seed these health care accounts on behalf of their employees just to get them started. So they’ll put a few hundred dollars into the health care account, get people started, get them comfortable with these accounts and cover some of those out of pocket expenses early in the calendar year.

MR. KAISER:

Making that transition just a little bit easier to do.

MR. KAISER:

Good insights.

Video Module 2
RETHINKING HEALTH CARE – HEALTH SAVINGS MARKET

MR. KAISER:

Eric, Devenir has been a national leader for solutions for investment and research on health savings accounts. What kind of opportunities have you seen that you can share with us about the health savings account?

MR. ERIC REMJESKE:

Well the health savings account market is very similar to that of the 401(k) market and for the past 10 years the growth has been tremendous and some of the statistics that we have from today include that there are about 10.7 million HSA accounts around the country. That’s up from 4.9 million HSAs back in 2009. 8

Today there are about 19.3 billion in HSA assets, and that’s up from about 7 billion in 2009. 9

What’s also interesting is that of the S&P 500 about 60% of the employers out there are offering a high-deductible health plan with an HSA. We see statistics out there that show that
about 30% of that S&P 500 group are going to full replacement, which means their only option, will be a high-deductible health plan with an HSA. 10

MR. KAISER:

Wow, those are very interesting statistics. Are there some studies out there that you can share with us?

MR. REMJESKE:

Aetna did a study of their high-deductible health plan with an HSA and they found that on average the individual employee cost was down about $208 per year, which effectively saved employers in the Aetna high-deductible health plan with an HSA about $12.5 million per 10,000 employees, which is pretty significant. 11

And in addition Cigna does a multi-year study on their high-deductible health plan with an HSA where they found that typically in the first year on average an employer saves about 12% on premiums. 12

MR. KAISER:

You know we can’t escape the Affordable Care Act. How has that impacted the health savings account business?

MR. REMJESKE:

It is effectively creating a catalyst for a couple of different exchanges.

And in the public exchanges and in the private exchanges employers are having their individual employees move over for example to the private exchange where an individual has almost an internet shopping experience very similar to that of a travel shopping experience today. What’s interesting when they’re given that experience and they’re given some dollars to put towards that experience 60% of the time individuals choose a high-deductible health plan with an HSA, which is pretty significant. 13

But ACA is certainly creating a more engaged consumer from a perspective of their shopping habits and a more engaged consumer from a perspective of their utilization of health care.

MR. KAISER:

When it comes to the employers have you seen them support funding these HSA accounts and are they behind the educational initiative for health savings accounts as well?
MR. REMJESKE:

Some employers are bridging this gap if you will between the traditional health insurance plans and today’s high-deductible with an HSA by offering some incentives, very similar to that of the 401(k) where they’re matching or they’re pre-contributing. In other words they’re matching dollars that individuals are putting in or they’re contributing up front into these high-deductible health plans with an HSA.

And what’s interesting about it is 80% of the time today an employer is contributing to an HSA on behalf of their employees, and what’s fantastic about the experience then is that the employer is engaged, the employee is engaged. 14

MR. KAISER:

Well there’s nothing like motivation, funding money into an account. That motivates you. And motivation plays in the education as well.

Video Module 3
RETHINKING HEALTH CARE – EMPLOYEE EDUCATION

MR. KAISER:

Jim, on the topic of education what can you tell us about the bank’s adoption of high-deductible health plans and health savings accounts? What type of challenges and opportunities have you seen?

MR. HUFFMAN:

It’s been a journey Bob. I think if we look back over the last few years we, like many employers, were offering traditional more traditional plans, co-payments so that when an employee or their family member went to the doctor or picked up a prescription medication they paid a flat co-payment amount, $10, $15, $20. But we really shielded them from the cost of that health care service.

A pediatrician visit might cost $110 to $120 in any market across the US but when we charged or had a $10 co-payment people didn’t realize how much that visit actually cost.

MR. KAISER:

Right.
MR. HUFFMAN:

As the evolution started to happen with the high-deductible plan coming into the market and the health savings account and we started to make that plan available to our employees there was a lot of apprehension. People did not understand the deductible. They were looking for that co-payment, the predictability, the budgetability of going to the doctor or picking up medication.

So we took advantage of those accounts and the pre-tax nature of those accounts and funding some of those accounts from the company themselves to be able to start people on the journey. Think about more responsibility and more accountability in these plans, take advantage of the tax-preferred or the tax benefit of the contributions and start to become more of a consumer on health care.

MR. KAISER:

All of these acronyms. Is that something you’ve had to overcome as well, just to get people to clearly understand what it is they’re signing up for, what it is they’re getting and how it works?

MR. HUFFMAN:

There are so many different acronyms out there for these accounts whether it’s the FSA or the HRA or HDHP, but a lot of different acronyms. So we’ve actually taken an approach on our employee engagement and communications to make sure they understand the fundamentals, so we actually moved to employee profiles. We heard feedback from employees around how they were getting the benefit or the opportunity to save dollars and to use those on health care expenses and we highlighted those. We had a great example of somebody who was buying contact lenses. Contact lenses and all of the solution that goes with that, eyeglasses, all of those expenses are qualified, eligible expenses under these accounts.

So we profiled that employee to show how she was able to set aside the dollars on a pre-tax basis, use the dollars on a tax-free basis to buy those supplies and contact lenses she knew she would need for the rest of the year and be able to take advantage of the program.

MR. KAISER:

On the topic of education it seems to me like this would apply to any size company, small or large, because education is a key component to moving things forward. About mobile technology that seems to be a very important part of what we do today. Does that fit into the education aspect of training?
MR. HUFFMAN:

Absolutely. So on the webinars that we’ve done that people can pull up on their mobile phone when they’re ready to learn and want more information. The other thing is with many of the apps that are out there today at the point of service or at the point of purchase you can understand and know if something is a qualified health care expense under the IRS regulations.

So whether it’s the skew code of the product you’re buying or even within the physician’s office or the hospital setting using a mobile app from any of the carriers of the programs that are out there can give that information to the employee at that moment in time when they’re making the purchase gives them a much greater degree of confidence that that’s going to be an eligible expense.

MR. KAISER:

Very good Jim.

You know, hearing from a plan sponsor is very important but it’s actually beneficial to other people because we all want to know what some of these challenges that we’ve all experienced like that.

So thank you for that.

Thank you gentlemen for sharing your perspective; it’s been a terrific discussion.

It’s clear we’re in a new era of health care with trends in both employer and employee responsibility. At Bank of America Merrill Lynch we understand the challenges you are facing and can provide you with insights and solutions to help you navigate this new world of health care.

To learn more about how we can help your company examine your benefits offering and implement strategies to make it more effective you can find more resources on this site or you can contact your Bank of America representative. Thank you for watching.
IMPORTANT INFORMATION

2 2014 CFO Outlook Annual Survey, Bank of America Merrill Lynch’s global banking and global markets businesses of Bank of America Corporation
3 hhs.gov/healthcare, 2014
4 hhs.gov/healthcare, 2014
5 “Actions you can take today to help keep tomorrow’s health care costs under control,” Merrill Edge, White Paper, March, 2014
6 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.
7 The Internal Revenue Service publishes a list of qualified expenses in Publication 502, Medical and Dental Expenses available at www.irs.gov. Employers may limit the scope of expenses covered.
8 Year-End 2013 Devenir HSA Market Survey
9 Year-End 2013 Devenir HSA Market Survey
11 Aetna Press Release, Feb 04, 2014
12 Cigna Press Release, April 23, 2014
15 The Internal Revenue Service publishes a list of qualified expenses in Publication 502, Medical and Dental Expenses available at www.irs.gov. Employers may limit the scope of expenses covered.
16 Wireless carrier fees may apply. Mobile apps may not be available on all devices.

Sources for graphics contained in the video:

Graphic: 81% of employers report increasing health care costs

Graphic: 82% of Employers will offer a HDHP by 2015

Graphic: Cadillac Tax Expected in 2018
Source: hhs.gov, Sec.1401. High Cost Plan Excise Tax, 2013

Graphic: Total HSA Accounts
Source: Year-End 2013 Devenir HSA Market Survey

Graphic: Total National HSA Assets
Source: Year-End 2013 Devenir HSA Market Survey

Graphic: 60% of S&P 500 companies offer HDHPs
30% offer HDHP only

Graphic: Savings = $12.5 million per 10,000 employees
Source: Aetna Press Release, Feb 04, 2014

Graphic: First year savings on premiums = 12 percent
Source: Cigna Press Release, April 23, 2014

Graphic: 60% of the time employees choose HDHP

Graphic: 80% of employers match HSA contributions

Statement: “About a third of a retiree’s income today is spent on health care expenses.”:
Source for statement: “Actions you can take today to help keep tomorrow’s health care costs under control,” Merrill Edge, White Paper, March, 2014

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Distributions from HSAs before age 65 for non-qualified medical expenses may be subject to ordinary income tax plus an additional 20 percent federal tax. At age 65 and thereafter, employees can withdraw funds for non-medical expenses without paying the additional 20 percent federal tax. However, ordinary income taxes will be due on withdrawals used for non-medical expenses.

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