HSAs: THE SURE WIN WITH HEALTH CARE REFORM.

A review of national data and health plan and partner business practices

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Are you prepared?

Health Savings Accounts (HSAs) are a sure win, not only to control health care costs, but also to comply with the Patient Protection and Affordable Care Act (PPACA). As this legislation takes effect (most significantly in 2014), employers face a series of considerations when selecting health plans for their employees. HSA-powered plans are a fail-proof way to ensure compliance while providing maximum benefit to employees.

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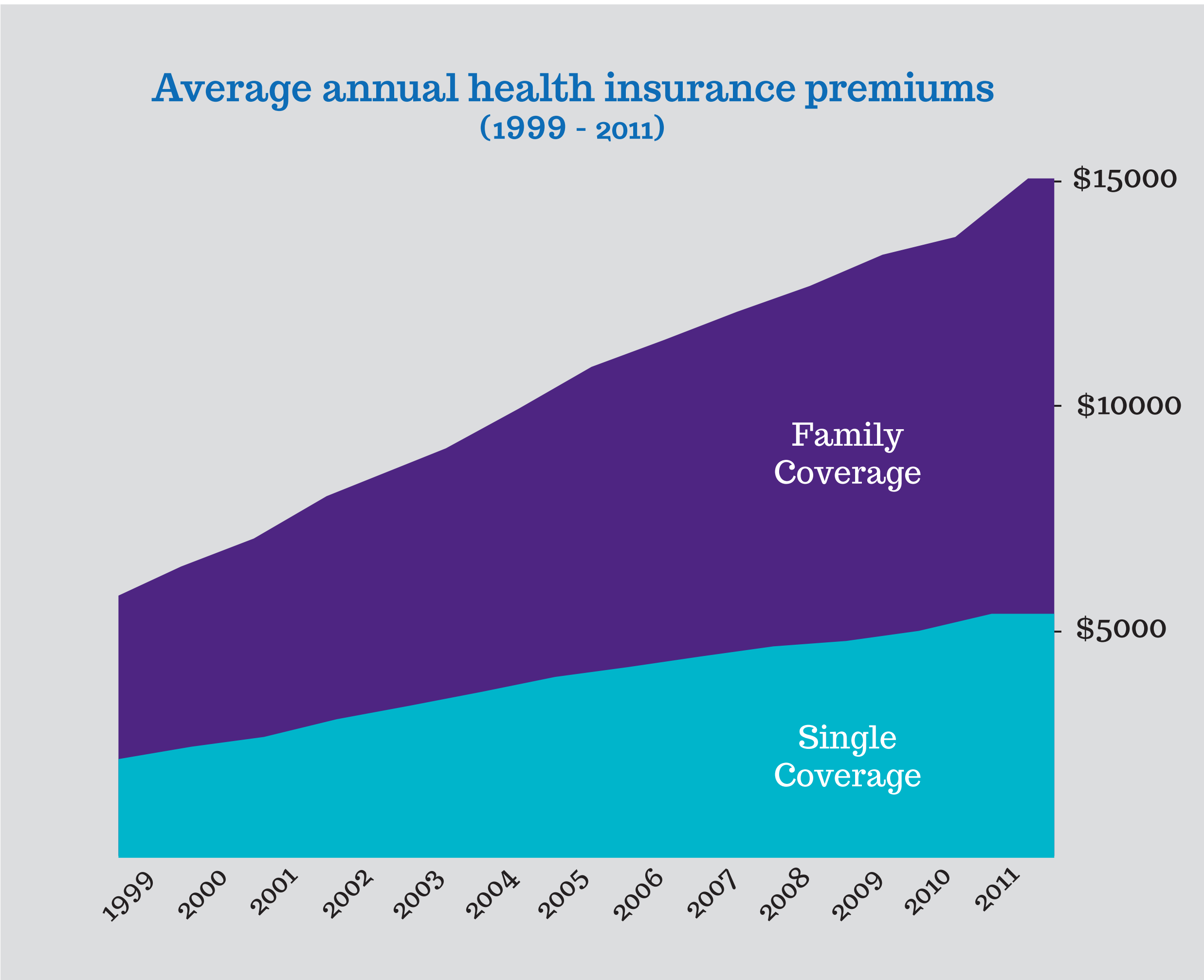
HealthEquity
Building Health Savings℠

Overview

Employers are increasing their use of Health Savings Account Qualified plan designs (HSAQs) not only to offer lower cost options but also to comply with the Patient Protection and Affordable Care Act (PPACA) requirements which include: Minimal Essential Coverage (MEC), Affordability, and the Cadillac Tax. Many researchers have concluded that significant adoption of HSAQs in an employee population can be helpful to employers and employees, because HSAQs can qualify as MEC under PPACA and significant adoption of HSAQs can help employers avoid penalties associated with offering benefits that breach the Affordability and Cadillac Tax thresholds[1].
There has been a dramatic increase in health insurance costs over the past decade. According to the 2011 Kaiser Family Foundation/Health Research & Educational Trust annual survey of employer benefits, the cost of family coverage more than doubled over the previous 10 years (see graph below)[2].

Other surveys suggest that costs may be even higher. Milliman Inc. recently reported that health care costs for a typical family of four are projected to reach $20,728 through an employer-sponsored preferred provider organization (PPO) plan this year[3] . The 6.9 percent increase over 2011 is one of the lowest rate increases Milliman has seen in the 10 years of their



[1]McDevitt, Savan: Prospects for Account-Based Health Plans Under the Patient Protection and Affordable Care Act. Benefits Quarterly, 2011: http://www.ifebp.org/inforequest/0159544.pdf
[2]Employer Health Benefits 2011 Annual Survey: http://ehbs.kff.org/pdf/2011/8225.pdf
[3]2012 Milliman Medical Index: http://publications.milliman.com/periodicals/mmi/pdfs/milliman-medical-index-2012.pdf

study. When the "Cadillac" tax in PPACA goes into effect in 2018, employers will need to provide health plan options that avoid the excise taxes with plan costs exceeding PPACA requirements ($10,200 for single coverage; $27,500 for family coverage).

Properly priced HSAQs are critical for the success of these benefit plan designs. HSAQs that offer too little premium savings compared to PPO or HMO plan offerings leads to minimal adoption and results in reduced cost savings. Alternatively, HSAQs that offer too much cost savings alongside other plan options can lead to poor performance of a risk pool, due to insufficient premium dollars to cover substantial medical spending after employees have met their deductibles and out-of-pocket maximum spending limits. This problem is compounded by negative risk selection that occurs when employees have the ability to change their plan design choices each year, based upon their anticipated medical spending. Employers are increasingly considering total replacement strategies to offer more competitively priced HSAQs.

Review of national data

In May of 2009, the American Academy of Actuaries (AAA) evaluated four large, multi-year consumer-directed health plan studies. They found a number of favorable conclusions concerning cost, access to care and use of preventive services. According to AAA with regard to cost savings, "The primary indications are that properly designed consumer-directed healthcare (CDH) plans can produce significant (even substantial) savings without adversely affecting member health status. To the knowledge of the work group, no data-based study has emerged that presents a contrary view." The AAA concluded that first-year CDH trend savings, when compared to traditional plans, ranged from 12% to 21% with subsequent year trend savings of 3-5%[4].

More recently, researchers have studied the impact of HSAQs to isolate cost savings relative to non-qualified traditional plans. Lo Sasso, Shah, and Frogner examined the difference in total expenditures between HSA and non-HSA members over three years. The authors found that HSA members spent 5-7% less than traditional plan members, and pharmacy spending per member was 6-9% lower with HSAs than in the traditional plans after risk and plan design adjustments[5].

HSAQs change employee behavior, encourage cost-conscience spending, healthy living and long-term savings. The Forum for Health Economics & Policy recently published an article by researchers at RAND, University of Southern California, and Towers Watson. They stated, "High deductible plans paired with HSAs have significantly lower levels of total spending than other high deductible plans for the general population—almost 30 percent lower spending for families with a high deductible and an HSA compared to about 13 percent lower spending for similar families in other high deductible plans."[6]

up to 21%

first-year savings for HSAQ consumers[4]

[4]Emerging Data on Consumer-Driven Health Plans, May 2009; American Academy of Actuaries, Consumer-Driven Health Plans Work Group: http://www.actuary.org/pdf/health/cdhp_may09.pdf
[5]Lo Sasso, Shah, Frogner: Health Savings Accounts and Health Care Spending, May 2010
[6]Haviland, Sood, McDevitt, Marquis: How Do Consumer-Directed Health Plans Affect Vulnerable Populations? Forum for Health Economics & Policy; Volume 14, Issue 2 2011 Article 3: http://www.bepress.com/fhep/14/2/3/

The sixth annual Cigna Choice Fund Experience Study[7]

Released February 2012

According to Cigna's study, when compared to customers in traditional PPO and HMO plans, those in a HSAQ, also known as a Consumer Directed Health Plan (CDHP), realized the following results:

Decreased health risks
CDHP customers reduced their risk of developing or worsening a chronic condition. When employers transitioned fully to offering only a CDHP option, individuals improved their health risk profile by 10 percent in the first year compared to customers in a traditional plan option.

Reduced total medical costs
CDHP medical cost inflation was 16 percent lower than traditional plans during the first year. Over five years, cumulative cost savings averaged $9,700 per employee enrolled in a CDHP compared to employees who remained in a traditional health plan. Cost reductions were achieved without employers shifting out-of-pocket health expenses to their employees.

Received higher levels of care
CDHP customers had consistent or higher use of over 400 evidence-based medical best practices than their counterparts in traditional plans. CDHP customers sought preventive care, such as annual office visits and mammograms, more frequently than customers enrolled in a traditional plan.

More engaged in health improvement
Through proper plan design and the use of incentives, CDHP customers were more likely to have completed a health risk assessment and participated in a health coaching program than those enrolled in a traditional plan.

Savvy consumers of health care
CDHP customers enrolled in Cigna's pharmacy management plan were more likely to choose generic medications and had 14 percent lower pharmacy costs compared to those in a traditional plan. In addition, CDHP customers used an emergency room 13 percent less than individuals enrolled in HMO and PPO plans.

More likely to compare cost and quality
CDHP customers were twice as likely to use online cost and quality information to help them select a doctor or to review potential medical costs than customers enrolled in traditional plans.

13%

Fewer emergency room visits for HSA users[7]

Further cost savings when only an HSAQ option is offered

Song Chen presented research about the value of a total replacement strategy in a dissertation at the University of Minnesota, June 2011. Chen's work was based on United Healthcare data for 55 large-group employers representing 142,325 members over a 5 year time period. He found that significant cost savings were most likely to occur in a total

[7]Cigna Choice Fund® Experience Study: http://newsroom.cigna.com/images/9022/CignaChoiceFundStudySummary.pdf

replacement HSAQ environment. Chen stated, "… we again found that full replacement HRA enrollees were on average the same-level spending individuals as optional HRA enrollees, whereas full replacement HSAs were lower (-17% on cohort main effect comparison) spending individuals on average relative to optional HSA enrollees."[8]

In January 2012, Aetna released its annual results of an ongoing study of employer CDHP results. Aetna reported, "Employers that replaced their traditional health benefits plans with Aetna HealthFund(R) consumer-directed plans saved $21.8 million over a five-year period for every 10,000 members, based on a recent study of Aetna health care claims and utilization. While members with Aetna HealthFund plans spent seven percent (7%) less on overall health care costs, the study also showed that these members received more preventive care from their primary care physicians and preventive screenings than members with traditional Preferred Provider Organization (PPO) plans." Total replace HSAQ employers achieve the greatest savings. Aetna continued, "employers that completely transitioned to Aetna HealthFund plans saw the most dramatic cost savings, while employers who simply offered Aetna HealthFund plans as an option still saw significant reductions in their health care costs."[9]

In May of 2012, Health Affairs published research[10] that correlated cost savings with the percent adoption of HSAs and other health account plan designs. These researchers whose populations that exceed 75% of HSAs will see nearly 10% reduction in spending on health costs compared to their peer groups. Employers that reduce their spending by these significant amounts can begin to chart a course that will help them avoid the penalties associated with PPACA by offering their employees benefits that meet PPACA MEC requirements.

HealthEquity health plan and employer partner business

Practices—HealthEquity partners with over 60 health plans and over 20,000 employers to provide HSAs for consumers in HSA-qualified health plans. An increasing number of these partners deploy total replacement strategies to drive increased premium savings and to avoid negative risk selection within a group that can result from multiple plan options. Health plans have been able to capture more market share by offering greater premium savings if employers are willing to adopt total replacement strategies. Actuaries and underwriters appear to be more comfortable crediting behavior change elements to HSAQ pricing in a total replace environment.

Conclusion

Health plans and employers can realize significant cost savings and avoid future penalties by increasing adoption in HSAQs among their populations. The most straightforward way to drive increased adoption into HSAQs and avoid negative risk selection may be to offer aggressive premium savings in a total replace environment. Total replacement with HSAQs is becoming increasingly more common among large employers. Tower Watson reports that the percentage of surveyed employers who have migrated to a total replacement strategy for HSAQs has increased by 75% over the last 2 years.[11]

[8]Chen: Impact of Consumer-Driven Health Plans (CDHPs) on Medication Adherence and Health Care Spending; A dissertation submitted to the faculty of the Graduate School of the University of Minnesota; June 2011: http://conservancy.umn.edu/bitstream/109334/1/Chen_umn_0130E_12037.pdf

[9]Aetna HealthFund Consumer-Directed Plans Continue to Reduce Health Care Costs for Employers: Press Release: January 10, 2012: http://www.marketwatch.com/story/aetna-healthfund-consumer-directed-plans-continue-to-reduce-health-care-costs-for-employers-2012-01-10

[10]Amelia M. Haviland, M. Susan Marquis, Roland D. McDevitt and Neeraj Sood. Growth of Consumer-Driven Health Plans to One-Half of All Employer-Sponsored Insurance Could Save $57B Annually. Health Affairs, 31, no.5 (2012): 1009-1015.

[11]The Road Ahead. Shaping Health Care Strategy in a Post-Reform Environment. 16th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care, pg. 17, 2011: http://www.towerswatson.com/assets/pdf/3946/TowersWatson-NBGH-2011-NA-2010-18560.pdf

Analysis of PPACA's effect on HSAs

Cadillac tax:

Positive impact

- HSA qualified plans are less expensive than traditional health plans
- Two-thirds of employers would raise deductibles, change insurers or scale back coverage to avoid the so-called Cadillac tax on high-cost benefits, according to a survey released by consulting firm Mercer

Limit of deductibles to $2000/$4000:

Positive impact

- Most popular qualified plan deductibles are $1500/$3000
- Deductible limits will increase over time with COL
- HHS allows deductible limits to be increased under certain circumstances- yet to be defined
- FSA Cap will lead more to choose HSA, no use it or lose it and it earns interest, easier to administrate

Actuarial value calculation:

Positive impact

- 60% Bronze, 70% Silver, 80% Gold, 90% Platinum
- According to Towers, 90% of ABHP's meet Bronze level or higher, with 70% in Silver and Gold levels (without counting employer contributions)
- HHS had originally proposed to limit the amount of employer contributions in the calculation
- Now with employer contributions in the calculation, HSA plans will all meet bronze and silver levels or higher
- Cost Sharing with employees will switch to premiums and away from HSA Contributions, increasing employer contributions to HSA
- PPO plan premiums are rising at a rate far faster than HSA qualified plans, thus their AV will drop faster than low cost plans because of caps on OOP maximums and limits on premium increases

Medical loss ratio limited:

Possible negative impact

- MLR is blended over insurer's entire book of business
- Possible impact is on Individual and Small Group markets
- As HSA qualified plans increase in the percent of an insurer's product it may lower the MLR
- Plans will have to rebate monies when they take in excess premium, but won't be able to recoup costs (as easily) if the MLR exceeds 100% of premiums collected

Essential benefit package:

Possible negative impact

- Will increase costs on all health plan products including HSA qualified plans

20% Penalty for non-qualified withdrawals:

Positive impact

- HSA Funds are intended to be used for qualified healthcare expenses

Over-the-counter medications not supported:

No impact

- Easy for members to ask Providers for Rx if needed

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