

Predicting the Future of Health Savings Accounts

By John C. Garner, CEBS, CLU, CFCL, CPCM

As a followup to the Internal Revenue Service's guidance on health savings accounts (HSAs), the International Society decided to explore the future actions of employers regarding this new benefit. In September, e-mail surveys were sent to 888 Society members identified as plan sponsors and 196 surveys were completed (22% of those invited to participate).

Although the results are not statistically significant, they do provide a glimpse into the thinking of highly qualified benefit and compensation professionals. The results do tell us:

- Many Society members are undecided as to whether their organization will offer HSAs or when they might do so.
- Society members do not expect HSAs to redefine the benefits landscape, as managed care did in the 1990s, but they also do not expect HSAs to be a big flop, like medical savings accounts.
- Society members expect to add high-deductible health plans (HDHPs)/HSAs as one more option, rather than replace most other plans and expect that they will become a permanent feature of the benefits landscape.

The actual survey findings found that only eight respondents (4%) indicated they had already implemented HSAs. Of those organizations that have not already offered HSAs, 17 respondents (9%) said they would never offer HSAs. Eighty-nine respondents (49%) were undecided as to whether their organization would ever offer HSAs. Of those indicating when they thought their organization might offer HSAs, a majority (54%) said they thought they would do so in 2006.

An overwhelming 116 respondents (70%) anticipate that their organizations would add HSAs as an additional, rather than replacement, option. In order to be eligible for an HSA, an individual must be covered by an HDHP. Thirty survey participants (18%) indicated their organizations were likely to replace one or more plans with HDHPs/HSAs.

A majority of respondents (57%) indicated their primary reason for offering HSAs would be to control health care costs. Twenty-five percent said the most important reason to offer HSAs would be to add a tax-deferred savings vehicle and 24% said the main reason would be to expand employee choices.

Forty percent of respondents said that in choosing vendors, the ability to offer both an HDHP and an HSA would be the most important factor. Thirty-seven percent said that experience with HSA-like products (health reimbursement arrangements, medical savings accounts and flexible spending accounts) would be the most important factor.

The Department of Labor (DOL) has issued guidance as to the circumstances under which HSAs will or will not be subject to ERISA. In order to avoid ERISA, employer involvement with HSAs must be limited. While 58% of survey participants indicated that it would be somewhat or very likely that their organization would choose to avoid ERISA, a sizable minority (35%) said it was not very likely they would structure an HSA so as to avoid ERISA.

Avoiding ERISA would mean not needing to comply with the reporting and disclosure

requirements (5500s, SPDs, etc.), but it could also mean not having the protection of ERISA preemption. However, complying with DOL's requirement to have limited involvement with HSAs should provide some measure of protection, even without preemption.

Seventy-eight survey participants (45%) said that if their organization were to offer an HDHP, they would likely offer the HDHP coupled with an HSA, but allow each employee to set up his or her own HSA if he or she so chose. Another 71 respondents (41%) said they would offer an HDHP coupled with an HSA subject to ERISA, with no other option.

Most survey participants (57%) said they expect HSAs to become a permanent feature of the benefits landscape, like cafeteria plans. Nineteen percent of respondents expect HSAs will be a passing fad, like point-of-service plans.

The Society cross tabulated the results to determine whether there were any differences in responses by employer size or industry. This cross tabulation showed:

- Employers in the finance/insurance/real estate sector are more likely than others to offer HSAs subject to ERISA. These employers may realize that ERISA compliance for one more plan is not particularly burdensome.
- Smaller employers (less than 1,000 employees) tend to be more likely than larger employers to expect to implement HSAs by 2006 or sooner.
- The smallest employers (100 or fewer employees) are more likely than larger employers to replace all health plans with an HDHP/HSA.
- Employers in the professional/management services sector are more likely than others to indicate that using the current vendor(s) for medical plan services was or will be the most important factor in choosing a vendor.
- Smaller employers (less than 1,000 employees) are more likely than larger employers to avoid ERISA.
- Employers in the professional/management services sector are also more likely to avoid ERISA.



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Poll on Health Savings Accounts (HSAs)

1. Individuals are only eligible for HSAs if they have coverage under a High Deductible Health Plan (HDHP). If your organization offers or were to offer an HDHP, how is it structured or how would you most likely structure it?

| | |
|--|-----|
| Offer HDHP, with no HSA, but let each employee set up his or her own HSA | 14% |
| Offer HDHP, coupled with an HSA, but let each employee set up his or her own HSA if he or she so chose | 45% |
| Offer HDHP, coupled with an HSA subject to ERISA, with no other option | 41% |

2. Has your organization already implemented an HSA?

| | |
|-----|-----|
| Yes | 4% |
| No | 96% |

3. If your organization has not already implemented an HSA, when do you think your organization might offer HSAs?

| | |
|--------------------|-----|
| By the end of 2005 | 11% |
| 2006 | 23% |
| 2007 or later | 9% |
| Undecided | 49% |
| Never | 9% |

4. How do you think your organization would be most likely to offer HSAs?

| | |
|-----------------------------------|-----|
| Replace all health plans | 10% |
| Replace all plans other than HMOs | 2% |
| Replace one or more plans | 18% |
| Add as one more option | 70% |

5. How did your organization implement an HSA?

| | |
|------------------------------------|-----|
| Replaced all health plans | 0% |
| Replaced all plans other than HMOs | 0% |
| Replaced one or more plans | 64% |
| Added as one more option | 36% |

6. What would be (was) the most important reason to offer an HSA?
-
- | | |
|--------------------------------------|-----|
| Control health care costs | 57% |
| Expand employee choices | 24% |
| Add a tax-deferred savings vehicle | 25% |
| Minimize concerns about managed care | 1% |
7. What is your vision for the future of HSAs?
-
- | | |
|---|-----|
| They will redefine the landscape, like managed care did in the 1990s. | 13% |
| They will become a permanent feature, like cafeteria plans. | 57% |
| They will be a passing fad, like point-of-service plans. | 19% |
| They will be a big flop, like Medical Savings Accounts. | 14% |
8. In choosing vendors, which of the following factors would be (was) most important to you?
-
- | | |
|---|-----|
| Ability to offer both an HDHP and an HSA | 40% |
| Experience with HSA-like products (HRAs, MSAs, FSAs) | 37% |
| Experience with IRAs | 1% |
| Current vendor(s) for medical plan services | 27% |
| Current vendor(s) for retirement plan services, e.g., 401(k) recordkeeper | 2% |
9. The Department of Labor has indicated that HSAs will generally not be considered ERISA plans where employer involvement is limited. How likely is it that your organization would choose to structure an HSA so as to avoid ERISA?
-
- | | |
|-----------------|-----|
| Very likely | 27% |
| Somewhat likely | 31% |
| Not very likely | 35% |
| Very unlikely | 9% |

DEMOGRAPHICS

10. Employer size

| | |
|---------------------------|-----|
| 1 to 100 employees | 5% |
| 101 to 999 employees | 25% |
| 1,000 to 4,999 employees | 36% |
| 5,000 to 20,000 employees | 35% |

11. How many years have you been in the employee benefits industry?

| | |
|----------------------|-----|
| Less than five years | 2% |
| 6-10 years | 12% |
| 11-20 years | 49% |
| More than 20 years | 37% |

12. In what type of industry does your employer primarily operate?

| | |
|----------------------------------|-----|
| Manufacturing | 31% |
| Wholesale/Retail Trade | 6% |
| Transportation | 2% |
| Finance/Insurance/Real Estate | 7% |
| Professional/Management Services | 13% |
| Other | 42% |



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