



# Maximizing the Value of Health Care Spending

What employers can do to help employees get the most out of their health care dollars

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**In the face of rising costs, employers can help employees support their health spending with tax-advantaged health accounts such as health savings accounts.**

The U.S. has some of the highest health care costs in the world. Americans spent \$3.65 trillion on health care in 2018, according to the U.S. Centers for Medicare & Medicaid Services (CMS).<sup>1</sup> That total is about the same size as Spain and Canada's entire economies—combined.

CMS projects that number will increase to \$6 trillion by 2027.<sup>2</sup>

Escalating health care costs take a bigger bite out of employee paychecks, as employers shift more of the cost burden to employees or transition employees to consumer driven health plans (CDHP). According to the Kaiser Family Foundation (KFF), the average annual premiums in 2019 were \$7,188 for singles and \$20,576 for family coverage. The average family premium has increased 54% since 2009 and 22% since 2014.<sup>3</sup>

In the face of these rising costs, employers can help employees support their health spending with tax-advantaged health accounts such as health savings accounts (HSA). However, employees are often confused about health spending and savings accounts and don't always take advantage of them to maximize the value of their health care spend.

Or, employees may not realize that an HSA is a powerful savings tool, as well as a way to pay for current health care expenses.

### **What Do Employers Say?**

Further, a national health savings and spending administrator, in partnership with Arizent/Employee Benefit News, asked employers at organizations with up to 5,000 employees why they offer savings and spending accounts and how they educate employees to make informed choices about their health care spending. Our goal was to learn about the pain points HR administrators are experiencing and share ways that employers could help employees get the most out of health spending and savings accounts.

(For a primer on different health spending and savings accounts, see the graphic: At a Glance: FSA vs. HSA vs. HRA.)

### **Health Spending and Savings Accounts: The Rise of HSAs**

According to our research, slightly more than half (53%) of employees have HSAs, with Health Reimbursement Arrangements (HRAs) and Flexible Spending Accounts (FSAs) slightly lower (see Figure 1).

<sup>1</sup> <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical>

<sup>2</sup> <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ForecastSummary.pdf>

<sup>3</sup> <https://www.kff.org/report-section/ehbs-2019-section-1-cost-of-health-insurance/>

**Employees may not realize that an HSA is not only a powerful savings tool but a way to pay for current health care expenses.**

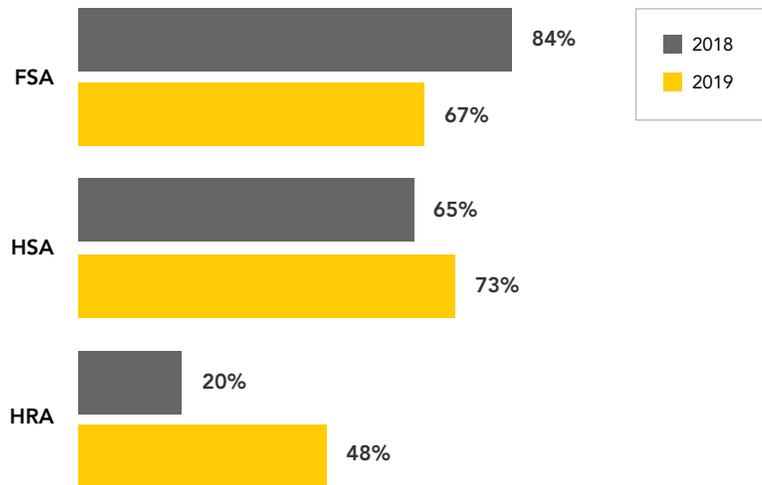
Figure 1: Health spending/Savings participation level



Source: Arizent/Employee Benefit News, October 2019

Employee participation in HSAs and HRAs is increasing and FSA participation has declined. In 2018, 84% of organizations offered FSAs. One year later, only 67% offered FSAs, while the percentage of organizations offering HSAs increased from 65% in 2018 to 73% in 2019. In that same time frame the number of organizations offering HRAs more than doubled (see Figure 2).

Figure 2: Health spending/Savings account offering



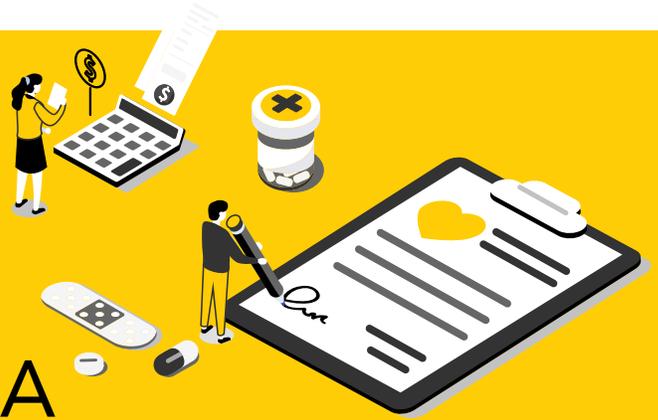
Source: Arizent/Employee Benefit News, October 2019

The decline in offering FSAs may be due to the disadvantage of FSAs being “use it or lose it” accounts, unlike HSAs, which allow employees to rollover the account balance year after year.

In addition, HSAs continue to be one of the most tax-advantaged accounts available to employees. In 2020, employees using an HSA can apply pre-tax contributions of up to \$3,550 for an individual and \$7,100 for families, effectively lowering their tax bill.<sup>4</sup> Moreover, U.S. lawmakers see the value of HSAs, and there’s bipartisan talk about passing legislation to help expand the use of HSAs.

<sup>4</sup> [https://www.irs.gov/irb/2019-22\\_IRB#REV-PROC-2019-25](https://www.irs.gov/irb/2019-22_IRB#REV-PROC-2019-25)

Other industry data trends support Further's findings about the growth of HSAs. According to Devenir, an independent investment advisor, there are 26 million HSAs with \$61.7 billion in assets, a year-over-year increase of 12% for accounts and 20% for assets. Devenir predicts that by the end of 2021, there will be 30 million HSAs with \$88 billion in assets.<sup>5</sup>



## At a Glance: FSA vs. HSA vs. HRA

FSAs, HSAs, and HRAs are financial tools that help employees save on taxes and pay for out-of-pocket qualified medical, prescription, dental, and vision expenses. Here are the major differences between each account type:

### FSA

FSAs are owned by the employer but funded by the employee. The advantage of FSAs is that employees have access to the full annually elected amount on the first day of the plan year. The biggest disadvantage of FSAs is that employees must use the funds by the end of the plan year (with some exceptions) and can't take the funds with them if they leave their job.

### HSA

HSAs can be funded by the employee and/or the employer, and are owned by the employee, but employees must be enrolled in a qualified consumer driven health plan (CDHP). Employees continue to own unused funds—HSAs are not "use-it-or-lose-it." The account stays with the employee, even if they leave the employer.

### HRA

HRAs are owned and funded by the employer. There are no contribution limits; the employer determines the contribution amount each year. The employer receives the tax advantages, but employees aren't taxed on the HRA contribution. The employer also determines the list of qualified expenses.

<sup>5</sup> <https://www.benefitnews.com/news/hsa-assets-surpass-60-billion-growth-expected-to-continue>

The majority of employers believe that their employees are well educated about their health spending and savings accounts, but studies suggest otherwise.

## Do Employees Really Understand Health Spending and Savings Accounts?

Employers use a variety of tools to share information about health spending and savings accounts with employees. For example, in-person information sessions, online benefits portals, brochures, paper handouts, and email are some of the most used tools. Less used are webinars and text messaging (see Figure 3).

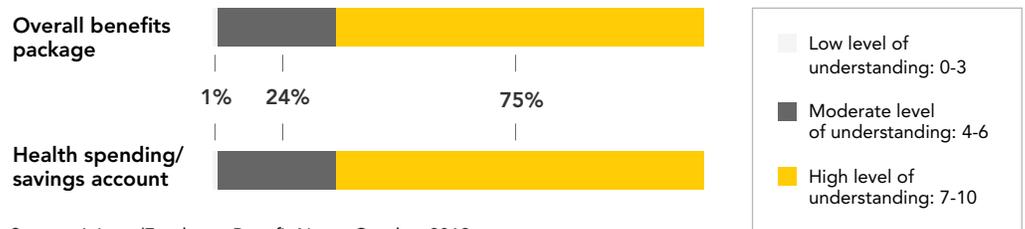
Figure 3: Health spending/Savings account information sharing

	FSA	HSA	HRA
In-person information session	70%	61%	56%
Online benefits portal	70%	67%	59%
Brochure/paper handout	67%	59%	56%
Email	66%	69%	68%
Link to provider website	66%	61%	49%
Engage with benefits broker/consultant	43%	44%	47%
Webinars	28%	37%	31%
Text message	15%	27%	19%

Source: Arizent/Employee Benefit News, October 2019

But are those education efforts working? The majority (75%) of employers believe that their employees are well educated about both their overall benefits and their health spending and savings accounts (see Figure 4).

Figure 4: Perceived employee understanding of benefits



Source: Arizent/Employee Benefit News, October 2019

Statistics from other industry data and studies on employee perception show that employers are likely overestimating how well their employees really understand health benefits and associated costs.

**Use straightforward explanations such as “the most you’ll pay in a year” to help employees understand what terms such as out-of-pocket maximum mean.**

Health care is complex and overall related costs can be confusing. In a survey conducted by the Kaiser Family Foundation (KFF), only 51% of consumers could correctly calculate how much they would have to pay for a hospital stay based on their deductible and copay. Only 16% could calculate how much they would have to pay for an out-of-network lab test. Three in 10 incorrectly believe that receiving care at an in-network hospital means that all the providers delivering services at that hospital are in-network.<sup>6</sup>

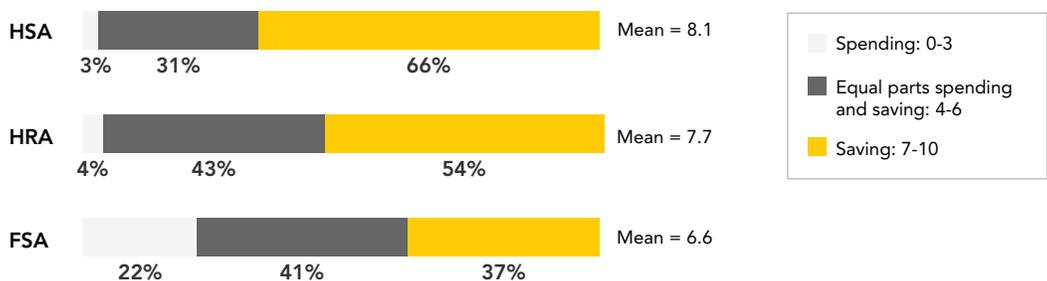
So, how can employers help their employees make the best health spending and savings account decisions if they are confused about health insurance concepts and terminology? Employers are already relying on a variety of methods to get information out to employees, but perhaps it’s the message itself that needs to change.

One employer survey respondent suggests that employees use language that non-HR employees can understand. “Industry jargon just makes everyone tune out,” the respondent says. Another says, “Use plain language that anyone can comprehend. There are some resources that are too highly technical for the layperson.”

For example, while terms such as out-of-pocket maximum or deductible are common HR language, employees may not fully understand what those terms mean. Instead, use more straightforward explanations such as “the most you’ll pay in a year” or “the amount you pay before your insurance pays anything.”

Employees—and even employers—don’t grasp that HSAs are both a spending and a savings tool (see Figure 5).

**Figure 5: Health spending/Savings account perceptions**



Source: Arizent/Employee Benefit News, October 2019

First, employers should focus on educating employees throughout the year that they can use their HSA for eligible health care expenses without penalties. Some employees still assume that the term “Savings” in “Health Savings Account” means they cannot immediately access the funds.

Second, employers should remind employees that any funds placed in an HSA remain in the account until they are spent. This gives employees the option of spending their HSA dollars now or saving them for a future health care need.

Overall, the nature of an HSA empowers employees to have more of a say in when, where, and how they spend the money since the employee owns the account. For example, employers can educate employees on how to spend the savings wisely by using less-expensive telehealth options versus visiting the emergency room for a non-emergency health care need.

<sup>6</sup> <https://www.kff.org/health-reform/poll-finding/assessing-americans-familiarity-with-health-insurance-terms-and-concepts/>

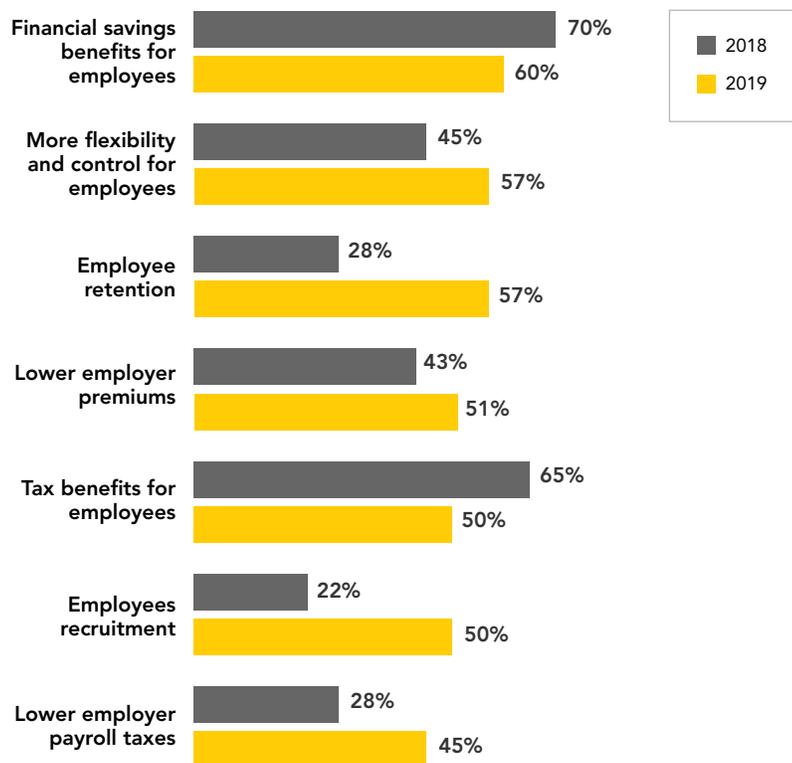
**Employers are starting to recognize the power of HSAs in employee retention and recruitment.**

**Attract and Retain Employees with Health Spending and Savings Accounts**

The increase in the number of employees using an HSA is positive for both the employees who can use these accounts for tax-advantaged health spending and savings, and the employers who offer them. While employers say that financial savings is a top objective for offering health spending and savings accounts, employers are also starting to recognize the power of this benefit in employee retention and recruitment.

In 2018, our research found that 28% of employers viewed health spending and savings accounts as an employee retention tool; that percentage more than doubled to 57% in 2019. Employee recruitment, as an objective, also doubled from 22% in 2018 to 50% in 2019 (see Figure 6).

**Figure 6: Health spending/Savings account objectives**



Source: Arizent/Employee Benefit News, October 2019

This makes sense: in a period of low unemployment (3.6% reported by the U.S. Bureau of Labor Statistics November 1, 2019),<sup>7</sup> benefits offerings can turn into a competition for talented employees.

But employers can do even more to use health spending and savings accounts as a tool for recruiting and retaining employees. The key is employee education to help them understand the value of accounts like HSAs. For example, current employees and potential employees may not understand that they can use HSAs as both a spending and a savings account. In last year’s survey, 31% of employers cite a low level of employee understanding as a challenge in getting them to take advantage of these accounts.

<sup>7</sup><https://www.bls.gov/news.release/pdf/empst.pdf>

Although this year's survey showed improvement in employee understanding—22% of employers cite employee understanding as a barrier to getting employees to take advantage of spending and savings accounts.

## **Get the Most Out of Health Spending and Savings Accounts**

Whether employers choose to offer HSAs, HRAs, or FSAs—or all three—employers will need to make a concentrated effort to help employees understand the pros and cons of these accounts, and how to use them. Administrators, including Further, have tools available to help educate employees about the value of health spending and savings accounts.

For a detailed playbook with introduction letters, guides, presentations, and worksheets, visit the Further Learning Center.

[https://learn.hellofurther.com/Employers/Educating\\_Employees/Communication\\_Playbook\\_for\\_Health\\_Savings\\_Accounts](https://learn.hellofurther.com/Employers/Educating_Employees/Communication_Playbook_for_Health_Savings_Accounts)

### **About the Survey**

In October 2019, Arizent/Employee Benefit News conducted an online survey of 302 employers who work in organizations with 5,000 or fewer employees in a wide variety of industries across the U.S. The top three functional areas represented were human resources, benefits administration, and employee relations.

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### **About Arizent**

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### **About Further**

Further is a national leader in health care spending and savings account administration, serving large corporations, small businesses, labor unions, retirees, and groups in the public sector. Based in Eagan, MN, Further provides health savings accounts (HSAs), flexible spending accounts (FSAs), health reimbursement arrangements (HRAs), voluntary employee beneficiary association (VEBA) accounts and commuter benefit and custodian services. Further guides account holders across the United States in saving and spending wisely on their health care. Further is an IRS-approved nonbank trustee through the U.S. Department of Treasury. For more information, visit: [www.hellofurther.com](http://www.hellofurther.com) or call 1-800-859-2144.