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The Next Generation of HSAs

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Health Savings Accounts (HSAs), now approaching their tenth anniversary, have been one of the most successful health care programs in the United States. HSAs are working as intended – evidence of their positive impact on transforming the health care financing and delivery systems continues to mount, especially as one of the most critical tools to "bending the cost curve" in health care spending. And while they have brought significant positive change, we are just scratching the surface of what they can truly achieve. Many Americans with HSAs don't fully understand them and consequently are missing out on many of the advantages they offer. Meanwhile, employers that have adopted an HSA strategy often are left feeling lost with little or no ability to positively impact change in how employees use their HSAs.

Few, if any, studies have focused on the influence that employers can have on their employees' understanding of and engagement with HSAs. Undoubtedly, employers have a tremendous opportunity to influence employee behavior and drive positive change, but this opportunity is largely squandered because administrators are not providing the tools employers need to achieve these results. Most HSA administrators have simply not spent the time and money to provide these tools, yet they host volumes of data that can help employers see and react to their group dynamics. Further, administrators often fail to provide the communication and education tools necessary for employers to influence their employees' behaviors. Bridging this gap is the focus of this paper.

The Evolution of HSAs

For most of the first decade of HSAs, the industry largely focused on the mechanics of HSA administration – meaning getting the account opened, getting the account funded, providing access to funds, developing website tools and offering basic investment opportunities. For lack of a better term, let's call this "HSAs 1.0."

There aren't many benchmarks for comparing HSA administrators on how well they perform these mechanics. To some extent, if administrators accomplished these objectives with a minimal number of complaints, they were doing pretty well. So the basic benchmark became *satisfaction* with your HSA. On the other hand, the continued growth in volume they had to contend with each year left little time or resources to focus on improvements.

While satisfaction is the first step in a successful HSA program, administrators should advance their capabilities to provide their clients the knowledge and tools they need to drive employee engagement and impact employee behavior. As the HSA market matures, the industry has to continue to evolve and move to the next level. Administrators must provide the tools necessary for employers to drive long-term, meaningful change to their employees – which was the ultimate goal of consumer-directed health care. This is the focus of the next level in the evolution of the HSA market – let's call that "HSAs 2.0."

Arguably the most deficient aspect within HSA administration is data reporting and analysis. A few administrators have gone beyond the basics to provide some analysis of their HSAs, but many have mainly been focused on simple metrics including average annual contributions, withdrawals and year-end account balances. However, some are now beginning to show not only how these data elements are changing over time, but also are providing additional insight into accountholder behavior for contributions, distributions, balances and a host of other metrics.

An often overlooked and misunderstood aspect of an HSA program, account reporting can provide the insight necessary for employers to not only see exactly how their employees' accounts are being used, but also to react and positively impact their desired outcome. Without this analysis and visibility, employers are left to accept their account use trends rather than impacting their future. This next evolutionary step for HSAs is the most significant jump forward since the first accounts were opened in 2004.

Empowering Employers

Data reporting, analytics and execution programs are the key ingredients that will help employers drive the desired engagement and behavior change in their workforce. Unfortunately, most employers are not using data to analyze the effectiveness of their HSA strategy. Employers likely underestimate the influence they can have on their employees' health choices to improve wellness and contain costs through their HSA plan. But if they look at the big picture of employee health behaviors, this is one of the few *direct* influences the employer really has.

If administrators can produce data that helps employers gain insight about their employees, they may ultimately be able to understand why employees engage in particular behaviors. Furthermore, understanding the different needs people have and how they use health care benefits and services in completely different manners will be a critical part of building and implementing an effective communication strategy.

A logical place to start is by profiling a company's demographic data, account usage behaviors, balances and other factors. By building a profile of the average accountholder within a company, it is easier to understand how the employees compare to each other. Data like this is incredibly powerful because it helps employers understand not only what behaviors they need to drive but also where they should focus the bulk of their efforts to produce the most change.

After an employer understands what their employee profile looks like today, they can begin to determine what behaviors or results they want to produce in the future. The more they know about their employees, the more likely the employer is to improve employee well-being, reduce long-term costs across the workforce and generate a positive experience with their HSAs, the company's entire benefits program and the organization as a whole. This is especially true as needs change over time.

Influencing the Employee

The reasons why individuals choose HSA-qualified plans are not well-known. When given a choice, most presumably select an HSA-qualified plan because of its premium savings and/or tax savings associated with an HSA. But when employers only offer HSA-qualified plans, many individuals have to enroll in an HSA-qualified plan or forego subsidized insurance coverage (and often company contributions to their HSA) from their employer. Often, these employees do not understand how their insurance plan and/or HSA works. Sometimes, the same is true for those individuals who voluntarily choose an HSA.

Education and communication strategies are critical to helping employees and their family members understand how both their insurance plan and HSA work, especially in combination. The issue then concerns impact and efficiency. How does the employer make the largest impact with the least amount of resources? In addition, the education and communication needs of the group will change over time based on the dynamics within that group. Without proper data and analysis, how could an employer ever adapt to meet the changing needs of the employees let alone launch a proper HSA strategy?

Capturing and Reporting Data

It is important for administrators to be able to capture and report data that is useful and meaningful to their clients. At minimum, administrators should be able to do three things: (1) capture data and provide it to their clients in a usable format; (2) help employers analyze the data to determine what's meaningful; and (3) support employers to take action on what the data is telling them.

All administrators should be able to capture and report on at least the following basic account metrics:

- Balances (averages, balance spectrum or distribution of balances)
- Contributions (frequency, amount and type)
- Withdrawals (frequency, amount and type)
- Investments (amount and type)

However, truly effective administrators need to go beyond these basic elements and provide a much deeper analysis on how the accounts are being used. This best practice allows the employer to see the whole picture – how employees are using their accounts and how that is or isn't changing over time.

Looking at actual data from an employer group on a trended basis provides an opportunity to observe the combined habits of the accountholders. Employers can then better understand why these trends are occurring and develop strategies to influence employee health decisions—improving employee health and containing costs. Since these dynamics will likely change over time, this will allow employers to adjust their plans to better meet the needs of their employees and the overall group on a continuous basis.

Fig. 1 illustrates how an HSA administrator might track HSA contributions for its clients. The bar graph shows the average monthly contributions made by the employer (blue bar) and by the employees (red bar) over the course of the year. Note the generally steady stream of employer contributions while the employee contributions spike in March and gradually decline throughout the remainder of the year. The line graphs compare the average contribution per account for the client (green line) to the average for all the HSA administrator's clients (purple line). What this graph shows is that while this client's average contributions per account is higher than most clients, the gap is narrowing. The employer could then, with the HSA administrator's help, drill down further to better understand why this is happening.

Fig. 1. Contributions

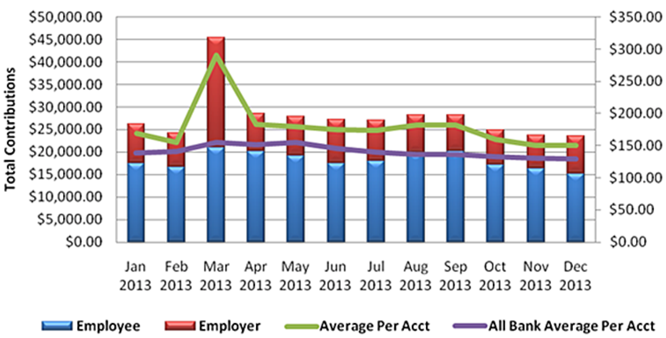
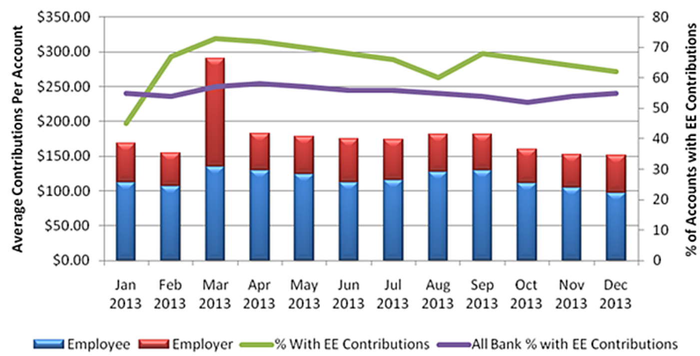


Fig. 2. Average Contributions



To illustrate why viewing this data as a trend is important, consider the notion of balance spectrum (meaning the distribution of balances within the accounts). With most employer groups, average balances tend to increase over time, either because contributions are increasing or withdrawals are decreasing or a combination of the two. However, just focusing on the average balances could mask underlying trends occurring across the spectrum of the accounts. Depending on the actual group funding dynamics, a company could actually have a situation where the average account balance is going up while the average employee's account is not. This could be caused by a number of strong funders making the maximum contributions that are pulling up the average while the remaining accounts have very low balances. This disparity could easily be identified by looking at the right reports, whereas just looking at the average balance would not identify this issue.

Benchmarking

As employers become more familiar with their data and begin to understand what it's telling them, some will want to start comparing their profile to the profiles of other companies. HSA administrators should be prepared to generate reports that aggregate data across all their clients so that benchmarks can be established. This insight is critical as it provides the measures for best practices. This will help employers better understand whether their HSA program trends are similar to other employers' experiences and how to achieve greater success. By comparing how their employee population performs versus a benchmark, employers may be able to identify areas of deficiencies or indicators of root problems.

Fig. 2 compares the average percentage of employees making contributions to their HSAs for one employer (green line) with the average across all the administrator's employer clients (purple line). Compared to the other clients, one can see that this client has a higher percentage of its employees making contributions to their HSAs. This is an important metric for an employer to monitor since it is a good barometer for employee engagement in the HSA, demonstrating whether or not employees are making significant contributions on their own.

Sometimes there is an obvious reason for trends that are different from the average. For example, the average withdrawal amount may often be a function of geographic location of the accountholders. For instance, one can easily understand why the average withdrawal amount for accountholders living in rural Oklahoma might be dramatically different than accountholders living in New York City. Barring these types of obvious differences, any substantial anomalies in data trends might indicate a potential issue that warrants further analysis.

The most compelling benchmarks include:

- Average contribution rates (amount and frequency)
- Average distribution rates (amount and frequency)
- Investing dynamics (and its change over time)
- Balance spectrum (and its change over time)
- Data that helps identify accountholder behaviors (i.e. "spender," "saver," etc.)

Using Data to Drive Success

Using data to positively impact their outcomes is the missing step for most employers. Some might look at the data, but few truly analyze what it means, and as a result they will not move forward with a strategy that could impact change. Employers can gauge the overall effectiveness of their HSA plan by asking three simple questions:

- Are my employees engaged?
- Are they improving their results?
- Am I getting what I need as an employer?

The answers to these three questions provide employers with the foundation for making critical decisions and adjustments to fine-tune their HSA program. For example, imagine that an employer group has identified that they have low employee participation in making personal contributions to their HSAs. To address this, they plan on educating their employees about why making contributions will benefit them and their families. They could then measure their success by monitoring the percentage of employees making contributions each month thereafter to see whether the percentage increases over time.

In addition to the benefit for the employee, this would drive significant benefit for the employer too. Not only does this create immediate savings on the employer's payroll taxes and unemployment contributions, but it can also provide longer-term effects such as reducing the need for future employer contributions and improved employee health habits. All of this change can be driven by first looking at the account reporting and then choosing to be proactive rather than just passively accepting their fate.

Conclusion

As the marketplace demands movement to the next level – "HSAs 2.0" – data capabilities could separate the market leaders from the market followers. Data analysis is critical to help employers understand how employees are (or aren't) using their HSAs. Letting the data guide their decisions, employers can develop a plan to influence their employees' health choices to improve wellness and contain costs through their HSA program. Data reporting can help identify differing employee characteristics and behaviors that can help employers tailor their education and communication efforts rather than taking a one-size-fits-all approach. In the end, more engaged employees can lead to lower costs, improved health and greater savings – both in the short-term and the long-term.

HSA administrators must develop the capabilities to capture the data, report it in useful formats and help employers analyze and interpret the data so it can be used to develop action plans and drive change. Employers need to take the time to actually view and understand their analytics. This should be done with some regularity and no less than annually.

Thankfully, the HSA industry is maturing just as HSAs hit their stride as a mainstream employee benefit program. HSA administration platforms must provide reporting tools to be able to move beyond the basic mechanics or the industry will never deliver on the promises envisioned for the HSA program.