Episode 8:

HSA spending, saving and engagement

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Stephen Durso: HSAs are an opportunity for individuals to keep more of what they earn and earn more on what they keep.

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Announcer: You're listening to Benefits, with Purpose!, a Willis Towers Watson podcast, where benefits delivery experts help employers navigate the world of health and wealth benefits, and deliver purpose to their people in the moments that matter most.

Philip Massey: Hello my name is Philip Massey. I've spent over 20 years in employee benefits. And I'm excited to be hosting another episode in our Benefits, with Purpose! series entitled, HSA spending, saving and engagement. With me today to discuss how employers can help their employees get more out of their HSA is our resident health savings account expert, Stephen Durso, associate director at Willis Towers Watson. Good morning, Steve.

Stephen Durso: Good morning, Phil.

Philip Massey: So, Steve, something has been bothering me recently regarding HSAs.

Stephen Durso: Oh really? Now, what would that be?

Philip Massey: Well, we've been talking about HSAs on these podcasts, how they're such a great vehicle for building wealth for health. There's so much benefit to be had, and yet the engagement is still so low.

Stephen Durso: So, what are you thinking about when you say engagement?

Philip Massey: Well engagement meaning the action employees are taking, or not taking, with regard to their HSA. Any survey data I look at I still see tremendous opportunity for employees to maximize the value of their HSA. I think of it like a garage, or an extra bedroom, that could be turned into exercise space, a workshop, an office. But instead of maximizing the space, we just pile a few random things in there, and close the door.

Stephen Durso: OK, so you're not talking about enrollment, here. This is actually maximizing the value for employees who have already opened an account.

Philip Massey: Right.

Stephen Durso: OK can you give me an example, and maybe let's focus on HSA rather than your home renovation needs.

Philip Massey: Sure, fair enough. According to a Willis Towers Watson survey on employee attitudes toward HSAs, 65% of employees see HSAs as a pure spending vehicle. So, let's start there. It's called a health savings account. The “S” is for savings, by design. We're coming up on two full decades of HSAs. It even has its own holiday now, and yet this perception persists. What can employers do to speak to this group about maximizing their HSA engagement and reaping the most value from it?

Stephen Durso: That's interesting. So, if we're trying to define the problem, it's really rooted in the fact that HSAs are too big for most employees to digest in one sitting. They're really multifaceted. So, they're great for spending first dollar on medical, for spending until you reach that deductible. They're great for saving. They're great for investing. They're a powerful tool for retirement. That's a whole lot of messaging for an employer to get in front of employees.

So, what do you do with any problem that that's huge like that? I would say it's the same thing as how do you eat an elephant? You eat it one tiny piece at a time. So, if we break it into smaller pieces, it's much easier to digest. So, Phil, back to your dirty garage, let's clear out some space.

Philip Massey: OK, let's do. So, let's focus on the 65% that perceive the HSA purely as that spending vehicle.

Stephen Durso: Perfect. So, let's start by establishing that spending is not the bad guy here. But there is a way for employees to do it efficiently. So, if we're looking at that 65%, not all of those employees are going to be engaged to the same degree. So, some are going to be engaged to the absolute minimal degree. So, congratulations to them, they took the effort to open an HSA, and that's certainly important. But maybe they did it just to get an employer's seed, or wellness credits. And as soon as those dollars are coming into their HSA, they're flowing right out and they're spending them.

So, then others are sort of one foot in. So maybe they've opened an HSA, but they're contributing a very small amount, like maybe $5 a paycheck. So, they're nowhere near the maximum.

Philip Massey: Right, there are a lot of employees in those buckets. To your point, I know from the EBRI 2019 survey, and that's the Employee Benefit Research Institute. That 58% of employees contribute under $2,000. Which, depending on your plan and your coverage, is likely less than the planned deductible.

Stephen Durso: Right. So, looking at the spending problem, in terms of contributions relative to the deductible, that's a great place to start. And here's some problems for employees that take that minimal approach to their HSA. So, an employee who's contributing under their deductible, they're not meeting what their deductible is. If they have a large expense, they are going to be paying out of their pocket on medical expenses with post-tax spending. So, if you think about it, we'll use 30% tax rate just for our example purposes, so each of those employees is going to be missing out on an opportunity to save 30% of every dollar they spend towards out of pocket medical just by running those dollars through an HSA. So, it is definitely important to note when we talk about tax savings in the HSA, it doesn't just happen at tax time, on April 15, it happens on payday. So, it's immediate with every paycheck. Every contribution is a tax saving. Most of us, if we were presented with a 30% discount, we would walk over the coals for that. That is really something that is a compelling amount of a discount. And since we're talking about healthcare, spending is not uncommon, and often not optional. So, doctor visits, prescriptions, even dental and vision care, can cause expenses that an HSA can really come in handy for.

What employers need to define is the benefit of contributing at least up to the deductible, and the immediacy of the savings. So, both of those two things are key to understanding how contribution level is tied to maximizing the benefit for those spenders.

Philip Massey: Those are a couple of great points. So, when the employee is in a high-deductible health plan those first dollar expenses are going to arise, as you said, and the plan benefits don't begin in earnest until the employee crosses that deductible threshold. So, all the spending that occurs outside of the HSA, means the employees is paying 30% more in your example. 30% more than they have to.

Stephen Durso: Exactly. It's a lot of benefit, and a lot of savings left on the table.

Philip Massey: Right, even if we talk about those engaging a little more beyond the employer seed or credits, say those that are contributing up to their deductible, still only 6% of total employees in self-only coverage, and 11% with family coverage. And this again, is from the EBRI survey, only 6% and 11% are reaching the maximum contribution.

Stephen Durso: Even for employees who have figured out the deductible threshold, they're likely contributing more because they're spending more. So maybe someone upped their contribution because they have orthodontics to pay for, they have a teen that's ready for braces. But they're still viewing it as a spending, rather than a savings, vehicle. So, the question for employers really becomes, how are your employees positioned for an emergency? So, a large out of pocket medical expense, that can come up at any time. So, someone might fall off their bike, break a collarbone, it's really an unexpected trip to the emergency room, potentially surgery, and definitely unexpected large bills. So, if someone's not financially prepared for that, expenses like those could end up on a credit card. And larger expenses could result in a deduction from a retirement account, which could come with associated penalties. So, it really is a double hit all over to finances. And rather than spending pre-tax dollars from an HSA and saving 30%, these employees could end up paying interest and penalties, either on a credit card, or taking an early withdrawal from retirement account.

So really, educating employees on the benefits of either approaching, or achieving, the maximum possible statutory contribution to an HSA every year, can deliver peace of mind for individuals and families. We're really protecting them against those unexpected expenses. Also, if you consider the account earns interest, and also can have investment returns, HSAs are an opportunity for individuals to keep more of what they earn, and earn more on what they keep.

Philip Massey: Wow, yes. That's a great way to think about how contributions result in savings, and as you said, immediate savings. You can almost view spending from an HSA as a sort of discount on your out-of-pocket healthcare when employees are taking the necessary steps to maximize the value. If we draw a circle around this group, the spenders who are contributing less than their deductible, those minimally engaged, these employees are missing out on a powerful aspect of their HSA that can deliver immediate savings on out-of-pocket spending. Which, like it or not, is probably in the employee's future, as you mentioned. How do you think employers can best address this opportunity within this group?

Stephen Durso: Well, it always comes down to education. So, employers, they play a big part in that. But one piece of advice we always give is that they should resist the temptation of trying to go too big with the messaging. So, I'll give you a little top five tips for communications based on HSA. So, first of all, target the messaging. So, segment the population, and speak a simple message directly to individuals within a specific pocket of employees. So, it may be worth segmenting those contributing under 25% of the statutory max, separately from those who are contributing under 75%, because the messaging would be different.

Also try to keep it short, so think bite size, think a little nudge. So, resist that temptation to send a big message, this group needs to walk, maybe crawl, before they run. And little pieces of information are much easier to digest. Make it real, so provide an illustration. The difference between what they're contributing today and adding another $1000 a year can come down to only $40 per pay period if they're paid biweekly. Again, being pre-tax, that would really only be about $30 of take-home pay. It's probably more within the reach than employees believe. If you think about it, half of that, if they were just trying to get $500 more into their HSA annually, that would only be $20 more out of every paycheck, which would be 15 of take home. So, it is really within reach.

I think employees can just think maybe there's a couple of streaming services that they no longer watch. That they cancel that, and pump that money into their HSA, they're really doing better. Another thing to say is make it easy. So, remind your employees that they can increase their contributions at any time. That's one of the most common misperceptions that some employees have, because they're used to other benefits being limited to only changing during annual enrollment. HSA contribution rates can be changed at any time. So, and then another thing with that is you could include maybe a link directly to your administrator site, where they can make that contribution change. So, give them a small piece of information showing why a contribution rate increase would be great for them, and then give them the link. Make it super easy and they'll be able to immediately action that to yield the best results.

And then also, as we've been talking about, don't try to throw everything at them at the same time. Focus on building that knowledge slowly over time. So, your employees are likely one of these segments due to a lack of understanding. The confusion is inherent because the HSA offers so many benefits. But start small and targeted, and over time they'll begin to see the HSA as an asset and not a liability.

Philip Massey: Excellent. So, Steve, what you're saying is, when developing a strategy to increase HSA engagement, employers would be well served to hook the employee with a specific concept that speaks to their current circumstances, rather than a large one-size fits all communication blast that speaks to all the benefits of an HSA?

Stephen Durso: That's right, so employers have to realize that their employees are busy in their own lives. Hopefully busy on the job as well. And the modern world has left us with shrinking attention spans. So, you only have about 8 seconds to make an impact. So, you need to make those 8 seconds count. So, Phil, go back to your dirty garage. Let's not worry about renovating the space, let's just get the junk cleared out for now.

Philip Massey: Indeed, need to get started on that. Well great insight, Steve, but in the spirit of keeping this message small, we're going to set a good example and leave it here for today. We'll talk about investing, and retirement, and building wealth for health, all the great things that come along with an HSA, another day. Thanks for all the great perspective, Steve.

Stephen Durso: Thanks Phil, it's always a pleasure, and I look forward to the next time.

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Philip Massey: And thanks to all of our listeners for tuning in to our Benefits, with Purpose! series. I hope you've enjoyed our bite-sized podcast. Be well all.

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