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Health Savings Account (HSA) Headaches

Solutions and relief for plan sponsors regarding eight HSA pain points.

By Karin Rettger and Jack Towarnicky

Health Savings Accounts (HSAs) offer employers and their employees access to a great savings vehicle. We find that they continue to be widely misunderstood. The Plan Sponsor Council of America's HSA committee offers these solutions to common HSA pain points. Here are eight tips you can use now or at your next open enrollment:

Headache #1:
HSA and FSA Confusion

An HSA is not the same as a Flexible Spending Account (FSA). The FSA basics have mostly been unchanged since 1984, when the cafeteria plan regulations were first proposed — annual elections, use-or-lose, etc. So, not surprisingly, after more than 20 years of education, workers are well trained to understand an FSA. Plan Sponsors started to introduce HSAs in 2005, and most providers and sponsors initially explained HSAs as an FSA look-a-like or as a kind of "super" FSA, and not as a long-term savings account.

In our Spring 2018 Issue of Defined Contribution Insights we discussed 10 Common Myths and Misconceptions of HSAs, and you may find that a useful reference.

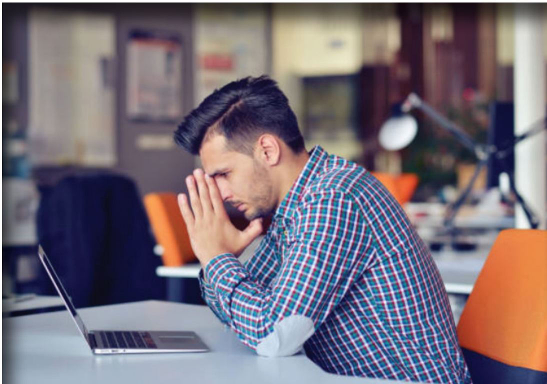
How do we remedy the misunder-standings about HSAs? Unlike an FSA, the HSA does not have a use-it or-lose-it-provision. You also can change your payroll deduction throughout the year without a change in family status. So, workers don't have to estimate next year's health care expenses during open enrollment. Instead of linking the amount of HSA contributions to next year's out-of- pocket medical expenses, the worker can focus on the savings decision — at annual enrollment and throughout the year. It also allows plan sponsors the flexibility of offering HSA education throughout the year to remind employees of the value the HSA offers.

We would suggest education throughout the year that positions the HSA with the 401(k) and not against the FSA. When workers start to understand the HSA properly, they will see it as a "super" 401(k). Both the HSA and the 401(k) offer pre-tax savings, and investment options, but unlike the 401(k):

- HSA contributions are pre-tax for FICA and FICA-Medicare employment taxes,
- The HSA offers the added ability to pay for out of pocket medical expenses with tax free dollars, and
- Minimum required distribution rules do not apply.

Here's one more big education opportunity — under current law there is no time limit on reimbursement from an HSA. In other words, reimbursement from an HSA does not need to be made in the year medical expenses are incurred. This is a huge benefit to employees. If they can afford to pay for current out-of-pocket health care expenses from today's household budget, they can save those incurred receipts and get reimbursed in a future year. This allows unused HSA dollars to grow tax free, and also optimizes potential for greater investment growth. We explain this strategy to workers as "Shoeboxing" receipts.

Reimbursing yourself tax-free at a later date, perhaps after retirement, can provide tax-free income in retirement. Think of it this way, if you don't have an HSA, you will have to pay for out-



of-pocket health care expenses from your 401(k), which results in a taxable distribution (if it is a traditional 401(k)).

Don't forget, tax free income may also reduce the taxes a worker may have to pay in retirement (on Social Security benefits) and the premiums a worker may have to pay in retirement (income-based premium surcharges for Medicare Part B and Part D coverage). We discussed the cost of healthcare in retirement in more detail in the Fall 2018 issue of PSCA's Defined Contribution Insights.

Here's another way of looking at it: at retirement, if you have $500,000 in your 401(k) and $150,000 in your HSA, which one would you rather use to pay for health care expenses in retirement?

Starting in 2019, PSCA will provide HSA educational webinars. We will be including some HSA basics and education on how the HSA can be positioned alongside a 401(k).

Headache #2:
Deductibles are "High"ly Misleading

Whatever you do, don't call the HSA-capable health option a "high deductible health plan!" Why?

It sounds too scary. Instead, call it something else. Try "Health Savings Option" or HSA-eligible Health Plan." Simply, the minimum deductible for a HSA-capable health option is not so high anymore — the average deductible nationwide in a PPO is over $1,500 which is higher than the HSA minimum required deductible.[1]

Headache #3:
Employees Don't Contribute to the HSA

Instead of the FSA and "use-or-lose," you might say a major HSA pain point is "you snooze you lose." Few plan sponsors incorporate features designed to open the HSA account when the worker is first eligible. Only those expenses incurred after the employee is enrolled in a HSA qualify for tax-free reimbursement. So, you should consider automatically enrolling employees that choose an HSA-qualified health option. Similar to the 401(k), you can use a default HSA contribution amount — where employees have the option to opt-out or select a different amount.

For example, if an employee chooses the HSA compatible health plan during open enrollment, you would enroll them in the HSA for $50 per pay period (or whatever amount you want to suggest). Today, most plan sponsors offer health options through a Section 125 cafeteria plan — so employee contributions are automatically taken on a pre-tax basis.

Automatically enrolling employees to make pre-tax contributions to the HSA would use the same rules. In other words, much like automatic enrollment in the 401(k), you may want to assume that those who enroll in the HSA-capable health option should also be contributing to the HSA. Another concept you can use to facilitate HSA contributions is to encourage employees who are already contributing to the 401(k) to split their contributions between the two programs. In this way, an employee would continue to contribute to the 401(k) as necessary to receive the maximum employer contribution, but shift any excess to the HSA.

Example: An employee is currently contributing 10 percent of pay to the 401(k). The employer matches the first six percent of pay. The employee could change their 401(k) deferral to six percent of pay and enroll in the HSA at four percent of pay (therefore maintaining the same take home pay). The best strategy is to maximize the deferrals available under both a 401(k) and an HSA. You might worry that employees could negatively impact their retirement preparation, however, you should continue to educate employees about why the HSA can be more effective than the 401(k) in saving for retiree medical expenses. Finally, while most plan designs allocate employer HSA contributions to meet the comparability requirements, some plan sponsors deploy a matching structure — sometimes using the same percentage match on HSAs contributions that they use on 401(k) contributions.

We discussed automatic enrollment in HSAs in the Summer 2018 issue of PSCA's Defined Contribution Insights.

Headache #4:
Lack of Educational Materials on HSAs

There is a lack of educational materials that are built to engage employees and explain an HSA as anything other than a FSA look-a-like. PSCA's HSA committee has been developing non-vendor HSA materials that will highlight and explain a variety of HSA strategies that employees can use to fill this education gap. Because employees can change their HSA contribution election at any time, we suggest you educate employees about HSAs throughout the year, when possible. If employees have a better understanding of HSAs prior to open enrollment, it might help them make a more informed decision. Throughout the year, you can engage them with tips about best uses and strategies for an HSA.

Headache #5:
Verifying Employee Identity for HSA Set Up

Because HSAs are individual accounts and not under the employer's control they are subject to PATRIOT act requirements. Some HSA providers have been able to set up the accounts with the monies funded to a cash account — Wage Works is one of those providers. Regardless, you will want to educate the employee that this is their savings account and that after they enroll, they will need to complete the account setup with the vendor just as they would if they were setting up a personal investment account. PSCA supports, and is advocating for, regulatory reform to make account setup easier.

Headache #6:
A Health Plan Vendor is not Necessarily the Best Choice as the HSA Vendor

We hear from many plan sponsors who assume they must use an HSA associated with the Health Plan provider. This is not the case. The HSA is not a health plan, and there are excellent independent HSA

providers. Look for competitive low-cost investment options and a user-friendly website.

In addition, some vendors are able to mirror your 401(k) investment line up. That may be an added benefit to the extent your employees participate in and understand the investment options in your 401(k) plan.

Headache #7:

HSA Vendor is Not Proactive in Promoting HSA Savings or Investments

Many plan sponsors are frustrated with a lack of engagement around the HSA. Too many HSA vendors are more focused on claims administration than wealth accumulation. As a result, only a small percentage of HSA account owners are realizing all of the value the HSA has to offer. Some health plan advisors are not licensed to sell investments and may not be able to fully educate participants about HSAs. A solution may be to ask your 401(k) service provider or advisor if they have developed and can offer HSA education and engagement as part of their employee education services. If not, an independent HSA advisor or consultant can assist you with designing a campaign.

Headache #8:

Difficulty Verifying Eligibility

A person cannot make contributions to an HSA if they do not participate in an HSA-eligible plan or if they are covered by a plan that is not HSA-eligible. This might include a spouse's health plan, a general FSA, or Medicare. Many Medicare eligible employees enroll in Medicare Part A (since it is free or a requirement of the employer health plan) when they turn age 65 not realizing that even though Medicare is secondary to the employer-sponsored plan, that it will invalidate eligibility to contribute to the HSA. The burden of proof of eligibility is on the owner of the HSA and not the employer. Regardless, many plan sponsors want to avoid an employee inadvertently enrolling in an HSA. Many HSA providers include a question regarding other health plan participation to prevent this.

In addition, you can add a prompting question as a part of your on-line enrollment platform or enrollment process to try to educate employees about this.

Conclusion

We have identified eight HSA headaches. The pain points included failure to see the HSA as a savings account, employees failing to make contributions to the HSA, and a lack of educational materials. We offered solutions that included positioning the HSA alongside the 401(k), highlighting the HSAs as a long-term savings opportunity, and as a solution for funding retiree health costs. Educational materials are improving and PSCA's HSA committee is dedicated to providing in-depth educational material to assist. Some of the pain points explored administrative headaches. Many of the solutions we provided encouraged you to talk to a variety of HSA vendors to see what support they may be able to provide to resolve these issues. Remember, an HSA offered in conjunction with the Health Plan is not necessarily the best option — getting RFPs on other HSA vendors is recommended.

The PSCA HSA committee welcomes your thoughts on HSAs, headaches you've suffered, the pain points you are experiencing, solutions you have crafted — send us an e-mail at psca@psca.org.

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[1] The Kaiser Family Foundation 2018 study of employer-sponsored health coverage showed that 85 percent of covered workers were enrolled in a plan with a general annual deductible and that the average annual deductible for single coverage was $1,573 — 17 percent higher than the $1,350 HSA minimum

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Published by Defined Contribution *Insights Magazine*, Plan Sponsor Council of America, Winter 2018

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