

Improving HSA engagement

How a leading health savings program can
be used to improve financial wellness and
help your employees retire on time

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Retirement healthcare savings gap

America is facing a potential retirement crisis, due in large part to the ever-increasing costs of healthcare. Forty percent of workers lack confidence that they will have enough money to take care of their medical expenses in retirement.¹ And, those feelings may be justified. According to the Employee Benefit Research Institute (EBRI), couples will need \$296,000 in retirement savings for a 90% chance of covering retirement healthcare expenses.²

While individuals may be planning to use their retirement plans or other savings for healthcare expenses in retirement, on average, less than \$3,000 is earmarked in Health Savings Accounts (HSAs) specifically for healthcare costs.

\$296,000²

Average medical costs in retirement

\$2,843³

Average HSA balance

\$293,157

Potential retirement healthcare savings gap

While Medicare Part A offers retirees basic coverage at age 65, it does not cover all expenses. Even with this benefit, many American workers are not prepared for the additional cost of supplemental Medicare premiums, out-of-pocket expenses and long-term care.

¹ Employee Benefit Research Institute, Retirement Confidence Survey, 2019.

² Employee Benefit Research Institute, Education and Research Fund, 2018.

³ Employee Benefit Research Institute, Issue Brief, 2018.

Costs of delayed retirement to employees and employers

Significant healthcare expenses can derail a person's finances at any age and can often delay retirement. Thirty percent of workers who reported an increase in healthcare costs indicated they were delaying retirement as a result,⁴ and 32% of hardship withdrawals from retirement plans are the result of a medical emergency.⁵

But retirees are not the only demographic affected — employers and younger employees are also impacted when employees are not able to retire on time. With an estimated 10,000 Baby Boomers turning 65 every day,⁶ the related potential costs of delayed retirement can be substantial to employers including:

- Higher healthcare costs to insure an older workforce.
- Higher labor costs.
- Loss of emerging talent as younger employees — who may have the qualifications for a promotion — can become frustrated and leave the organization due to the lack of opportunity.

HSAs can be an important part of the solution. While popularity of HSAs is growing, they are still misunderstood and underutilized by many employees:

- **Few people are taking advantage of the accounts:** There are an estimated 26 million HSAs⁷ compared to more than 100 million 401(k) participants.⁸
- **Few people are effectively saving into their HSAs:** The average account balance in 2017 was less than \$3,000³ and only 4% of accountholders invest within the HSAs.⁷

This paper offers five tips that employers can use to improve HSA engagement, which are gleaned from decades of experience engaging employees in their qualified retirement plans.

⁴ Employee Benefit Research Institute/Greenwald & Associates, Workers Rank Health Care Most Important Issue Facing U.S., 2018.

⁵ Voya Institutional Plan Services Hardship Analysis for full year, 2016.

⁶ Pew Research, 2014.

⁷ 2019 Mid-Year HSA Market Statistics and Trends, Devenir Research.

⁸ American Benefits Council, 401(k) Fast Facts, January 2019.

5 steps to improve HSA engagement

1 Establish employer HSA goals to drive long-term savings

Employers take great care to measure and track many aspects of their retirement plans (for example, contributions, participation and investment diversification). Employers set targets for various metrics and take action to improve outcomes when they fall short.

However, few employers apply the same rigor to the measurement of HSAs. HSAs have historically been thought of as a “side-car” to the high-deductible health plan (HDHP), leading to a focus on HDHP and HSA participation, but limited focus on the general savings behavior within HSAs. As a result, employers have dedicated little energy to changing their employees’ savings and investing behaviors within HSAs.

As management consultant Peter Drucker famously said, “What gets measured gets managed.” And top-performing HSA plans require both. Employers have an opportunity to capture and understand HSA results for their aggregate workforce, including:

- Savings rates,
- Account balances,
- Investment profiles,
- The amount of money being used to reimburse current expenses,
- And the amount of assets carried over from year-to-year.

Using this data, employers can set realistic short-term and long-term goals for their HSA program, track progress and manage the program to achieve the goals.

The table below illustrates an example where an employer targets three discrete metrics:

Impact of improved HSA engagement

	Current HSA		Targeted improvement	}	Future HSA	
Eligible employee participation rate	25%	+	15%		40%	
Average annual contribution	\$1,000	+	\$1,000		\$2,000	
% investing assets	5%	+	10%		15%	

*The table included is an illustrative example.

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Consider HSA design

Similar to improving participation in a company's retirement plan, increasing HSA engagement is all about encouraging and incentivizing the right behavior, and having an optimal design is the foundation. There are several HSA design best practices employers can use to help employees save more for their retirement healthcare expenses:

- **Consider using an employer match.** While many employers provide a flat HSA contribution (for example, \$300), a better alternative to encourage employee savings may be to implement an employer HSA match. This could be structured as either a percentage or dollar-for-dollar contribution match-up to a limit. Just as you target retirement plan participants to save at least the matching contribution, you can do the same with an HSA.
- **Consider an “opt-out” approach for important behaviors.** Employers should be thoughtful about the “default” options related to their HSA program and require employees to “opt-out” of desired behaviors. For example, if an employer is trying to increase participation in an HSA, the plan could auto-enroll the participant in an HSA when they elect a qualifying high-deductible health plan (HDHP). The auto-enrollment may trigger additional communications and education from the HSA vendor, which could yield increased engagement with the HSA. A similar philosophy can be applied for investing and contributions. Employers should consult legal counsel to ensure planned “defaults” do not trigger ERISA provisions.
- **Monitor investment fees.** HSA investment capabilities and fees may not be discussed in-depth as part of the buying process. As a result, employees may face high fees on underlying investments and administrative fees (for example, a fee of \$3 per month to invest). These fees eat away at employee assets and can create a barrier to begin investing. Employers should carefully review these fees to ensure they are aligned with the program goals.
- **Offer smarter spending products.** When it comes to spending, the world of HSAs can be confusing. Employees may have several different accounts from which to spend, such as dependent care Flexible Spending Accounts (FSAs), limited purpose FSAs, HSAs, commuter benefits and more. It's vital to offer these savings vehicles with features such as smart debit cards, which have the ability to discern where the employee is spending, and which account should be used. For instance, if your employee is spending on a qualified health expense, the card should deduct from the FSA balance first, leaving the HSA funds to capitalize and grow.



Did you know?

Your HSA matching contributions can save the employer FICA (Social Security) taxes, currently **7.65%**, which is different from qualified retirement plans.

Empower employees with education, advice and guidance

Many employees do not understand how HSAs work or the benefits they can provide. According to the Insured Retirement Institute and LIMRA, 62% of employees said they were “not very” or only “somewhat” knowledgeable about HSAs.⁹ This lack of understanding highlights the need for education and explains low participation rates in these triple tax-advantaged accounts.

Employers should consider developing education strategies aimed at modifying the perceptions and utilization of these accounts. Over time, employees will be able to view HSAs as a long-term retirement healthcare savings account rather than as a medical spending account.

Employers can apply learnings from education within qualified retirement plans and follow two principles to deliver meaningful improvements in HSA understanding.

- **Target education based on demographics and current behavior:** One-size-fits-all content was necessary before technology enabled a deep understanding of the consumer. With today’s technology, education and messaging can be personalized to ensure it is meaningful to the individual consumer. For example, individuals who only have an FSA (and no HSA) could be educated with messaging around the potential value of an HDHP/HSA combination. Individuals, who have a large HSA balance but are not investing, could be pushed messaging about the value and process to invest within the HSA.
- **Ensure education is actionable at the point of communication:** Education alone is valuable, but the goal is to change employee behavior. Education should be timed appropriately and delivered with a clear call-to-action. For example, educating employees about the value of an HDHP/HSA combination may only make sense around open enrollment, when employees can take action. Or, education on HSA contributions and investing could be triggered when an employee has maxed-out contributions to their retirement plan.

The need for HSA education is broad.

Educate employees on HSA tax benefits

Employees should understand that HSAs offer unique tax benefits in comparison to other retirement accounts. Money goes in, grows and comes out tax free as long as the funds are used on qualified medical expenses. In addition to avoiding income taxes, contributions to HSAs are not subject to FICA taxes. And, after age 65, the employee can use the funds for non-medical expenses (paying ordinary income taxes) without an additional penalty (prior to age 65, any employee withdrawals for non-medical expenses are subject to ordinary income taxes, plus a 10% early tax penalty).

HSA taxation compared to qualified retirement plans and IRAs

Savings vehicle	Taxation of contributions	Taxation upon withdrawal
HSA*	No income tax No FICA tax	Not taxed upon distribution, provided they are used for qualified medical expenses
Traditional (non-Roth) IRA and qualified retirement plans	No income tax FICA tax is imposed	Money is taxed upon distribution
Roth IRA and qualified retirement plans	Contributions are subject to income and FICA taxes	Money is not taxed upon distribution

*Certain states may apply a state tax on HSAs.

HSA accounts can be used as emergency savings

Nearly one out of four Americans has no emergency savings at all.¹⁰ Faced with a short-term, unexpected need, such as a trip to the hospital, many people turn to their retirement plan for a hardship withdrawal. In order to take a hardship withdrawal, the IRS maintains that the need must be "immediate and heavy." The IRS lists medical expenses as one of the top reasons an individual would need to take a hardship withdrawal.¹¹

Fortunately, the funds in an employee's HSA can double as an emergency savings account. All HSA withdrawals used to pay qualified medical expenses will be tax free. Although the funds in the HSA can also be used for non-medical expenses, the withdrawals will not have the same tax benefits.

Additional HSA education opportunities

Additional opportunities for education may include:

- Employees may not realize they can carry their balances over annually and use their HSA as a long-term saving and investing vehicle for healthcare expenses in retirement.
- Employees should understand the difference between FSA and HSA plans, such as the fact that HSA balances may be carried forward, while FSAs are subject to "use it or lose it" guidelines (if annual contributions are not spent by the deadline date).
- Employees need education on how they can invest their HSA contributions in diverse asset classes—rather than in a default money market account—with the goal of long-term growth.
- HSAs can be used to pay for Medicare premiums and may even be used to reimburse Medicare Part B premiums that are deducted from their Social Security. All of this can be done tax and penalty free.

The goal is to ensure employees understand the need for long-term savings as well as the tools and investment options available to them.

¹⁰ Bankrate's Financial Security Index, June 2018.

¹¹ IRS, Retirement Plans FAQ, 2019.

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Provide integrated planning tools

Employees should consider answering fundamental questions related to HSAs:

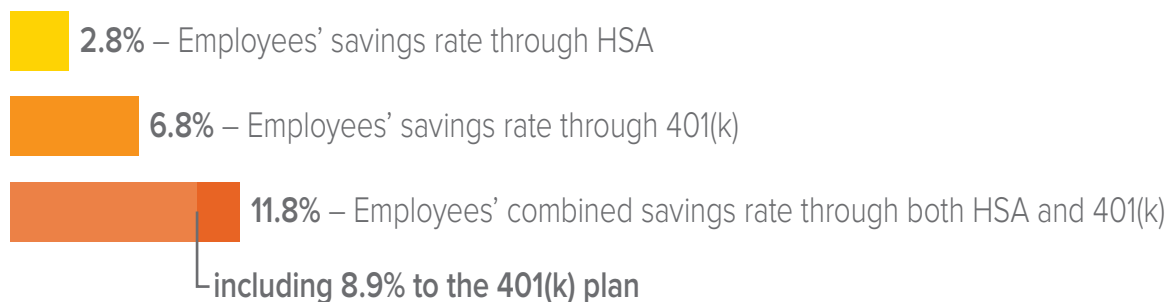
- Should I participate in an HDHP/HSA combination?
- How much should I contribute to my HSA?
And therefore, how much should I contribute to my other accounts?
- Should I invest within the HSA and, if so, how?
For example, how do I select investments and allocation?
- How should I spend money from my HSA?
For example, hold onto the savings indefinitely or spend immediately given tax status?

Each question is complicated, requiring a high level of analysis and a vast amount of data to answer. It is important that employers provide employees with the right tools to answer these questions. Many financial planning tools may not adequately contemplate HSA decisions, so it is important that employers understand the level of support current financial planning tools provide for HSAs. Standalone HSA tools can help but may provide an incomplete and potentially inaccurate picture for employees given limited inputs. Instead, employers can provide financial planning tools that can integrate the full suite of retirement accounts and the HSA, so the tool can show illustrations based on a full picture of employees' savings.



Myth-buster: Can employees afford to save for both retirement and retirement healthcare?

Most plan sponsors are surprised to learn retirement and HSA plans may have a complementary, symbiotic relationship. In fact, 88% of HSA accountholders maintained or increased their 401(k) contributions after enrolling in their HSA.¹² Simply put, workers who participate in both HSA and defined contribution plans tend to save more than workers who use just one vehicle.



Source: LIMRA 2019; Alight.

¹² CNBC, Health savings account contributions can boost your retirement, 2017.



Minimize disruption for employees

HSAs have historically been paired with major medical coverage and many of the largest HSA administrators are either owned by, or closely partnered with, health plans. Many employers select their administrator on the basis of their current medical carrier, which adds an element of reliability and convenience, but introduces downstream challenges as well.

Employers may go out to bid for a new health plan every three-to-five years. If the HSA is tied to the health plan, a change may force employees to switch accounts, receive new cards and understand a new fee structure.

When HSAs were viewed as primarily a “spending account,” administrator changes did not cause significant negative impact to employees. However, as employees use these accounts as savings vehicles, changes could be more challenging and limit overall engagement.

It may be important for employers to find a long-term provider for a consistent experience regardless of health plan.

Key takeaway

Employees are struggling to achieve a secure financial future, both during active employment and retirement. Healthcare costs are a primary cause of financial hardship, and HSAs are uniquely positioned to help. HSAs are underutilized and misunderstood, but employers can apply a set of foundational strategies to help improve employee outcomes. Many of these strategies are gleaned from decades of experience engaging employees in their qualified retirement plans and can be applied effectively to HSAs.

Employers should carefully evaluate their HSA offering to understand how and where to apply the strategies we've provided in this piece. The key is to evolve the understanding (both for you and your workforce) of how to optimize HSAs. Position them as a supplementary retirement savings vehicle, rather than as vehicle for medical expenses alone. With the proper design and the right approach to engaging your workforce, you will help your employees improve their holistic financial wellness and retire on time.

For more information, visit ForEmployers.Voya.com or contact your Voya representative.



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