



Making Health Savings Accounts Work

Interoperable with Health Plans, Providers and Patients.

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VP, Healthcare Strategy

Making more possible



LaSalle Bank
ABN AMRO

AGENDA

- Consumer Directed Healthcare
- Key Stakeholders
- Benefits to Employers and Employees
- Critical Success Factors

HSA 101

Employers state that healthcare is one of their top three business concerns

- **Rising employee health premiums**
 - Health insurance premiums have shown double digit increases over the last several years
 - Employers state this as one of their top concerns
 - Labor unions are striking over health costs
- **Challenge and cost in HR support required to answer employee questions**
- **Desire to “get out of the health business” and empower employees to choose**

Likely motivations for offering an HSA

	Percent of employers with:	
	500 or more employees	Fewer than 500 employees
To promote employee involvement and accountability in purchasing health care services	80%	64%
To reduce or control company spending on health care	74%	73%
To provide a savings vehicle for post-retirement medical coverage	48%	36%
To provide a more affordable medical plan option for employees	25%	31%
To provide some coverage to employees not currently eligible	5%	7%
As a tax shelter for highly compensated employees	5%	6%
As a way to contribute something toward employees' health care expenses*	—	1%
Other motivations	3%	5%

*In the event that the current plan is terminated.

Mercer, Survey on HSAs - Summary of Results

What Exactly is Consumer Directed Healthcare?

- CDH is a broad term given to healthcare offerings that employ economic principles to drive consumerism.
- The objectives of Consumer Directed Healthcare are to:
 - Make participants more aware of healthcare costs
 - Provide a more affordable option for businesses/individuals. Reduce uninsured population.
 - Enable Healthcare Consumers to have economic incentives to manage their own care. Consumer is at the center of the decision making process.
 - Control costs by stimulating real market competition.
- CDH plans provide a tax advantaged saving/spending vehicle from which medical expenses can be paid directly.
- FSA, HSA, HRAs along with High Deductible Health Plans comprise Consumer Directed Healthcare.

Health Savings Accounts (HSA) represent the next generation of CDH spending/saving accounts

Flexible Spending Accounts (FSAs) introduced 1979

- ❑ Owned and funded by the employee. Contributions are tax-free. Limited services such as vision and dental.
- ❑ No health plan required. Interest does not accrue. Unused funds rollover for a 2 ½ month grace period. Pre-tax wages directly deposited into an account. Health portion used for qualified medical expenses – IRS Section 213 (d)

Health Reimbursement Arrangements (HRAs) introduced 2002

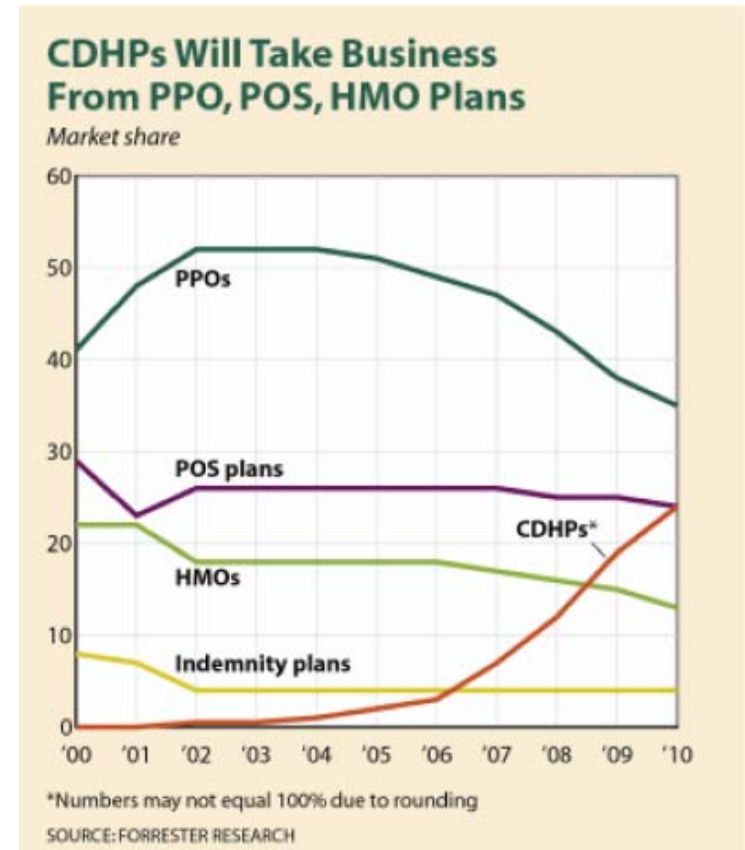
- ❑ Employer owned and notionally funded. Reimbursements by the employer are tax-free.
- ❑ No specific health plan required. Interest does not accrue. Unused funds can rollover. Employer reimburses employee when presented with valid receipt.
- ❑ Covers a broader range of services than FSA.

Health Savings Accounts (HSAs) introduced 2004

- ❑ Employee owned, funded by employee, employer or other. Contributions, growth and spending are triple tax free.
- ❑ ONLY HDHP QUALIFY! Interest accrues and can rollover. Used for medical expenses only, 10% penalty for non qualified expenses. \$1050 for individuals and \$2100.
- ❑ Tax deductible max contribution for 2006.
 - \$2700 for singles
 - \$5450 for families

HSA's are a growing portion of the \$1.8 trillion healthcare market in 2006

- In January 2006, there were 3.2 Million HSAs more then triple the count of 1 Million the previous year.
- New study forecasts that the average HSA balance will be over \$20,000 in 10 years. Today the average HSA balance is near \$1000.
- By 2010, it is estimated that 15 million people or 10% of the insurance market will have HSA's.
- 42% of HSA holders make less then \$50,000 a year. 50% are age 40 and older.
- Average Premiums increased 9.6% for all plans versus only 3.4% for CDH plans.



Source: AHIP, Diamond Cluster, United Benefit Advisors

Key Stakeholders

Value Proposition of Key Stakeholders

Financial Institutions/Banks

- Revenue opportunity in deposit growth, account fees, interchange and asset management
- Opportunity to get closer to customer

Payers

- Staying competitive against new market players
- Opportunity to grow HDHP business

Providers

- Can Compete on Price
- Opportunity to increase collections at the Point of Service

Employers

- Opportunity to cut healthcare costs and provide alternatives
- Opportunity to promote healthy lifestyles

Employees/Consumers

- Increased control over healthcare decisions
- Lowered premiums
- Tax advantaged accounts with investment options attractive to savers

Why Banks?

- The HSA legislative requirement of a custodian opened up the opportunity for financial institutions. Financial Institutions recognize this as an opportunity to grow deposits and to get closer to the customer
- By 2007 over 300 FIs will have an HSA Offering.
- Banks can leverage certain core competencies to be a Healthcare Manager:
 - Banks have superior customer service
 - Banks are seen as trusted advisors
 - Banks are experts in Debit Card and Payment processing
- A successful integration enables Insurance Carriers to focus on the HDHP and banks on the HSA.
- A successful Banking HSA offering must go beyond a basic savings account but should include:
 - Educational/Communication tools to enable employers and employees to make informed decisions
 - Wellness platforms to empower employees to manage their healthcare and healthcare spending
 - Easy to use payment and account management tools.
 - Robust investment options. Tiered interest rates/mutual funds/money market
 - Debit Card to streamline processing

Benefits to Employers and Employees

CDH Plans drive down employer costs on multiple fronts

Area	Reported savings / Examples
Reduced FICA	Employers' FICA costs are reduced by 7.65% for each employee dollar set aside ¹
Lowered Premiums from HDHP	A full replacement HDHP program has shown 30 – 40% savings in premiums.
Reduced employee sick days through increased employee usage of preventative care services and online consumer health tools	<p>Examples of drivers in reduced sick days include:</p> <ul style="list-style-type: none"> ▪ 30% increase in preventative care visits for CDH plan members vs. 14% for non-CDH members² ▪ CDH plan members access the health plan's consumer health information website 48% more often³ ▪ CDH plan members use decision-support tools that enable them to better understand and make decisions about their health care treatment options twice as often⁴

Studies show on average Employers pay \$3,284 per employee in a traditional plan (PPO,HMO,POS). A HDHP for the same employee would cost \$2,840.

Employee/Consumer Benefits

Tax Advantages of FSA, HRA and HSAs

HDHP offers lower monthly premiums. Attractive to younger healthier population or to savers.

HSA Tax advantages linked to investment vehicles enable medical nest egg. Fear loss of healthcare coverage in the future.

Many HDHP plans offer free preventative services prior to meeting deductible. Attractive to many employees.

Increased control over healthcare savings and spending.

HDHP enable greater freedom in selecting physicians than managed care plans.

% OF CONSUMERS EXTREMELY/VERY INTERESTED IN FEATURES OF HSAS

61% The ability to contribute money into the account tax-free

67% The ability to roll-over unused dollars from year to year

67% You can choose to go to any doctor

Visa, Health Savings Account Research Final Report, 9/05



Critical Success Factors

HSA Success Factors

Consumer



Keys to a successful HSA Solution

- ❑ Attractive HDHP/HSA Plan Design
- ❑ Fully Integrated Online Solution with personalized and customized information
- ❑ Complete Educational and Communication capabilities including forecasting tools
- ❑ Personalized Health and Wellness tools to enable decision making
- ❑ Seamless view and access to claims and payment information
- ❑ Attractive Investment Options with Online Decision Tools
- ❑ Consumer Friendly Payment Methods: Debit Card

Consumers will be at the center of the healthcare decision making process

Integration between Payers and Banks

Full Service Integrated Solution

Payer

- HDHP
- Risk Management
- Member base
- Eligibility
- Real Time Adjudication

Bank

Administrator

- Custodian
- DDA management
- Debit Card Processing
- Credit Line
- Investment management
- Deep Customer Relationships

Both

- Seamless Claims Adjudication
- Seamless Payment Processing
- Reimbursement Processing
- Wellness/PBM integration
- Educational tools
- Communication tools
- Marketing

Implementing a Successful HSA Program

Employers must drive Adoption to be Successful

EMPLOYER CONTRIBUTIONS

- A general rule is to not offer HSAs if you do not plan on contributing
- The more you contribute the higher adoption will be achieved. Do not provide complete contribution upfront rather pro-rate contributions via pay cycle. This minimizes losses from turnover.

EDUCATION

- Seek an administrator that provides easy to use online information and tools that enable employees to understand these benefits and calculate savings.
- Set up a dedicated staff or work with your broker to train and educate employees. Administrator should have a accessible customer service capability.

PLAN DESIGN

- Create an attractive HSA/HDHP offering with contributions, premium savings and preventative services.

EMPOWER EMPLOYEES TO MAKE HEALTHCARE DECISIONS

- Provide online tools and services that enable employees to research their medical needs and medical costs to encourage shopping. Ex: online shopping of generic pharmaceuticals.

ENCOURAGE HEALTHY BEHAVIOURS

- Preventative care is covered under HDHP. Provide incentives in the form of additional contributions if an employee completes an online Health Risk Assessment or gets preventative care.

Questions