Tools to Promote Health Savings Accounts

HSA education is a challenge for many employers; we provide some simple tools to help.

By Cynthia Overland, Karin Rettger, and Carol Sedlacko for PSCA's HSA Committee

In *PSCA's 2021 HSA* survey, employee education regarding HSAs continues to be the biggest challenge for plan sponsors. Employees are often confused about their health plan choices and do not understand the benefits of the HSA. In this article, we will provide some key talking points as well as a model tool you can use to demonstrate the benefits of the High Deductible Health Plan combined with an HSA compared to a traditional PPO option.

When providing materials to your employees, you may want to stress the following key talking points to educate them on the value of the HSA:

- Highlight that an HSA is a savings account option that offers the employee a "triple tax benefit":

1. The account is funded with pre-tax dollars. We suggest comparing the HSA with something the employee would be more familiar with — a 401(k) benefit, for example. Both plans offer a reduction in federal and state taxes* and additionally, if you are using Section 125, the HSA also offers FICA tax savings.
2. Investments within the account grow tax free. An HSA and a 401(k) both offer investment options, and both allow tax deferral of the growth of the investments.
3. Withdrawals from the HSA savings account are "free" from taxes when the withdrawals are used to pay for qualified healthcare expenses, this includes "Medicare Part B" premiums. Withdrawals from a 401(k) do not have this same advantage. And if the 401(k) was funded with a Roth contribution, it would not have offered any pre-tax benefit and so does not compare to the HSA from that perspective.

Exhibit 1: Difference in $1000 Invested in an HSA vs. a 401(k) Over Time

HSA or 401(k)?

Assumptions:

- *Reducing take-home pay $1000 per year for 35 years; ages 30 – 65*
- *Assumed 6% per year earnings*
- *Payout in 25 "equal" installments; ages 65 – 90*
- *Assumes no change in marginal tax rates throughout the period*

	Health Savings Account	401(k) Account
Deposit per Year*	$1,603	$1,429
Balance at Age 65	$183,989	$164,017
Annual Payout to Age 90	$14,396	$12,833
Annual After-Tax Value to Age 90	$14,396	$8,983
Difference in Value	**$60.3% More!**	

**Assumes a 25% federal, 5% state, 6.2% FICA, and 1.45% FICA-Med marginal rate*

Disclaimer: This calculation is hypothetical and can also depend on your state. NJ, CA and some other states treat HSAs differently. This is for educational purposes and should not be considered advice.

* Except in a few states where contributions and/or earnings are taxed; always consult a tax professional for questions about your state's taxes and how they affect HSAs.

Focus on HSAs as a long-term financial resource rather than a short-term spending tool. Many employees use their HSA more like an FSA and think that they should only fund for, and use their HSA, for current out-of-pocket expenses. Because HSA savings can be used as another source of retirement income at age 65 (in addition to continuing to pay for qualified healthcare expenses), an HSA is another avenue for retirement planning that an employee may not have considered.

- Help employees think about this by suggesting that they keep enough in cash to cover the deductible and then consider the option of investing the remainder in an investment mix consistent with the employee's risk tolerance.
- Communicate the investment options that are available within the HSA plan. In fact, if you can make your company's HSA investment options mirror your 401(k) plan's investment options (which is a growing trend), this can help simplify it for employees.
- Remind employees that the HSA does belong to them even if they leave the company.

Exhibit 1 shows how much a $1,000 yearly contribution to an HSA can dramatically increase the assets avail-able at retirement age. In this example, the HSA would have $183,989 to use without taxes to pay for unreimbursed health care expenses. If an employee used their 401(k) for these same

Exhibit 2: HDHP with HSA vs. Non-HDHP Comparison (2022 Benefits Year)

	Basic Plan				Value Plan			
Annual Deductible	**Single**	**Employee & Spouse**	**Employee & Child(ren)**	**Family**	**Single**	**Employee & Spouse**	**Employee & Child(ren)**	**Family**
Annual Premium	$1,452.00	$3,504.00	$3,192.00	$5,328.00	$876.00	$1,764.00	$1,656.00	$2,808.00
Annual Deductible	$1,000.00	$3,000.00	$3,000.00	$3,000.00	$2,800.00	$5,600.00	$5,600.00	$5,600.00
HSA Contribution	–	–	–	–	$600.00	$1,200.00	$1,200.00	$1,200.00
Deductible Claims	–	–	–	–	–	–	–	–
Net Cost Premium + Claims Minus HSA $$	**$1,452.00**	**$3,504.00**	**$3,192.00**	**$5,328.00**	**$276.00**	**$564.00**	**$456.00**	**$1,608.00**

expenses; they would be subject to tax on the withdrawal from the 401(k). This is what makes an HSA so powerful.

To maximize the tax benefits, encourage employees to contribute to the annual maximum IRS limits if they are able to, thus creating an extra "safety net" for health care expenses both in the short-term and after retirement. Even if an employee cannot contribute the maximum, contributing any amount is helpful.

- Be sure to communicate if the company offers an HSA contribution. The maximum IRS limit includes both the employee's and employer's contribution, and having an employer contribution may encourage employees to enroll in a HDHP versus a non-HDHP option.
- Give employees a tool to illustrate and compare what a typical — or not-so-typical — year may look like for them and their family if they choose to enroll in a HDHP or a non-HDHP plan option. Often, employees are only looking at what the cost per paycheck is going to be. Giving them a way to model what total costs for a full year might look like can be extremely helpful when employees are faced with making a decision.
- PSCA provides an Excel template comparison tool in its Plan Sponsor Tool(k)it which can be customized using a company's own plan premiums, deductibles, company HSA contribution (if any) and examples of out-of-pocket costs ranging from an individual/family that utilizes the plan very minimally up to an individual/family that reaches the out-of-pocket maximum in a plan year. (See Exhibit 2.) Offering such a tool to employees provides not only a fairly accurate estimate of expenses in a plan year but also empowers them to take an active role in the process of understanding their health coverage choices.

As you can see in Exhibit 2, for our hypothetical employer, the employee saves almost $1,200 a year by using the HDHP with HSA option. If they used that savings to add to their HSA savings, they would add more than $180,000 to their retirement savings.

While it may be clear to employers why an HSA is such a beneficial benefit, communicating those benefits to employees can be a challenge. To help with employee education, employers should use a variety of tools not only during annual open enrollment and onboarding new hires, but also throughout the year. Tools such as those described in this article — with simple charts explaining complex tax benefits, comparison modelling templates, and talking points stressing the importance of viewing the HSA as a long-term financial resource — can help employees embrace and adopt the HDHP and HSA.

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