FOR EMPLOYERS

First, why are companies moving to HDHPs?

According to the Kaiser Family Foundation's 2017 Employer Health Benefits Survey, PPO growth has slowed by 8 percent since 2012, while HDHPs have increased by 9 percent over the same period.

The reasons for this are varied, but most stem from cost. The average employer premium contribution to all plans for single coverage in 2017 was $5,477, compared to the HDHP employer contribution of $5,004 for the same group. The average employer portion to all plans for family coverage was $13,049 last year, compared to a $12,982 contribution for HDHP plans only.

What kind of out-of-pocket reimbursement accounts are out there?

Health Reimbursement Accounts (HRAs) are set up and funded by employers to help employees pay for eligible medical expenses. The employer owns the account, and it can be used in conjunction with a flexible spending account (FSA). HRAs can also be paired with an HSA, but there are certain limitations. There is no contribution limit, but the employer can limit the amount carried over to the next year.

Health Savings Accounts (HSAs) are employee-owned accounts, similar to 401(k)s. These accounts must be linked to an HDHP and may be funded by employers and employees (pre-tax). The contribution limits for 2018 are $3,450 for single accounts and $6,850 for families. Also, those aged 55 years and older are allowed to make $1,000 catch-up contributions annually. The money stays in the account until it is used, tax-free, for medical expenses. There are penalties if the money is withdrawn for non-medical expenses. The account is portable, meaning owners can take it with them when they leave a job. It can also be used to pay for healthcare in retirement. The money is deposited tax-free, it can grow tax-free, and it can be withdrawn tax-free for medical expenses. It can also be used with a limited-purpose Flexible Spending Account (FSA) or a limited-purpose HSA.

Flexible Spending Accounts (FSAs) are set up by employers and may be funded by employees (pre-tax) and employers. The contribution limit for 2018 is $2,650. It's known as the "use it or lose it account," but employers can allow up to $500 (set by IRS limits) to be carried over to the following year. It can be paired with HRA as well as an HSA, but there are certain limitations.

Are companies required to contribute to an HSA?

The short answer is no—but some do. The 2017 Year-End HSA Research Report by consulting firm Devenir Group showed that 21 percent of employers made HSA contributions for the year; the average employer amount was $621.

What kind of administrative work is required with an HSA?

For employers, there isn't a lot of work involved because an HSA is run by a custodian or trustee and is a separate bank account. Employers must set up payroll deferrals and do comparability testing – similar to 401(k) discrimination testing— to make sure company contributions are fair to all workers, and there is a federal penalty for non-compliance. Employers also need to report employee deferrals to HSA accounts as well as employer contributions.

Can employers deduct the HSA contribution as a business expense? And are there any fiduciary responsibilities in offering an HSA?

Yes, contributions can be deducted as a business expense. And in general, the custodian or trustee of the HSA—who is in charge of administering the plan—assumes the fiduciary obligations.

Will an HSA help employees become better healthcare consumers?

That depends on a few factors. There have been studies showing that HSAs can positively change employee behavior. When coupled with a 401(k), workers wind up saving more than those who use one or the other, a 2018 HSA and 401(k) Contribution Analysis by Alight Solutions found.

Another study by the Employee Benefit Research Institute showed that employees with HSAs tend to avoid going to the doctor or refilling prescriptions more than those in other health plans. In this scenario, short-term savings may have an impact on long-term health issues and costs.