Helping Participants Make the Most of Their Paycheck

Technology on the horizon will help address one of the biggest barriers to HSA use — employee education.

By Shelby George and Cherie Moser for PSCA's HSA Committee

The relentless "save more" message from the retirement industry is quickly becoming dated. Participants are more aware than ever that there are competing interests for their next dollar and retirement savings may not be at the top of their priority list. Meanwhile, many employers do not have the budget to provide participants with robust financial wellness programs that assist with basic financial education and cash flow tools.

The solution for many employers is a focus on communicating the value of their benefits programs — particularly those benefits that are underutilized by the employees who need them most. Short of W-2 wages, employee benefits are one of the best and most often overlooked tools for helping employees' paychecks stretch further. The most powerful benefits provide financial security by offering convenient payroll deductions with tax savings and compound interest. Perhaps the best example of this trifecta is the Health Savings Account (HSA).

When it comes to medical expenses, it's not a matter of if, but a matter of when. Everyone will incur some sort of medical expense at some point and chances are, the expense will be higher than expected. According to the Peterson-Kaiser Health System Tracker, employees spent an average of $4,706 on premiums and $3,020 on cost-sharing, for a combined cost of $7,726 in 2018. Medical costs have increased 18 percent since 2013 while workers' wages have increased 12 percent over the same period. At costs like that, it's not surprising that 66.5 percent of all bankruptcies were tied to medical issues — either because of high costs for care or time out of work. Research published in the American Journal of Public Health found an estimated 530,000 families turn to bankruptcy each year because of medical issues and bills.

HSAs can provide a valuable buffer. In addition, they are the only employee benefit with 4 tax benefits — money goes in tax free, contributions are exempt from FICA tax, interest earned on investments is tax free, and distributions are tax free when used to pay for qualified medical expenses. HSAs are one of the most flexible and tax preferred savings vehicles, a hidden gem for participants in almost any circumstances.

Let's look at a simple example: John who is age 29 will contribute the maximum to his HSA this year ($3,500 for 2019), and by doing so, he will realize **$745** in tax savings. If he continues to contribute each year, he will earn approximately **$27,720** in tax savings until retirement.

Consistent HSA contributions, with minimal health care expenses, allows John's HSA balance to grow to **$97,000** *and*, if he chose to invest a small portion of his HSA, he may watch the total balance grow to **$158,745** by retirement time.* This savings is in addition to other traditional retirement vehicles and can be thought of as "the 401(k) for health care expenses."

The Problem

Despite the unmatched benefits, HSAs are widely under-utilized. Although the total number of HSAs grew to 25 million at the end of 2018, up 13 percent from a year ago (Devinir)[1], only one-half of HSA account holders contributed to their account in 2017 (EBRI)[2]. The average employee contribution in 2018 was $1,872 (for those making contributions), far short of the regulatory contribution limit (Devinir)[1].

Lack of awareness is a key culprit. While financial advisors in the retirement savings industry are best positioned to discuss tax benefits and compound interest, HSAs have not been a natural fit for them. Participants are only eligible to contribute to an HSA if they participate in a qualified, so-called "high deductible" health plan. Guidance and education around health plans has traditionally been a different industry. A health care broker discusses health insurance, and the retirement advisor discusses retirement savings. Who discusses the Health Savings Account?

*For illustration purposes only using the PayFlex HSA Calculator. Assumes member retires at age 65, earns $50,000 per year, averages $800 in healthcare expenses, invests $500 and assumes an average ROR of 7%.

The Future

How do we get there from here? The 401(k) industry is innovating quickly to meet the demand. In the near term, three things will look different:

1. **Technology bridges the silos.** There is no shortage of participant data. Employers have demographic and census data; benefits consultants and health insurance carriers have expected medical expenditures. The retirement plan advisors and record keepers have participant 401(k) account information. Despite the seemingly endless data points, few decision-makers have access to the complete picture of participants' security across health and retirement until recently. Technological innovation continues to pave the way for securely sharing data. Vendors can increasingly provide more personalized, straightforward and consistent guidance, while still protecting participants' privacy. Seeing one's total financial well-being in one location is desirous and will help bridge the conversation between health and wealth.
2. **Plan level reports and advice looks different.** The Bureau of Labor Statistics reported in March 2019 that employee benefits accounted for 30 percent of total compensation for workers in the private industry. Insurance and retirement benefits together comprised more than half of the total cost of benefits. Legally-required benefits such as Social Security and Medicare comprised another quarter of the benefits costs. Employers are looking to make the most of this meaningful investment and providers are increasingly positioned to help. With more information sharing across benefit plans, health plan consultants and retirement advisors can provide more coordinated guidance to help employers optimize their contributions across benefits plans. Coordinated plan level reports can help employers evaluate their contribution in order to offer a competitive overall benefits package while optimizing FICA savings, and helping employees balance their long-term financial security with their near-term ability to withstand a financial shock.
3. **Personalized guidance replaces participant education.** Most agree that millions of dollars invested in participant education has not proven successful. Some say participants are "disengaged." Data shows though that people are more engaged with their paycheck and finances than ever before. According to a PwC 2019 report, when asked what they feel causes them the most stress, more employees cite financial matters than any other life stressors combined. One of the report's key findings: "Despite continued low unemployment and nominal wage growth, fewer employees feel their compensation is keeping up with the cost of living." That is a growing concern and responsibility of plan sponsors and their advisors. Fortunately, new technological innovations are helping participants take full advantage of their employee benefit plans. Providing participants guidance on paycheck allocation so that they can optimize tax benefits while balancing the trade-offs of benefits and take-home pay is one of the most effective ways to increasing employees' satisfaction and reducing their financial stress. Such guidance can move beyond the generalized "save more" message and be personalized based on participants' unique circumstances such as benefits eligibility, employer contributions, financial circumstances, risk tolerance, and risk capacity. Use of guided decision support tools at the time of benefits enrollment that shows what other people in similar circumstances do, perhaps using historical data to provide predicative modeling, will support participant engagement and understanding.

Conclusion

As we have described, technological advancements that use participant-specific data to provide personalized guidance is on the horizon and will increase the ease of participant education regarding HSAs and 401(k)s. While these advancements will deliver cost savings strategies and plan recommendations, it will take continual education, simulations, and creative engagement strategies to foster acceptance organizationally and industry wide. Education and other advances delivering relevant content to participants when they need it most is necessary to engage them — to help them see the value of their benefits, make the best decisions in care, and achieve the most financial reward for themselves. Technology is paving the way for more efficient and effective guidance for both sponsors and their participants.

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[1] Devinir Research, 2018 Year-End HSA Market Statistics & Trends Executive Summary, https://www.devenir.com/wp-content/uploads/2018-Year-End-Devenir-HSA-Research-Report-Executive-Summary.pdf

[2] EBRI Issue Brief, Health Savings Account Balances, Contributions, Distributions, and Other Vital Statistics, 2017: Statistics From the EBRI HSA Database, https://www.ebri.org/content/health-savings-account-balances-contributions-distributions-and-other-vital-statistics-2017-statistics-from-the-ebri-hsa-database