OPTUM®

Health and wealth: Helping employees make the connection

For some time now, employees have increasingly shouldered greater responsibility for managing their health, paying medical bills and saving for future health expenses in their retirement years.

But adjusting to this new reality hasn't been easy. Employees are still confused about:

- ✓ **What co-pays are they responsible for?**
- ✓ **Whether they've met their deductible?**
- ✓ **What is the best way to pay for out-of-pocket costs?**
- ✓ **How health savings accounts (HSAs) could help them save for future medical expenses?**

Nearly 20 percent of consumers with credit records — 42.9 million people — have unpaid medical debts. In large part, this is because they are confused by their medical bills, according to a government report.[1] And despite rising medical inflation, many employees — even those eligible for qualifying HSA plans — are not saving for today's or tomorrow's health care expenses.

As employees are encouraged to become more engaged in their health care, they need more information and guidance about how to balance current spending with long-term savings. Increasingly, they are looking to their employers for that help.

This white paper explores the impact of the growing connection between personal health and long-term financial security, and how employers can help employees balance health care spending and saving.

"There's a sea change underway. We are seeing a dramatic shift to greater consumer financial responsibility in the health care arena. But there's a huge gap in consumers' understanding of how to respond. Employers can play a big role in closing that gap."

– Deb Culhane, SVP, Financial Services at Optum

Retirement shortfall

According to one estimate, a couple, both age 65 who retire this year, can expect to spend an estimated $260,000 on health care throughout their retirement, up from $245,000 the previous year.[2] Average projections like these, of course, don't account for individual health status, family medical history and other factors that can greatly affect health care costs in retirement.

40% of workers age 50 or older are not saving for health care costs.[3]

Yet, almost four in ten workers age 50 or older are not saving for health care costs, according to AARP.[3] And surprisingly, 44 percent of this demographic don't have plans to do so in the future, because they need to meet current expenses or take care of others.

Consumer bewilderment is another barrier in planning for retirement health care costs. A recent Merrill Lynch study found that roughly half of pre-retirees say that information about how much money they need to cover health care costs in retirement—and how they can best prepare for these costs—is overwhelming and confusing.[4]

This lack of preparation for retirement, combined with unhealthy lifestyles and inefficient use of the health care system, underscores the challenge faced by employers. With employers increasingly viewing a healthy and productive workforce as a business necessity, the need to respond has taken on greater urgency.

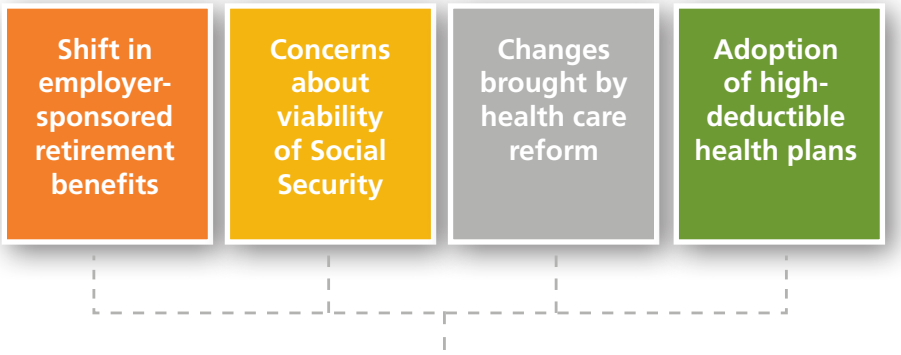
Health and wealth converge

It's no secret that the traditional retirement paradigm — spending your entire career at one company and retiring with a comfortable pension and health care benefits — is fading fast. Employees need to play a greater role in funding both their future health care needs and retirement savings.

The drivers behind this trend include:

- The shift in employer-sponsored retirement benefits from defined benefit to defined contribution plans
- Well-publicized concerns about the future viability of Social Security
- Changes brought by health care reform
- The adoption by more employers of high-deductible health plans to offset rising premiums

Retiree health care coverage is also declining. In 2015, among companies with 200 or more employees offering health benefits to active workers, 23 percent also offered retiree health benefits, down from 34 percent in 2006, according to the Kaiser Family Foundation.[5]



Conclusion

Employees need to play a greater role in funding both their future health care needs and retirement savings.

This new world order has left many consumers concerned, if not frazzled, about how they will make ends meet in their retirement years. Among workers of all ages, only 22 percent are very confident in their ability to pay for medical expenses and 16 percent are very confident in their ability to pay for long-term care expenses in retirement, according to the Employee Benefit Research Institute.[6]

Employers should help employees understand that their health is, to a large extent, connected to their wealth. They can do this by educating and encouraging employees to become more engaged in company wellness programs, get preventive medical care, and visit an urgent care center rather than a hospital emergency room as appropriate, and pay and save for qualified medical expenses with their HSAs. Becoming educated health care consumers may help employees maintain a healthy lifestyle today, while leveraging their HSAs to take care of future health needs in retirement.

Employers need to help employees understand how health and wealth are connected by educating and encouraging them to become more engaged in company wellness programs. And by encouraging them to:

- ✓ Get preventive medical care
- ✓ Visit an urgent care center rather than a hospital emergency room as appropriate
- ✓ Pay and save for qualified medical expenses with their HSAs

Financial wellness

Financial security is intimately linked to physical and mental health for many consumers. Employees often cite financial uncertainty as causing the most stress, even more than their job, health or relationships. Indeed, 60 percent of employees report being somewhat or very stressed about their financial situation, up from 50 percent in 2013.[7]

And stress, in turn, can play a part in a variety of conditions, including headaches, high blood pressure, heart problems, diabetes, asthma, anxiety and depression.[8] The high cost of health care is another source of concern — medical bills are the biggest cause of bankruptcies in the U.S.[9]

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The convergence of health and wealth is causing employers to think more broadly about the importance of total well-being — physical, behavioral and financial. According to a recent survey by Fidelity Investments and the National Business Group on Health, 87 percent of employers provide emotional or mental well-being programs and 76 percent offer financial health programs.[10]

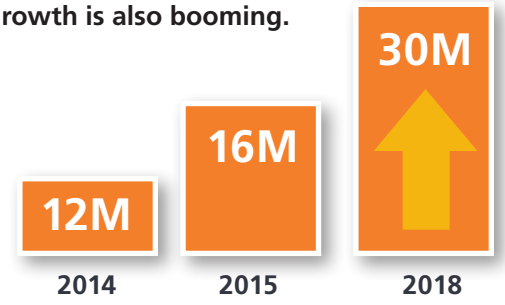
In coming years, we expect more employers to create an umbrella of services that recognize the link between health and wealth. One way to do this is to offer simple financial and budgeting tools to help employees determine how to pay and save for medical expenses, based on their current health and financial status, their expected retirement age, and their desired retirement lifestyle. Health/wealth calculators are an example. These tools can help employees find out how preventive health measures — such as lowering cholesterol and quitting smoking — may reduce their health care costs and improve their quality of life in retirement.

Growth of HSAs

To get employees more actively involved in their health care — and to help control costs — employers have increasingly embraced consumer-directed health plans (CDHPs). A common type of CDHP is a qualifying high-deductible health plan (HDHP) paired with an HSA.

Enrollment has nearly doubled in CDHPs among large employers over the past three years: from 15 percent to 28 percent of covered employees, according to a recent survey by Mercer. Adoption among small employers has been slower, however, rising from 17 percent to 19 percent during that period.[11]

HSA growth is also booming.



Over 50% projected HSA account holder increase in 3 years

As of year-end 2015, the number of HSAs increased 22 percent from the prior year to 16.7 million, according to a Devenir research report. Those accounts held over $30 billion in assets, an increase of 25 percent from 2014. Devenir projects that by 2018, there will be approximately 30 million HSAs with more than $50 billion in assets.[12]

Employers can help with HSA education

The explosion of HSAs is driving a strong need for more in-depth employee education on how to pay and save for health care expenses. Employers need to articulate why HSAs, when paired with a high-deductible plan, can put their employees on the road to financial security.

HSA as a retirement vehicle

Also lacking among employers and employees alike is an understanding of the HSA as a retirement vehicle. About eight in ten employers report that their employees view HSAs mainly as near-term spending accounts rather than as a way to build long-term health care savings.[14] By saving tax advantaged for current and future qualified health care expenses, an HSA balance can help pay for health care expenses in retirement.

It's clear that employees can benefit from guidance on how these accounts help them save and pay for qualified health care expenses, and that there is a gap between what employers provide and what employees need. Employees need Information that is relevant to them on the purpose and benefits of an HSA, focusing on how they can make the most of it to save for health care needs in the short term and in retirement.

Different than an FSA

One likely reason HSA use among employees isn't higher is their confusion over the difference between flexible spending accounts (FSAs) and HSAs. HSAs, unlike FSAs, do not have a "use it or lose it" rule. All amounts in an HSA are fully vested and unspent balances in accounts remain there until spent. Employees individually decide whether to spend their money on health care now or to build their savings for expenses later.

Use it or save it

HSAs are portable, too, meaning the money within the account stays with the employee even if the employee:

- Changes jobs
- Changes medical coverage
- Becomes unemployed
- Moves to another state
- Gets married or divorced

The funds can be used for qualified medical expenses regardless of the employer.

One size doesn't fit all

Some employers make the mistake of partnering with HSA vendors who use pre-packaged educational materials designed for the entire workforce. "A much more effective approach is to customize engagement campaigns by demographic segmentation of the workforce," notes Deb Culhane, senior vice president of Financial Services at Optum. "The key is to target messaging based on an employee's current stage in life and financial circumstances."

Education is key

Educating employees with navigating health care savings is an on-going effort year round. Despite the enthusiasm for HSAs, employees struggle to understand them. A survey found two-thirds (65 percent) of respondents simply do not comprehend how an HSA works. And only 30 percent of HSA participants passed a basic HSA proficiency quiz.[13]

For example, a 62-year-old woman planning to retire in a few years would benefit from advice on how to maximize retirement investments from both her 401(k) plan and HSA while minimizing taxes. Such messaging, on the other hand, would not be relevant to the newly employed 25-year-old who is saddled with student loan debt and struggling to pay his monthly rent. He would benefit, however, from understanding that he'll realize savings by using pre-tax dollars deposited into his HSA for the amount of this year's projected out-of-pocket health care expenses. And most HSAs provide a prepaid debit card for making easy payments.

A report by Aon Hewitt recommends that employers "personalize your communication and education to employees' behaviors, preferences, and financial wellness situations. And use an array of media channels, including high tech and high touch, to reach your diverse population."[15]

Delivering the right message at the right time can boost engagement with HSAs. An analysis of Optum's HSA book of business indicates that fully engaged account holders grew their balances, used preventive services more often and decreased their use of out-of-network providers.

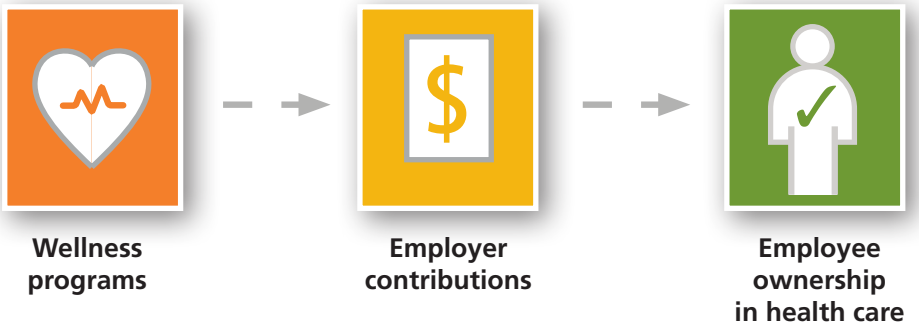
The most popular incentive to entice employee participation in wellness programs is employer contributions to employees' HSAs and other health accounts, according to Optum research. While this is encouraging, only 36 percent of employers offer such contributions as an incentive.[17]

Wellness is an important component

Thus far, our discussion has focused on the value of CDHPs and HSAs as a means of managing both current and future health care costs. But putting employees on the road to financial security also involves their participation in various wellness programs that are often wrapped around these plans.

An Optum research study found that employers with a CDHP are more likely to offer health and wellness programs than employers who offer traditional health plans: 9.3 different programs vs. 7.6. Some of the most widely offered programs include employee assistance programs, tobacco cessation, health assessments and wellness coaching. Employers with CDHP strategies reported a 27 percent increase in wellness budgets on average, compared to 18 percent of employers with traditional plans.[16]

Employers should consider investing more heavily in this incentive. Doing so drives health ownership because it makes a direct connection between employees' health and their health care costs.

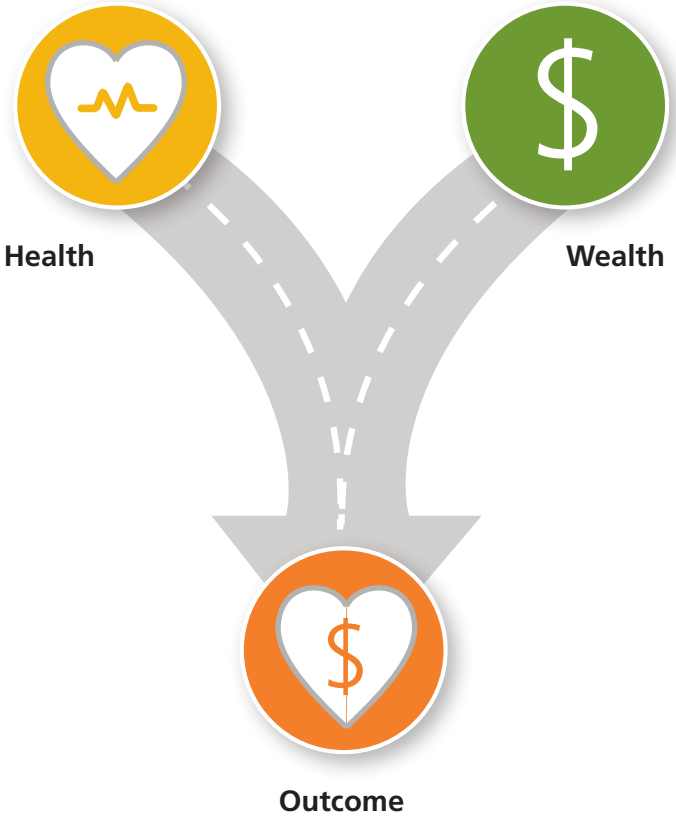


Conclusion

Health and long-term financial security are converging. If employers want to better control health care costs, they need to educate their employees to become better health care consumers and stewards of their retirement savings.

Employers should offer tools to help employees budget for health care expenses, and encourage them to use their HSAs for both current and future medical costs, engage in wellness programs and take advantage of preventive care offered under their plan.

The message to employees should be clear: "Your wellness has a significant impact on both your current health status and future retirement security."



Public-sector perspective

Historically, the public sector has generally provided generous health and pension benefits. But the landscape is changing. Budget constraints have pressured state and local government to trim workers' benefits in recent years.

Thus, public-sector employers, like their private counterparts, are challenged to create viable and affordable benefits package that help retain employees. Not surprisingly, just 18 percent of full-time public workers are very confident about their retirement security.[18]

Compared with the private sector, states have been slower in offering high-deductible health plans. Nineteen states offered at least one plan with an annual deductible of at least $1,500 in 2014, eight of which paired these plans with an HSA or other health account, according to a report by the Pew Charitable Trusts and the John D, and Catherine T. MacArthur Foundation. Among those states, a median of only 7 percent of state employees enrolled in these plans.[19]

With HSAs still in their infancy in the public sector, educating workers to take ownership of their health and manage their health care dollars both today and in retirement will be a significant challenge.

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