The Brave New World of Health Care

Helping employees transition to full ownership and a long-range view of their financial wellness

Executive Summary

With health care costs continuing to increase at two to three times the rate of inflation, offering traditional health insurance benefits is no longer an option for most companies. The future is unclear for company executives: Only 26 percent report that they are very confident that health insurance as an employee benefit will be offered in 10 years. This paper presents the most recent views from corporate leaders and CFOs about the health care crisis. It provides three key strategies for employers of every size to consider for helping employees take the reins to own their health care for immediate needs and long-term retirement. This is a road map to the brave new world of U.S. health care.

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The Future of Employee Health Care Benefits

Historically, corporate benefits packages have included tax-deferred savings plans for retirement, and health insurance plans that cover annual medical needs. This operating model has been successful for most employers for years: By offering integrated benefits packages that help employees achieve financial wellness, employers have been able to attract and retain talent, improving productivity and profitability.

With the ongoing escalation of health care costs, the increasing complexity of the medical and insurance systems, and the implementation and management of the Affordable Care Act, plan sponsors find themselves at a crossroads: How can they continue to provide sustainable health care benefits for employees when faced with ongoing uncertainty and costs rising at least twice as fast as inflation?

There is considerable discussion across the nation about whether to continue to offer health insurance as an employee benefit. In the Towers Watson report “2013 Employer Survey on Purchasing Value in Health Care,” only 26 percent of respondents were very confident that their organizations will offer health care benefits 10 years from now. These respondents were not random employers but “best performers” — companies that have already created strategies to lower overall costs of providing employees with health care benefits.

A survey of U.S. financial executives in Bank of America Merrill Lynch’s “2013 CFO Outlook” found that health care is “causing pain.”

- 72 percent of surveyed CFOs reported that rising health care costs are a significant concern. The only other economic factors that ranked close were the effectiveness of the U.S. government (57%) and the U.S. budget deficit (52%).
- Smaller companies report concern as well — 66 percent of CFOs are significantly concerned with health care costs.

CFOs are not health care management experts. But they spend enormous time and resources to understand new complexities and identify alternatives that will work for their companies and the employees who count on employer-provided health care coverage.
Reframing Health Care Benefits
At Bank of America Merrill Lynch, we believe the key to solving some of the health care benefits issues is to change the view about health insurance as an annual benefit and elevate it as a key component of long-term financial wellness. It should become as important as saving for retirement.

• **Strategic leveraging by employers.** Employers may need to think about new health insurance strategies that allow them to leverage longer contract arrangements with insurers, negotiate better pricing on a longer-term basis, and explore new options that are becoming available under the Affordable Care Act.

• **Active engagement by employees.** Employees need to fully embrace ownership of their plans and become fully engaged in their health care management and costs. (See page 7 for more information.)

In short, employees will need to transition from being passive receivers of health care to becoming active consumers. They may need to adapt to new types of health insurance arrangements, as traditional insurance benefits are replaced. Employees may need help during the transition to learn how to manage their new health care benefits and how to maximize the value of those benefits to effectively manage today’s needs while saving for health care costs during retirement.

Key Strategies Employers Can Take Today to Help Employees Own Their Health Care
It may take time and effort for employees to embrace the coming health care changes and learn to navigate a new model of health care benefits. Employers can play a fundamental role in guiding employees to become health care consumers — just as they did when retirement savings shifted from defined-benefit plans to defined-contribution plans.

1. **Provide More Information to Employees**

   • **Educate employees about their health care benefits.** One step is to provide more accessible and understandable information. Ask your health care suppliers about educational programs they can provide to your employees.

   • **Promote healthier lifestyles in the workplace.** Preventive steps will keep employees healthier and more productive. Healthier employees typically have lower expenses. Use incentives and rewards to encourage healthier behaviors.

   • **Help employees make educated choices about the health care benefits your plan offers.** If you offer a High Deductible Health Plan (HDHP), encourage more employees to enroll. They may see savings from lower premiums than were paid with a traditional insurance plan. Pairing a HDHP with a Health Savings Account (HSA) or Health Reimbursement Account (HRA) can be powerful. Help employees fully understand how those accounts work and the range of tax advantages they carry.
2. Provide Cost Transparency

- **Illustrate employer contributions.** Employees generally have little idea how much their total health insurance premiums amount to. Use both year-end benefits plan summaries and ongoing communications to clearly show employer contributions made on employees’ behalf. Remind employees about the value of the benefits they are receiving.

- **Show employer contributions to health insurance.** One way to do this is to include a section on employee paychecks. Employees only see deductions for their portion of health care premiums on their paycheck summaries. They do not have a comprehensive view of their total health care benefits.

- **Provide instructions for employees on how to evaluate medical billing.** It is difficult for employees to find out the cost of various medical services. Instructions on determining the procedure codes and diagnostic codes doctors use to drive the billing systems can help them become better consumers. Each code corresponds to a different cost, and the costs differ by doctor and by insurance company arrangement. Tools, such as castlighthealth.com, healthcarebluebook.com and changehealthcare.com, are available today.

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**Cost of Insurance Plans**

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Premium Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDHP</td>
<td>$14,129</td>
</tr>
<tr>
<td>HMO</td>
<td>$15,729</td>
</tr>
<tr>
<td>PPO</td>
<td>$16,356</td>
</tr>
</tbody>
</table>

HDHPs are less expensive to offer, help employees better manage their current health care spending and may allow for employer retirement health care savings as well. In 2012 the average HDHP cost $1,600 less than an HMO, and $2,227 less than a PPO.

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**72%**

Most employees are unaware that their employers are paying about 72% of the insurance premium for family coverage, and 82% for individual coverage, which amounts to thousands of dollars in “hidden” benefits each year.

**82%**


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Health Savings Accounts Can Help Employees and Employers

- **Help employees find strategies for both health care and retirement spending.** Employees and employers face two difficult financial situations when it comes to managing health care costs. The first is increasing costs. Employee insurance premiums have increased 29 percent over the past five years\(^3\), and more of the overall medical insurance cost increase is shifting to them. The second is saving for long-term retirement health care needs. Saving specifically for retirement health care over many years is an important strategy. Employers can help employees find appropriate strategies that address both situations.

- **Evaluate current and future medical expenses with HSAs.** These tax-advantaged accounts allow employees to make pretax contributions, withdraw the money for today’s medical expenses tax-free, and carry over any balance at the end of the year for future health care needs. Even when employees must tap HSAs to pay for current medical needs, any balance may be invested for potential growth.

- **Show employees the value of using HSAs as retirement health savings accounts.** Not every employee has large health care expenditures every year. Any amount that he or she does not use will automatically roll over and can be invested for retirement health needs in the future.

### HSAs: Usage and Rollovers

Employees use some or all of their HSA dollars to cover current year medical expenses.

<table>
<thead>
<tr>
<th>% of Employees</th>
<th>Amount of HSA Used</th>
<th>Remaining HSA dollars are rolled into the following year.</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>$500 or less</td>
<td>25% saved $2,000 or more</td>
</tr>
<tr>
<td>28%</td>
<td>$500 - $2,000</td>
<td></td>
</tr>
<tr>
<td>31%</td>
<td>more than $2,000</td>
<td>13% had $0 remaining</td>
</tr>
</tbody>
</table>

Source: AHIP July 2012 and EBRI data as of 2011
3. Create a Financial Wellness Action Plan for Long-Term Savings

- **Determine long-term financial goals and strategies.** In order to ensure long-term financial wellness, employees must save sufficiently for their retirement lifestyle and retirement health care. In order to do that, help your employees identify their long-term financial goals as early as possible and establish savings strategies to meet those goals. By identifying retirement health care as a separate long-term goal, employees can begin to save and invest for this key component of their futures.

- **Choose the best plans and provide the optimum investment allocation.** Offer a range of tax-advantaged accounts through your plan benefits to help your employees gain and maintain their overall financial wellness. Make online comparison tools available during open enrollment.

- **Help employees think both short-term and long-term about health care.** Account-based health plans — those offered with higher deductibles and employee HSAs or HRAs — cost less overall. In 2013, 66 percent of the 583 leading companies included in the Towers Watson health benefits survey^4 offered an account-based health plan; for 22 percent, it was their default option. These also allow employees to move from an annual view of health care to a longer-term view of health care.

Clearly there is a significant health care information gap to close — and helping employees make the transition to more consumer-centric health care management will take time and effort. Helping employees become educated and motivated about new alternatives for health care and achieving their personal financial wellness is part of the brave new world of health care.
Ownership Means Balancing Today’s Health Care Needs with Saving for Retirement Health Expenses

Going forward, each worker’s financial wellness depends on mastering new rules for health care — both for current-year needs and looking long-term toward retirement health care needs. Employees will still need to meet near-term day-to-day household expenses, manage long-term debt and save adequately for retirement and college, leveraging 401(k)s and IRAs.

In their new role as health care owners, employees will have to segregate and manage health care in new ways. The health care component of the financial wellness equation will be split into two sections: near-term expenses and longer-term retirement health care. To manage this new role, employees may find it helpful to:

• be informed and educated about their new role;
• navigate the complex health care and medical systems;
• make informed decisions about where and when to have medical procedures; and
• understand how costs and insurance work and how they can manage their budgets with the most tax-efficient health care products and accounts available through their employers.
For More Information

For more information about how we can help your company and employees navigate the brave new world of health care, contact your Bank of America Merrill Lynch representative or call 1.877.902.8730. Visit us online at benefitplans.baml.com or email us at benefitplans@baml.com.

Available Resources

To learn more about tax-advantaged account-based plans for health care available to employers, check out these Bank of America Merrill Lynch resources:

• Health Savings Accounts: Bright Spot in the Health Care Cost Challenge
• Paying for Healthcare Today and in Retirement: A Guide to HSAs
• Bank of America Merrill Lynch Online Education Center

To help employees understand their changing role as health care consumers, visit these sites:

• Education.ml.com
• Saveituseit.com

1 Towers Watson, “2013 Employer Survey on Purchasing Value in Health Care”
2 Sponsored by Bank of America Merrill Lynch. 250 interviews with financial executives from U.S. companies with annual revenues from $25 million to $2 billion. The survey was conducted 4/29/13–5/30/13.