



## SPECIAL REPORT: HOW HEALTH SAVINGS ACCOUNTS (HSAs) MEASURE UP

## HSAs & HRAs: EXECUTIVE SUMMARY



A health reimbursement arrangement (HRA) and a health savings account (HSA) have many things in common, but also several key differences that define their purpose and benefits.

In this spotlight report, we'll look at how HSAs and HRAs are being used among employers based on data reported in the 2016 UBA Health Plan Survey, which can be broken down by industry, by region, and by employer size.

“*Your benefit plan should be designed to attract, retain, and reward your employees. The only way to perform that task accurately is with proper plan benchmarking that not only includes plan design, but incorporates contributions strategy and HRA and HSA analysis as well.*”

— K. Brian McLaughlin,  
President / CEO of Granite  
Group Benefits, LLC,  
a UBA Partner Firm

So, which are faring better in the industry, HRAs or HSAs? The answer depends on where you are in the country, what industry you're in, and how many employees you have. As employers seek to find affordable health benefit options for their workforce, a continued drive to HRAs, or consumer-driven health plans (CDHPs) with HSAs, is expected. HRAs can sometimes be complicated to implement if they do not have a simple structure that employers and employees can understand, which in some cases has led to a flatter growth rate. HSAs on the other hand, are becoming more accepted among some groups, contributing to their increase in prevalence and enrollment.

Employer contributions to these plans also play a role in plan success. While employer generosity can certainly drive HRA enrollment surges (for example, among the transportation and real estate industries, in the South Central U.S., and among employers with 50 to 99 employees), the retail and health care industries as well as Mid-Atlantic and New England employers are showing that you can attract HRA enrollment with modest contributions. But very low employer contributions in regions like the Southeast, among education employers and among the largest employers, are slowly discouraging enrollment. Similarly, generous HSA contributions, like those found in New England, among small employers (25 to 49 employees), and within the education industry certainly play a role in their impressive enrollment successes.

North Central employers have achieved high enrollment with average contributions. On the other hand, the retail, hotel, and food industries, with their very low contributions, reap what they sow with very low enrollment. Very large employers have made surprising gains in attracting employees to HSA plans with below average contributions.

## HSA ENROLLMENT IS UP, DESPITE DECREASED CONTRIBUTIONS

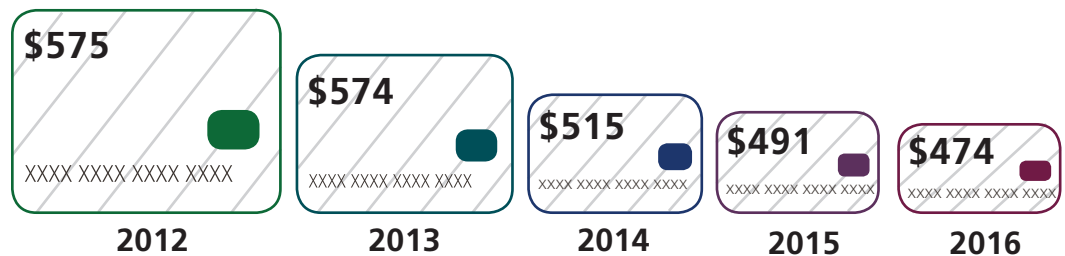


Survey results show that 35.1 percent of all plans offer an HSA or HRA, which is up from 34 percent in 2015, a 3.2 percent increase. An HSA is offered in 24.6 percent of plans, a 21.8 percent increase from five years ago. HSA enrollment is at 17 percent, a 25.9 percent increase from 2015, and nearly a 140 percent increase from five years ago. The average employer contribution to an HSA is \$474 for a single employee (down 3.5 percent from 2015 and 17.6 percent from five years ago) and \$801 for a family (down 9.2 percent from last year and 13.7 percent from five years ago).

“ HSAs are becoming more accepted, driving prevalence rates up. In the past, many employers offered an HSA-eligible high deductible health plan alongside a more traditional copay plan, intending to slowly make the traditional copay plan less attractive and eventually only offer an HSA-eligible plan. Since more than half of all employers only offer one health plan to employees, there is evidence that the HSA enrollment growth may in some cases be a function of reduced plan offerings. ”

— Mary F. Drueke-Collins, FSA, Vice President of Employee Benefits, Swartzbaugh-Farber & Associates, Inc., a UBA Partner Firm

### Average HSA Single Contribution



The prevalence of HRAs has remained flat over the last five years at 10.5 percent, with HRA enrollment at 10.7 percent, up 23 percent from five years ago. The average employer contribution for an HRA is \$1,810 for a single employee and \$3,545 for a family, up approximately 2 percent from 2015. HRA plans tend to have higher deductibles (\$2,500/\$5,000 single/family in-network) so employers tend to contribute more to the HRA than an HSA, especially since HRA contributions are not a guaranteed “spend” by the employer and are only paid out if there is a claim.



# HRA PLANS: DETAILED STATISTICS

## BY REGION

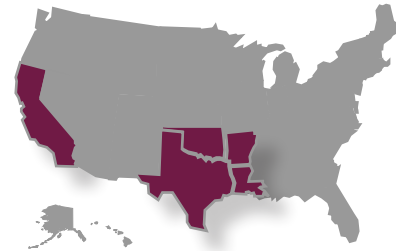
Single employees fared best in California, where average employer contributions to HRA plans are \$2,580, but it is important to note that very few California employers offer these plans and enrollment is among the lowest, despite the generous contributions. Single employees in the South Central region receive \$2,178 on average, a 30 percent increase in three years (which may have contributed to an enrollment surge as described below).

### **BEST HRA PLANS FOR SINGLES**

**Employers with 50 to 99 employees**

**Transportation and real estate industries**

**California and South Central**



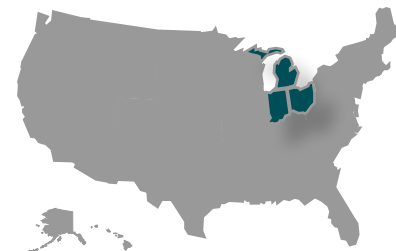
Average family contributions in the North Central region are the most generous at \$4,542, a 23 percent increase from last year. Despite the added employer support, the prevalence of, and enrollment in, these plans is average, indicating that the employer contribution doesn't always drive interest.

### **BEST HRA PLANS FOR FAMILIES**

**Employers with 10 to 99 employees**

**Transportation, real estate, and manufacturing industries**

**North Central**



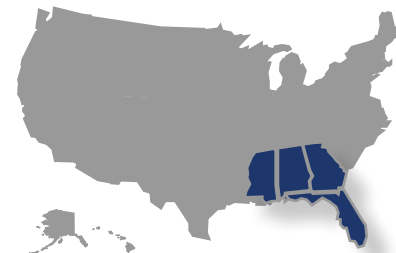
Employees in the Southeast region get the least support and receive the lowest average single (\$1,431) and family (\$2,461) contributions.

### **WORST HRA PLANS FOR SINGLES**

**Employers with 1,000+ employees**

**Educational services employers**

**Southeast**



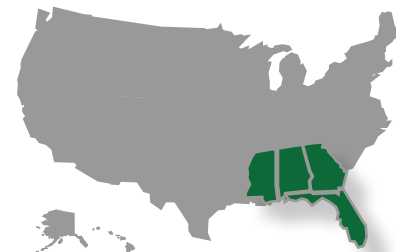
In addition to having the least generous employer contributions, the Southeast region also has the lowest enrollment at 3.3 percent.

### **WORST HRA PLANS FOR FAMILIES**

**Employers with 1,000+ employees**

**Educational services employers**

**Southeast**



New England, once again, has the highest HRA enrollment at 24.5 percent, up from 20 percent in 2015 (despite having below average employer contributions for singles and families). While most regions maintained their HRA enrollment levels (or saw slight increases) over the last three years, the Mid-Atlantic states saw a surge in enrollment after a period of decline, going from 9.2 percent in 2014 to 5.7 percent in 2015 to 17.9 percent in 2016. With their slightly-below-average employer contributions, this region also shows that employers need not break the bank to encourage enrollment.



Regionally, enrollment percentages generally mirror the prevalence rate of HRA plans. However, in the South Central region, where only 3.7 percent of plans have an HRA, an above average 12.3 percent are enrolled, indicating potential employee interest in this area of the country, especially when higher-than-average employer contributions are offered.

### WHY SOME COMPANIES OFFER AN HRA

The HRA component of a health plan is essentially self-funded by the employer, which gives the employer a lot of flexibility, and can be tailored to their specific needs or desired outcomes. The employer can choose to fund claims after the employee pays the first few hundred dollars of the deductible instead of the employer paying the claims that are initially subject to the high deductible. Or, an employer can have a step arrangement, where, for example, the employer pays the first \$500, the employee the second \$500, the employer pays the next \$500, and the employee pays the final \$500 of a \$2,000 deductible.

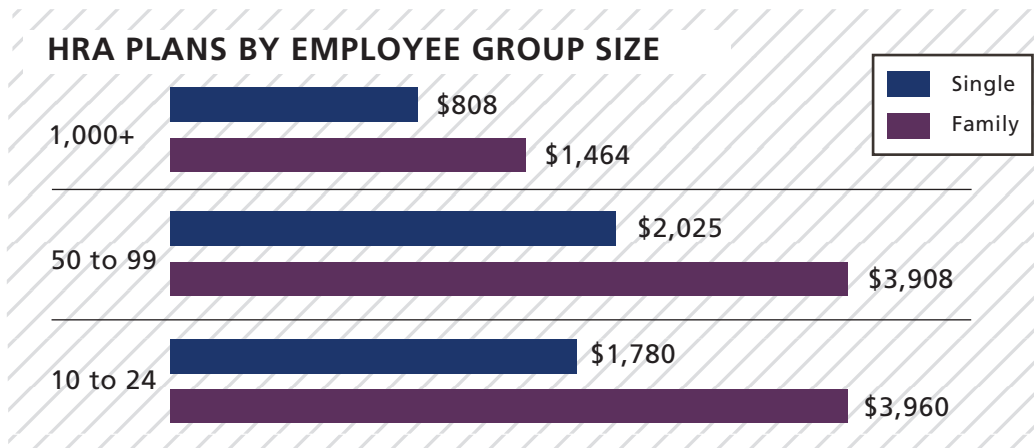
If an employer has a young population that is healthy, it may want to use the HRA to pay for emergency room visits and hospital in-patient stays, but not office visits so the employer can help protect its employees from having to pay those “large ticket items,” but not blow their budget. While an employer with a more seasoned staff, or diverse population, may want to include prescription drugs as a covered benefit under the HRA, as well as office visits, hospital in-patient stays, outpatient surgery, etc. Or, if an employer needs to look at cost-saving measures, it may want to exclude prescriptions from being eligible under the HRA.

Keep in mind, all of these services are essential health benefits and would be covered by the insurance carrier under the terms of the contract, but an employer can choose not to allow the HRA to be used to pay for such services, leaving the enrollee to pay his or her portion of the claims. In any case, the parameters of what is eligible for reimbursement from the HRA is decided and outlined at the beginning of the plan year and cannot be changed prior to the end of the plan year.

— Elizabeth Kay, Compliance & Retention Analyst at AEIS Advisors, a UBA Partner Firm

### BY EMPLOYER SIZE

Workers at companies with 1,000+ employees receive historically the lowest average HRA contributions: \$808 for singles and \$1,464 for families. Whereas employees at companies with 50 to 99 employees receive among the highest average contributions, at \$2,025 for singles and \$3,908 for families. Interestingly, small groups with 10 to 24 employees offer the highest average family contribution at \$3,960, indicating they are trying to appeal to this group. HRAs are not as popular with larger employers (1,000+ employees) because most of these employers are already self-funded. But for smaller groups that typically have fully-insured underlying medical plans, the HRA is a less risky and attractive way to self-fund some of the costs.





Employers with 50 to 99 employees see the most HRA enrollments at 16.1 percent, but enrollment has been declining among all small employers, with only larger employers seeing modest growth in HRA enrollment. Employers with 50 to 99 employees likely mitigated their enrollment declines with their 10 percent increase in employer contributions over the previous year.

**BY INDUSTRY**

The retail trade industry continues to dominate HRA plan enrollment with 20.3 percent, nearly an 80 percent increase from three years ago. Interestingly, employer contributions in that industry are about average (\$1,870 for singles and \$3,359 for families). Again, demonstrating that money doesn't always drive enrollment.

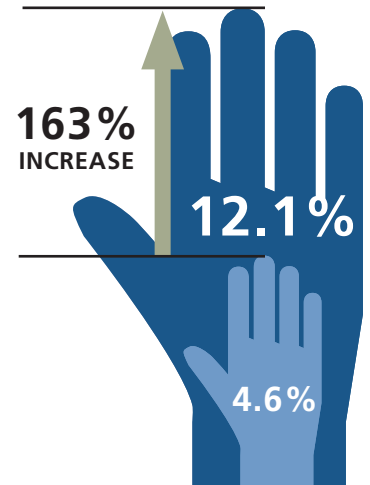
The health care/social assistance industry experienced a 163 percent increase in enrollment from 2015, going from 4.6 percent last year to 12.1 percent in 2016 (though contributions stayed largely the same).

The educational services industry has both the lowest HRA enrollment and the lowest employer contribution (\$1,305 for singles and \$2,654 for families). Again, indicating that very low contributions discourage enrollment.

The transportation industry offers the most generous employer contributions (\$2,427 for singles and \$4,601 for families), followed closely by the real estate industry (\$2,368 for singles and \$4,577 for families).

The manufacturing industry is in the top three for HRA enrollment, and raised the family contribution 16.4 percent, indicating employers are trying to appeal to this segment of the workforce.

**HEALTH CARE/SOCIAL ASSISTANCE INDUSTRY EXPERIENCED A LARGE INCREASE**

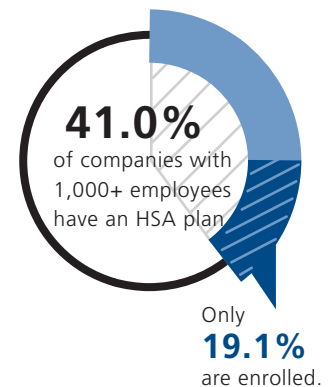


**HSA PLANS: DETAILED STATISTICS**



The average employer contribution to an HSA is \$474 for a single employee (down 3.5 percent from 2015 and 17.6 percent from five years ago) and \$801 for a family (down 9.2 percent from last year and 13.7 percent from five years ago). There was a 26 percent increase in the number of individuals enrolled in HSAs, likely due to the increase in CDHP enrollment (which often have HSAs tied to them). Since 2013, there has been a 97.7 percent increase in enrollment, showing significant employer and employee interest in these plans over time.

While, generally, HSA enrollment is higher than HRA enrollment, it is significantly lower than the plan prevalence rates. For example, 41 percent of large companies with 1,000+ employees have an HSA plan, but only 19.1 percent of employees are enrolled, even though these employers actually lead all others in their enrollment rates. This indicates that there is a significant opportunity to improve employee interest in these plans.



**BY REGION**



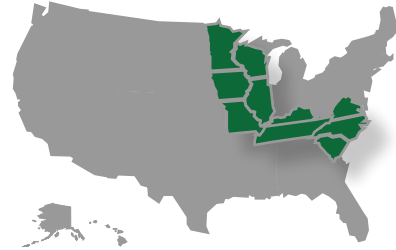
Singles fare the worst in the East Central and Midwestern U.S. regions with the lowest average employer contributions of \$334 and \$335, respectively.

**WORST HSA PLANS FOR SINGLES**

**Employers with 200 to 499 employees**

**Accommodation/food service, and retail employers**

**East Central and Midwestern U.S.**



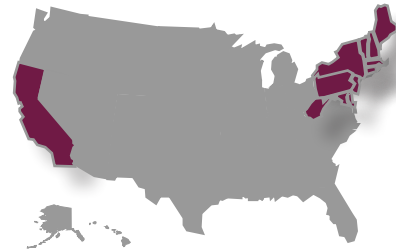
Singles in California received very generous contributions of \$906, on average, though that is down from \$981 in 2015. Though New England employers have the second most generous contributions for singles (\$610) and families (1,151), these employers have slashed their contributions more than 20 percent over the last three years.

**BEST HSA PLANS FOR SINGLES**

**Employers with 25 to 49 employees**

**Government and education employers**

**California and New England**



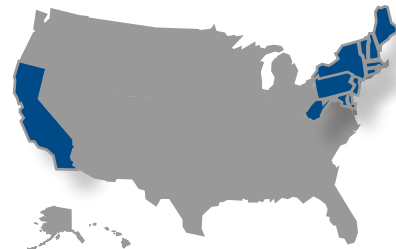
Families do the best in California, with average employer contributions of \$1,379 (though this is down from \$1,789 in 2015). Families in the Mid-Atlantic region saw the biggest increases from employers – going from \$757, on average, in 2015 to \$914 in 2016, a 20.7 percent increase.

**BEST HSA PLANS FOR FAMILIES**

**Employers with 25 to 49 employees**

**Government and education employers**

**California and New England**



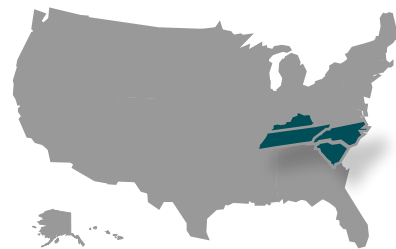
Families fare the worst in the East Central states, with an average family contribution of \$497, 46.7 percent below the national average employer contribution.

**WORST HSA PLANS FOR FAMILIES**

**Employers with 200 to 499 employees**

**Accommodation/food service, and retail employers**

**East Central U.S.**



The North Central states have the highest HSA enrollment (39.6 percent) followed by the New England region (18.7 percent). By contrast, the Mid-Atlantic states have the lowest HSA enrollment at 9.9 percent (which, actually, is a 110 percent increase from the previous year).

**EMPLOYER HSA CONTRIBUTION AMOUNTS**

Contributions from all sources cannot exceed certain annual limits prescribed by the IRS. Although employer contributions cannot exceed the applicable limits, employers are only responsible for determining the following with respect to an employee’s eligibility and maximum annual contribution limit on HSA contributions:

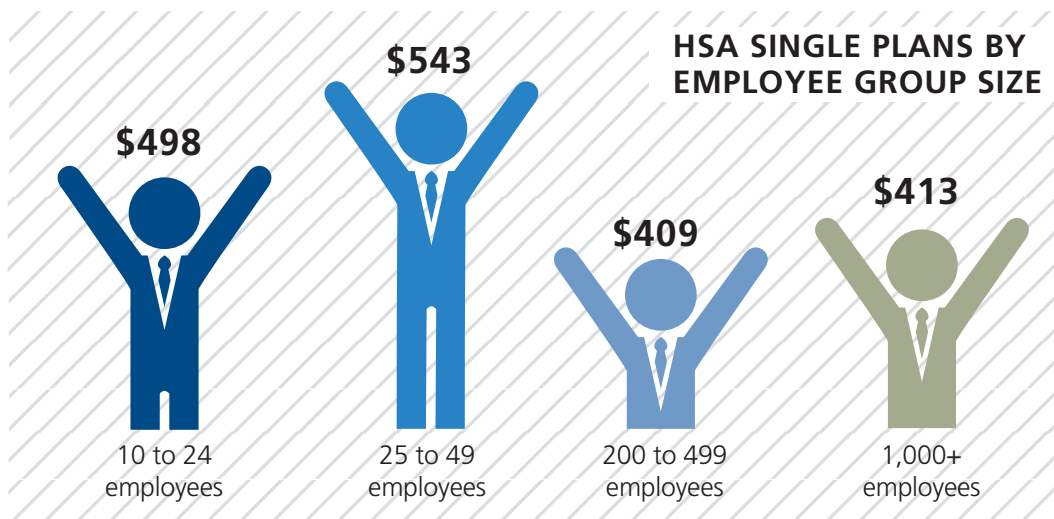
- Whether the employee is covered under a high-deductible health plan (HDHP), or low-deductible health plan (LDHP), or plans—including health flexible spending accounts (FSAs) and HRAs—sponsored by that employer, and
- The employee’s age for catch-up contributions; the employer may rely on the employee’s representation as to his or her date of birth.

When employers contribute to the HSAs of their employees and retirees, the amount of the contribution is excludable from the eligible individual’s income and is deductible by the employer provided the employer does not exceed the applicable limit. Withholding for income tax, FICA, FUTA, or RRTA taxes is not required if, at the time of the contribution, the employer reasonably believes that contribution will be excludable from the employee’s income.

— Vicki Randall, Compliance Specialist at *Compliancedashboard*, a UBA Certified Solution

**BY EMPLOYER SIZE**

Singles at companies with 200 to 499 employees receive the lowest HSA contributions (\$409). Singles at some of the smallest companies (25 to 49 employees) receive the most generous contributions (\$543), on average.



Like their single counterparts, families get more generous contributions from small employers. The average family HSA contribution in groups with 25 to 49 employees was \$908 (though, in general, small employer contributions have been declining over time).

Last year, some of the smallest companies (10 to 24 employees) had the highest HSA enrollment (16.3 percent). However, rapid enrollment increases among large employers in recent years now places the largest companies (1,000+ employees) as HSA enrollment leaders with 19.1 percent enrolled.



Initially, HSA plans were an attractive way for employers to reduce rising premium costs by offering a high-deductible plan while funding an HSA account that an employee could use to pay for qualified medical expenses. Employers could essentially self-fund most of the up-front costs to the employee for the medical plan, so in many cases employers were able to offer a richer medical plan by combining the medical plan with HSA contributions, while still saving money over their current traditional health plan costs. What the insurance carrier actuaries did not realize was the impact this funding of the health plan consumer costs was going to have on the utilization of the health plans by the plan members. These low premium health plans were essentially 'blown up' with heavy utilization, raising costs. As a result, we'll see employer contributions to HSA accounts continue to decline as employers try to mitigate these costs.

— Elizabeth Kay, Compliance & Retention Analyst at AEIS Advisors, a UBA Partner Firm

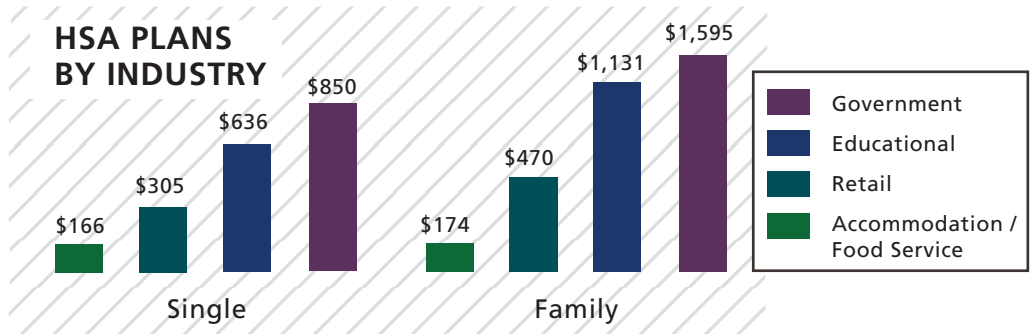
BY INDUSTRY

Across most industries, HSA contributions are, for the most part, down or unchanged from three years ago. Government and education employers are the only industries with average single contributions well above average and on the rise.

Government employees had the most generous contributions for singles at \$850, on average, up from \$834 in 2015. This industry also has the highest employer contributions for families, on average, at \$1,595 (though that is down from 1,636 in 2015). Educational employers are the next most generous, contributing \$636, on average, for singles and \$1,131 for families.

Singles in the accommodation/food services industries received virtually no support from employers, with average HSA contributions at \$166. The same is true for families with HSA plans in the accommodation/food services industries with average family contributions of \$174.

Retail employers also remain among the least generous contributors to single and family HSA plans, contributing \$305 and \$470, respectively. This may be why they have low enrollment in these plans.



The education services industry has seen a 109 percent increase in HSA enrollment since 2013 (aided by employers' generous contributions), catapulting the industry to the lead in HSA enrollment at 23.8 percent. The professional/scientific/tech and finance/insurance industries follow closely at 23.3 percent and 22.1 percent, respectively.

The mining/oil/gas industry sees the lowest enrollment at 3.8 percent. The retail, hotel, and food industries continue to have some of the lowest enrollment rates despite the prevalence of these plans, indicating that these industries, in particular, may want to increase employee education efforts about these plans and how they work.

## HRA'S VERSUS HSAs: WHAT'S THE DIFFERENCE?

	HEALTH SAVINGS ACCOUNTS (HSAs)	HEALTH REIMBURSEMENT ARRANGEMENTS (HRAs)
GENERAL ATTRIBUTES	<ul style="list-style-type: none"> <li>The employee owns the account and can take it when changing jobs.</li> <li>HSA contributions can be made by the employer or employee, subject to a maximum contribution established by the government.</li> <li>Triple tax advantage – funds go in tax-free, accounts grow tax-free, and withdrawals are tax-free as long as they are for qualified expenses (see IRS publication 502).</li> <li>Funds may accumulate for years and be used during retirement.</li> <li>HSA must be paired with an IRS Qualified High Deductible Health Plan (QHDHP); not just any plan with a deductible of \$1,300 or more will qualify.</li> </ul>	<ul style="list-style-type: none"> <li>Only an employer can contribute to an HRA; employees cannot contribute.</li> <li>The employer controls the cash until a claim is filed by the employee for reimbursement.</li> <li>HRA contributions are tax deductible to the employer and tax-free to the employee.</li> <li>To comply with the Patient Protection and Affordable Care Act (ACA), an HRA must be combined with a group medical insurance plan that meets ACA requirements.</li> </ul>
ADVANTAGES	<ul style="list-style-type: none"> <li>Costs are more predictable as they are not related to actual expenses, which can vary from year to year; contributions may also be spread out through the year to improve cash flow.</li> <li>Employees become better consumers since there is an incentive to not spend the money and let it accumulate. This can result in an immediate reduction in claims costs for a self-funded plan.</li> <li>HSAs can be set up with fewer administration costs; usually no administrator is needed, and no ERISA summary plan description (SPD) is needed.</li> <li>The employer is not held responsible by the IRS for ensuring that the employee is eligible and that the contribution maximums are not exceeded.</li> </ul>	<ul style="list-style-type: none"> <li>The employer has more control and flexibility in the design of the HRA and the health plan does not need to be HSA-qualified.</li> <li>The employer can set up the HRA as “use it or lose it” each year, thus reducing funding costs.</li> <li>An HRA is compatible with a flexible spending account (FSA) (not just a limited-purpose FSA).</li> <li>Depending on the employer group, HRAs can sometimes be less confusing for employees, particularly if the plan design is simple.</li> <li>Funds revert to the employer when an employee leaves, which might increase employee retention.</li> </ul>
DISADVANTAGES	<ul style="list-style-type: none"> <li>Employees cannot participate if also covered under a non-qualified health plan, which includes Tricare, Medicare, or even a spouse's flexible spending account (FSA).</li> <li>Employees accustomed to copays for office visits or prescriptions may be unhappy with the benefits of the QHDHP.</li> <li>IRS rules can be confusing; IRS penalties may apply if the employee is ineligible for a contribution or other mistakes are made, which might intimidate employees.</li> <li>Employees may forgo treatment to avoid spending their HSA balance, or if they have no HSA funds available.</li> </ul>	<ul style="list-style-type: none"> <li>Self-employed individuals cannot participate in HRA funding.</li> <li>There is little or no incentive for employees to control utilization since funds may not accumulate from year to year.</li> <li>More administration may be necessary – HRAs are subject to ERISA and COBRA laws.</li> <li>HRAs could raise HIPAA privacy concerns and create the need for policies and testing.</li> </ul>

The quick reference guide above was provided by Bob Bentley, Manager, Underwriting and Analytics at Albers & Company, Inc., a UBA Partner Firm.



Don't confuse HRAs with Qualified Small Employer Health Reimbursement Arrangements (QSE HRAs). For many years, employers had been permitted to reimburse premiums paid for individual coverage on a tax-favored basis, and many smaller employers adopted this type of an arrangement instead of sponsoring a group health plan. However, these 'employer payment plans' are often unable to meet all of the ACA requirements that took effect in 2014, and in a series of Notices and frequently asked questions (FAQs), the IRS made it clear that an employer may not either directly pay premiums for individual policies or reimburse employees for individual premiums on either an after-tax or pre-tax basis. The new 21st Century Cures Act now provides a method for certain small employers to reimburse individual health coverage premiums up to a dollar limit through QSE HRAs. QSE HRAs are not a qualified group health plan and have notice requirements, COBRA and ERISA implications, record keeping and reporting requirements—and may affect employees' eligibility for a subsidy. Outside of the exception for small employers using QSE HRAs for reimbursement of individual premiums, there is no method for an employer with 50 or more full-time employees to reimburse individual premiums, or for small employers with a group health plan to reimburse individual premiums. There is no mechanism for employers of any size to allow employees to use pre-tax dollars to purchase individual premiums. Reimbursing individual premiums in a non-compliant manner will subject an employer to a penalty of \$100 a day per individual they provide reimbursement to, with the potential for other penalties based on the mechanism of the non-compliant reimbursement.

— Danielle Capilla, UBA Chief Compliance Officer

**[For a closer look at the differences and similarities, request the UBA document HRAs, HSAs, and Health FSAs – What's the Difference?](#)**