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The Impact of Health Reform Legislation on Health Savings Accounts

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- The health care reform legislation making its way through the 111th Congress will, if enacted, likely have a modest impact on consumer-driven health plans and their associated health care accounts (i.e., FSAs, HRAs, and HSAs)
- Earlier proposals that would have eliminated some of the options (particularly FSAs and HRAs) did not survive the legislative process

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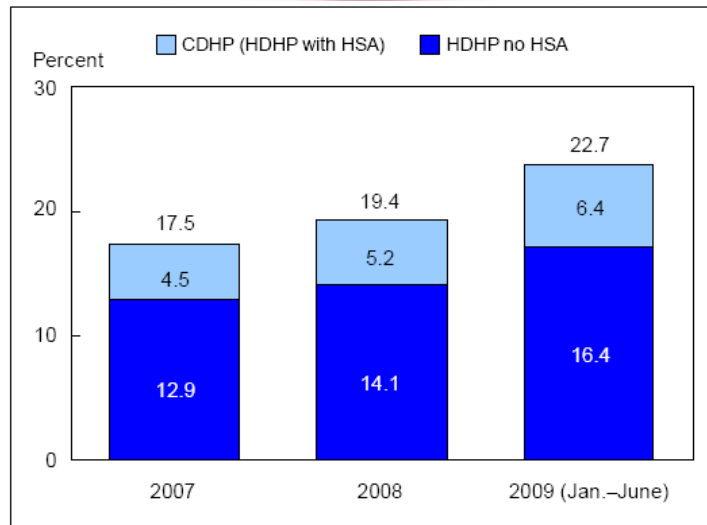
- Growth in CDHPs could be accelerated reform, primarily due to mandates and subsidies
 - If the government requires everyone to buy health insurance, what is the cheapest product on the market?
 - The entire small group market may be replaced by insurance exchanges which will essentially be a super-sized “individual choice” market combined with the current individual market and uninsured people
 - Once the employees (not the employer) are choosing their health insurance, most of them could gravitate to the cheapest plans
 - Income-based subsidies will be tied to the 2nd least costly plan type in the market area
 - People can only get the maximum subsidy if they choose this plan or the only cheaper plan

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- In the absence of reform, HSA growth likely to continue
- 22.7% of the under-65 population with private health insurance in 2009 was enrolled in “high deductible” health plans (up from 19.4% in 2008 and 17.5% in 2007)
 - 6.4% of the population has a Health Savings Account (up from 5.2% in 2008)
 - 49% of the individual market now has high deductible coverage (up from 39% in 2007)
 - 20% of the employer-based market is now enrolled in high deductible coverage (up from 15.6% in 2007)

Source: CDC National Health Interview Survey (NHIS)

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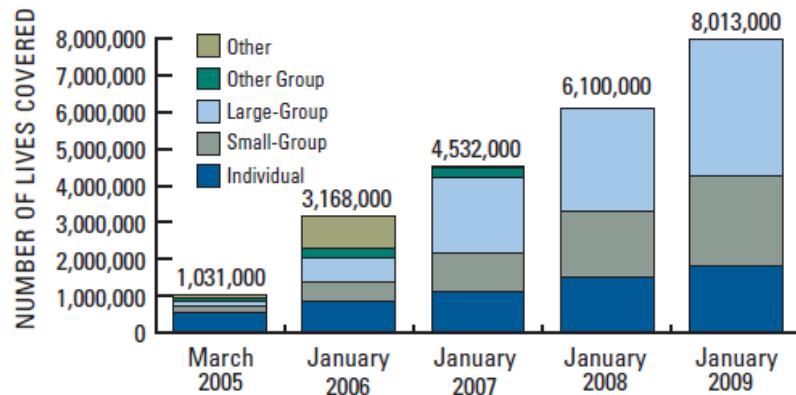
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Market Trends – Celent (2009)

- Celent, a research and advisory firm that publishes reports identifying trends and best practices in financial services technology, estimates that in 2010, 8.2 percent of all U.S. workers will be enrolled in HDHPs, a 33 percent increase over 2009

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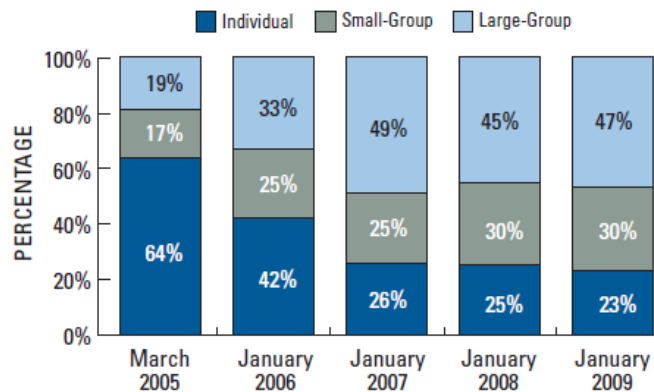
Growth of HSA/HDHP Enrollment from March 2005 to January 2009



Source: 2009 AHIP HSA/HDHP Census

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Percentage of Lives Covered by an HSA/HDHP, by Market Type



Sources: 2005-2009 AHIP HSA/HDHP Census Reports

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Market Trends - Aon Consulting/ISCEBS (2009)

- 44% of companies now offer CDHPs
 - 56% offer HSA plans only (48% in 2006)
 - 35% offer HRA plans only (43% in 2006)
 - 9% use both HSA and HRA plans
- 37% of companies plan to offer CDHPs in the near future
- 17% of companies have implemented a total replacement where the only plan choices offered to employees are CDHPs

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Market Trends - Watson Wyatt (2009)

- 51% of companies now offer workers a CDHP, up from 47% in 2008
 - Another 8% are expected to adopt a CDHP by 2010.
- The cost of coverage for CDHPs is considerably lower than for PPO/POS or HMO
 - Employee-only coverage for CDHPs is \$852 lower than for other plan types
 - For family coverage, CDHP rates are \$2,146 below the median PPO/POS plan rates and \$2,350 lower than the average HMO plan costs

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**Market Trends - United Benefit Advisors
(2009)**

- CDHP enrollment has surpassed HMO plans
 - 15.4% of employees are enrolled in CDHPs vs. 13.6% enrolled in HMOs
 - The Northeast region of the country had the largest concentration of CDHPs (23%), followed by the North Central region (20.1%)
 - CDHP's average cost again grew at a slower rate (6.3%) compared to the average cost increase for all plan types (7.3%)

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- Companies recently switching to “full replacement” HSAs include:
 - General Electric
 - BCBS of Florida
 - General Motors (non-union employees)

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Jump in CDHP Offerings Among Small Employers <i>percent of employers</i>						
	CDHPs* offered in:					"very likely" to offer in 2010
	2005	2006	2007	2008	2009	
Small employers (10-499 employees)	2%	5%	7%	9%	15%	18%
Large employers (500 or more employees)	5%	11%	14%	20%	20%	24%

* Based on a health savings account (HSA) or health reimbursement arrangement (HRA).
Source: Mercer's National Survey of Employer-Sponsored Health Plans.

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- Evidence of Continued HSA Growth
 - Despite the downturn in the economy, the number of health savings accounts and assets held in the plans continue to grow
 - From January 2008 to January 2009, there was an increase of 46.1% in the number of HSAs
 - HSA custodians and administrators reported that assets grew by 62.6%
 - Not a single custodian or administrator experienced a decrease in balances.

Source: "HSA Benchmarking Analysis: Market Trends and Economics 2009," Celent, July 2009

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- Evidence of continued HSA growth
 - Chase
 - HSA deposits in Chase grew 30% in the past year
 - 115,000 new HSA accounts
 - \$220 million in deposits
 - Totals at end of 2009
 - 500,000 HSA accounts
 - \$740 million in deposits
 - UMB
 - 21.6% increase in the number of HSA accounts in the 4Q09
 - 35.7% increase in deposits and assets

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- Evidence of continued HSA growth
 - HSABank (fourth-largest HSA custodian)
 - Deposits grew 26% last year
 - Now \$668 million in HSA deposits
 - # of accounts climbed 16% to more than 260,000
 - January '10 deposit growth has outpaced January '09 rising nearly \$60 million to \$727 million
 - the bank opened 40,000 new accounts this January

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- Current status of HSAs
 - 12 million Americans as of end of January (CDMR)
 - Over 1,000 financial institutions providing 5.7 million accounts
 - Just over 2 million people opened HSAs in the past 12 months

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- Expected Growth of Account-based plans
 - Enrollment in health plans that incorporate HSAs or other personal health accounts expected to increase to 45 million by the end of 2012 (up from 29 million at the end of 2008)
 - Last 3 years: compound annual growth rate = 71 percent
 - Premiums for account-based plans have been increasing only 3% per year compared to 8% for traditional plans

Source: Aite Group LLC (2010)

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- "Diffusion of Innovation" curve (5 Stages of Adoption)
 - Innovators (first 2.5 percent of the population)
 - Early adopters (13.5 percent)
 - Early majority (34 percent)
 - Late majority (34 percent)
 - Laggards (the last 16 percent)
- Where are HSAs on this curve?

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- HSAs on the "Innovation Curve"
 - **The innovators** -- Self-employed individuals and small employers that got medical savings accounts (MSAs) between 1996 and 2003
 - **Early adopters** -- Those who got HSAs between 2004 and 2009
 - Includes companies like Whole Foods and Humana which moved all their employees to account-based plans
 - **Early majority** -- We are now entering the time when large corporations, government, and unions will be leading the charge to HSAs

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