HealthEquity®

BUILD A WINNING HSA

New HealthEquity data suggests employer matching helps boost participation and reduce overall costs

Connecting Health and Wealth

One of the most powerful HSA design features is the employer match. Employer matching is almost universal in 401(k) programs because it incentivizes employee participation. Yet it's rarely seen in HSAs. HealthEquity data indicates that may be a significant oversight.

Leading organizations recognize the power of a Health Savings Account (HSA) paired with HSA-qualified health plans. They help lower overall costs while empowering employees to take control of their health and financial future.

But not all HSAs and qualified health plans deliver the same results. The HSA contribution strategy you choose can have a direct impact on important metrics like cost, contribution levels and personal wellness.

This resource will help you understand and compare HSA options.

In Part 1, we describe five common HSA contribution strategies, highlighting the extent to which they incentivize certain employee behaviors. In Part II, we put the employer match to the test. Using anonymized HealthEquity client data, we compare HSAs that use an employer match (29 organizations) to a control group that does not use a match (45 organizations).

Our data suggest the employer match could bring significant advantages compared to other options.

All data referenced in this paper is based exclusively on anonymized HealthEquity client data.

PART 1: FIVE COMMON HSA OPTIONS TO CONSIDER

Choosing the right HSA contribution strategy for your team can be difficult. You need to identify priorities, consider costs relative to a PPO plan (if you offer one) and be thoughtful about how the incentives line up.

Below, we outline five common HSA options:

- No employer contribution
- Seed only
- Match only
- Seed and match
- Seed, match and wellness

We also share how these HSA options incentivize or discourage certain employee behaviors, including:

- **Adoption –** whether employees choose the HSA
- **Contribution –** whether employees contribute funds into their HSA
- **Use –** whether employees access HSA funds to pay for qualified medical expenses
- **Wellness –** whether employees engage in healthy behaviors

Option 1: No employer contribution

EMPLOYEE INCENTIVES

- Adoption
- Contribution
- Use
- Wellness

Organizations particularly sensitive to budgetary or administrative concerns may choose to offer an HSA-qualified health plan without making contributions toward employee HSAs. This approach provides immediate cost savings for the organization.

There are significant downsides to this option, however. When your HSA doesn't include an employer contribution, employees are unlikely to adopt the HSA. They're far more likely to opt for a PPO, which may increase overall healthcare costs.

Even if you don't offer a PPO, employees may be less likely to contribute to and use HSAs when they don't receive an employer contribution.

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Option 2: Seed only

EMPLOYEE INCENTIVES

- ✔ Adoption*
- Contribution
- ✔ Use
- Wellness

*If HSA-qualified and PPO plans are cost-neutral

Most commonly, organizations choose to seed employee HSAs. With this option, you commit to contributing a set dollar amount to employee accounts.

Seed contributions can be made as:

- A lump-sum amount
- Smaller contributions spread throughout the year
- A combination of the two—an initial payment and continued installments each pay period

Seed options are a great way to incentivize HSA adoption since they provide real healthcare cost assistance to employees. Unfortunately, some organizations inadvertently subsidize their PPO plans by paying a comparatively greater percentage of PPO premiums. To alleviate this problem, it's prudent to ensure the HSA-qualified plan carries lower premiums than your traditional plan. .

Best practices suggest structuring contributions so that the PPO and the HSA-qualified health plan options are at least cost-neutral from the employer perspective. Minimally, that means the premium difference between the PPO plan and the HSA-qualified health plan is equal to the employer seed. So, if the employer portion of the traditional plan is $10,000 and the employer portion of the HSA-qualified health plan is $8,000, then the employer should contribute $2,000 to the HSA, so that the final cost will be $10,000 per year no matter which option employees select.

EXAMPLE ILLUSTRATION
Cost-neutral HSA design, comparing employer costs

PPO	HSA-qualified plan
$300 monthly premium	**$150** monthly premium **+ $150** monthly employer seed
$300 monthly total	**$300** monthly total

Building health equity

HSA

The advantage of a cost-neutral HSA benefit design is that if the employee doesn't make any claims, they keep their HSA seed money essentially as "equity." Premiums toward PPOs disappear in every case, no matter what. Employees never get them back. However, HSA-qualified health plans empower employees to build health savings. There's nothing else like it.

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Importantly, a cost-neutral contribution strategy could still make the PPO more appealing. That's because HSA-qualified health plans have higher deductibles than PPOs. HSA-qualified health plans are, by definition, high-deductible health plans. Unless a member really prioritizes health savings via an HSA, it's often rational to choose the plan with the lower deductible.

To equalize incentives, some organizations spend more money up front on HSA-qualified health plans (cost of premiums plus seed). In other words, contributing a larger seed helps compensate employees for the additional risk associated with a high-deductible health plan.

PPO		HSA-qualified plan
$300 monthly premium		**$150** monthly premium + **$250** monthly employer seed
	<	
$300 monthly total		**$400** monthly total

EXAMPLE ILLUSTRATION
HSA-qualified plan is more expensive up front, comparing employer costs

Don't forget annual HSA limits

When contributing to employee HSAs, remember that employer + employee contributions can't exceed the annual limits set by the IRS.

2021 contribution limits

- $3,600 for individuals
- $7,200 for families

Participants 55 and older are permitted to contribute an additional $1,000 annually.

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Option 3: Match only

EMPLOYEE INCENTIVES

- ✔ Adoption
- ✔ Contribution
- ✔ Use
- ■ Wellness

Another option is employer matching. Although matches are ubiquitous in 401(k) plans, we don't see them nearly as often in HSAs.

With an HSA match, you commit to contributing a certain portion of what employees contribute, up to a specific threshold. You can make these contributions as a percentage match or as a dollar-for-dollar match.

Under the percentage match model, you contribute a percentage of the amount your employees contribute (example: a 50 percent match of employee contributions up to a $500 maximum).

Under the dollar-for-dollar match model, you contribute at the same rate as your employee (example: $1 for every $1 of employee contributions, up to $500).

Model 1

X% TO $1

Model 2

$1 TO $1

Matches incentivize employee adoption and HSA contributions by putting additional money on the table. Employees don't want to lose out on "free money."

Option 4: Seed and match

EMPLOYEE INCENTIVES

- ✔ Adoption
- ✔ Contribution
- ✔ Use
- ■ Wellness

Some organizations choose to combine the seed and match options. With this model, you provide some seed money while also offering additional funds subject to a match.

Organizations that use this model most commonly offer an initial lump sum followed by additional funds each pay period to match employee contributions. This approach can offer the best of the seed and the match features, incentivizing employee adoption as well maximizing employee contributions. It's especially useful for organizations with a higher proportion of lower income employees since it guarantees at least some money in the HSA.

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Option 5: Seed, match and wellness

EMPLOYEE INCENTIVES

- ✔ Adoption
- ✔ Contribution
- ✔ Use
- ✔ Wellness

You can also integrate your company wellness program into your HSA benefit by offering contribution incentives. In addition to offering seed and match funds, you incentivize certain positive wellness activities by offering an additional contribution to employees who complete them.

Examples might include:

- $50 for hitting nightly sleep goals
- $150 for getting a complete physical
- $100 for staying active

You can customize the incentives to your employees for a unique experience.

Adding a wellness component to your HSA drives healthy behaviors, while helping employees manage healthcare costs. Combined with the seed and match features, this option provides a balanced approach to incentivizing positive benefits outcomes.

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PART II: HSA OUTCOMES – WHAT THE DATA SAYS

Your HSA contribution strategy can have a big impact on your cost, employee contribution rates and overall contribution levels.

Given comparative incentives across the different HSA contribution strategies, we should expect seed and match options to drive better results than options without an employer contribution. But how do matches and seeds compare with each other? Consistently, our data shows that HSAs with an employer match outperform plans without one.

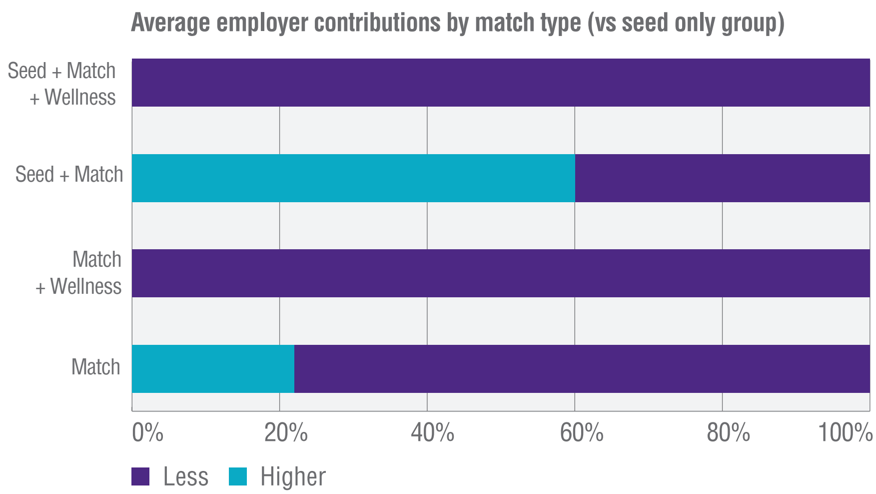
Employer match (vs seed only)

13% greater employer cost savings[1]

79% had lower employer contributions

Matches cut costs

Adding employer matching to your HSA is a budget-friendly choice. As the chart below illustrates, all match options in our sample (except seed + match) lead to cost savings.



Of course, short-term costs represent only one metric. If your goal is to maximize HSA use and adoption, it's important to evaluate priorities accordingly. Long-term cost savings are often correlated with widespread HSA adoption and use.

[1]Cost savings are estimates only. Actual results may vary.

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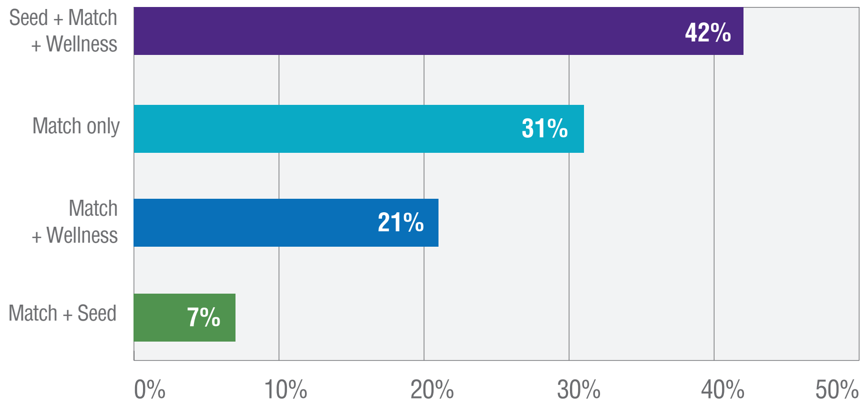
Matches boost employee participation

Your employees are more likely to contribute to their HSAs when you include a match. Some match structures drive more employee engagement than others, but any match encourages employees to start saving for future healthcare expenses.

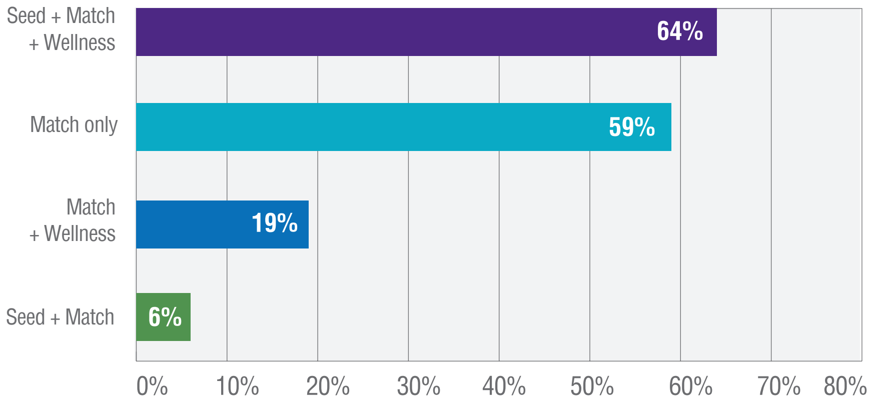
Increase in percentage of employees contributing by match type (vs seed only group)



Matches accelerate employee savings

Employer matching almost always leads to higher employee contributions. Seed + match + wellness and match-only plan options encourage the highest contribution amounts, leading to more savings and greater financial security.

Increase in employee contributions by match type (vs seed only group)



Employer match (vs seed only)

22% more employees contribute

90% see higher levels of employee participation

35% higher average employee contributions

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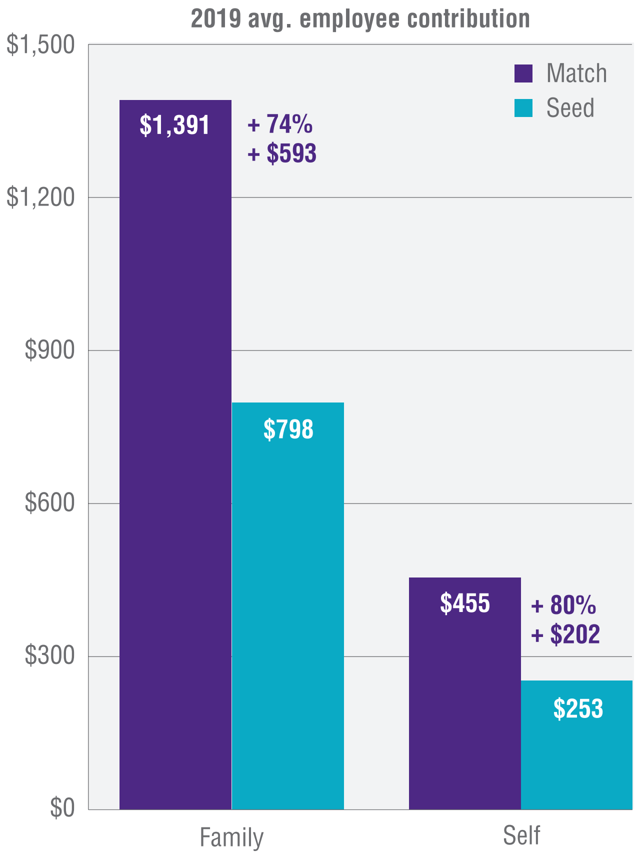
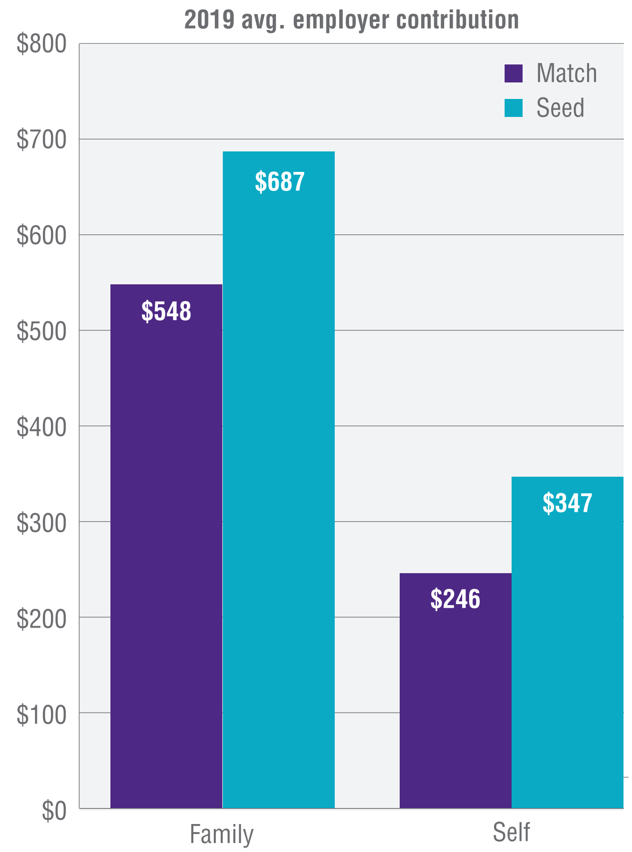
CASE STUDY

MATCHUP: SEED VS MATCH

We compared two similarly sized organizations in the hospitality industry—one implemented an employer match and one did not.

Both organizations offered $500 for single employees and $1,000 to employees with a family. The company with a match required employee contributions before funds were dispersed, while the seed-only organization dispersed funds regardless of employee activity.





As the charts above illustrate, the organization using a match contributed roughly 25 percent less than the organization using the seed-only option. In addition, employee contributions at the organization using the match were 80 percent higher among single employees and 74 percent higher among employees with a family.

Beyond the charts, our analysis also uncovered several additional advantages. Nearly 90 percent of employees at the organization using a match contributed funds to their HSA, compared to just 37 percent of employees at the seed-only organization. At the same time, total HSA account balances were on average 24 percent higher at the organization using a match.

All things equal, an employer match will likely yield significant advantages compared to a seed-only option.

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THE POWER OF MATCHING

Although not always right for every business, it's clear that the employer match is a powerful tool that helps incentivize HSA adoption and use. According to our data, matches drive greater employee participation, higher employee contributions and higher account balances—all while helping to lower overall employer costs.

As you consider HSA contribution strategies, make sure to conduct a cost-benefit analysis specifically for the employer match.

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HealthEquity

Let us help you design a winning HSA

Creating the right HSA involves complex decisions—each option is unique to the people it serves. Rely on our 20+ years of experience creating customized solutions for diverse business needs. We'll work with you step by step to identify the best HSA contribution strategy for your organization.

No matter how you structure your benefits, be confident that our engagement packages, wellbeing solutions and innovative technologies will help bring out the best in your people.

Ready to act? Talk to us

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ONE PARTNER. TOTAL SOLUTION.

Only HealthEquity delivers the integrated solutions you need to simplify benefits and truly impact people's lives.

HSA | FSA | HRA | Commuter | COBRA | Wellbeing

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