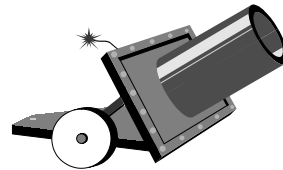


**Association
Teleconference
Seminar**

**The
“Revolutionary”
Potential of
Health
Savings
Accounts**



This slide show is an abridged version of one that will be used in a couple of weeks for a trade association teleconference. A new improved version is under development for yet another scheduled presentation. You can help me to make the second edition better by emailing to me your critique and questions about this one.

Thanks, Bruce Merrifield (bruce@merrifield.com)

AGENDA



- 1. Problem, solution introduction**
- 2. Facts about consumer driven health tools
(HSAs, HRAs, FSAs)**
- 3. HSAs snowball effects**
- 4. Tuning, selling & greasing HSA migration**
- 5. (Re)start the wellness program (culture)**
- 6. Conclusions**

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THE HEALTH COST/BENEFIT PROBLEM

- ▶ **US health costs up 12.5% per year since 1997**
 - ▶ **15% of GNP**
 - ▶ **\$1500/car in health costs at General Motors**
- ▶ **Average employer's health costs = 9% of payroll; \$5000+/employee**
- ▶ **Average employee's premium costs up 25% since 2003; wages after health costs & inflation are dropping**
- ▶ **Yet, middle-age degenerative diseases are increasing & there are no national, healthcare solutions in sight**

Assoc. teleconference 3

Our national healthcare costs and delivery system are both out of control. The politicians can only tinker at the edges, and the entrenched healthcare industry players are too big to want big change. Meanwhile, many of our largest corporations and our governments at all levels are going broke because they are locked into entitlement contracts with their employees and citizens. Because we spend less than 5% of all healthcare costs on prevention, obesity, diabetes, and all other middle-age diseases are hitting the baby-boom population (& our kids!). If the "healthcare system" can't transform itself, and the demographics guarantee continued exploding health care costs, what is the solution for your firm?

**OLD COUNTER-MEASURE
“SOLUTIONS” (1)**



- 1. Export jobs**
 - 2. Drop insurance coverage, especially at self-employed & very small businesses**
 - 3. Shop the plan annually (x) different options**
 - 4. Shift costs to employees**
 - 5. More corporate self-insurance**
 - 100 - 500 employees = optimum zone**
 - Assuming healthy workforce & culture**
- Assoc. teleconference 4**

1. Exporting jobs to China will only accelerate with the climb in total employment costs here in the US led by health insurance costs. A second big factor for exporting is the continued improvement of China's infrastructure and local supply chain capabilities - both of which continued to improve rapidly.

4. Shifting costs to employees by making them pay a bigger part of the premiums plus co-pays has not been the right incentive plan for getting employees to be more responsible about improving their health and shopping more carefully for the medical needs.

**OLD COUNTER-MEASURE
“SOLUTIONS” (2)**



- 6. Escalating preventative wellness programs**
 - Big company, formal program study**
 - Small company, simple, informal → formal opportunity**
 - Sticks & carrots to high-cost employees (fire smokers in some states)**

New measures:

- 7. Make all responsible for both wellness & shopping with HSAs**

- 8. Hire healthy workers to begin with**
Assoc. teleconference 5

6. Article 5.16 & its support notes hit this topic.

8. Legally, of course!

Section 2

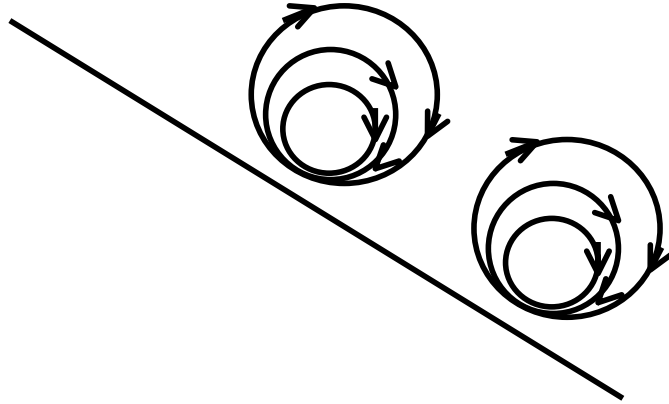
Facts About HSAs, etc.

This section is excerpted. For all the “Facts” go to The National Association of Health Underwriters website and specifically to this URL:

**www.nahu.org/government/issues/msas/hsas-hssa/
then the link to “Answers to HSA teleseminar questions.”**

Section 3

HSA Snowball Effects?



BIG PICTURE QUESTIONS



- 1. Patch a dysfunctional healthcare system?**
- 2. Can government “transform” any system?**
- 3. What’s an “ownership society” way to change healthcare with market-based stealth incentives from the “bottom-up” (small company) & “outside-in” (voters/consumers)? *HSAs!***

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The current health care system is dysfunctional for multiple reasons including:

third party payment taking away the consumer’s incentive to be well and shop carefully;

employer paid healthcare being tax-free;

all medicine for all people as an entitlement;

some procedures for some people need to be rationed in some way;

class action lawsuits direct and indirect costs; etc.

We can’t cure a huge, dysfunctional system with patches upon patches. Politicians can’t - in the face of the lobby power of the health care industry, unions and retired folks - make any core transformational changes, just tinkering at the edges.

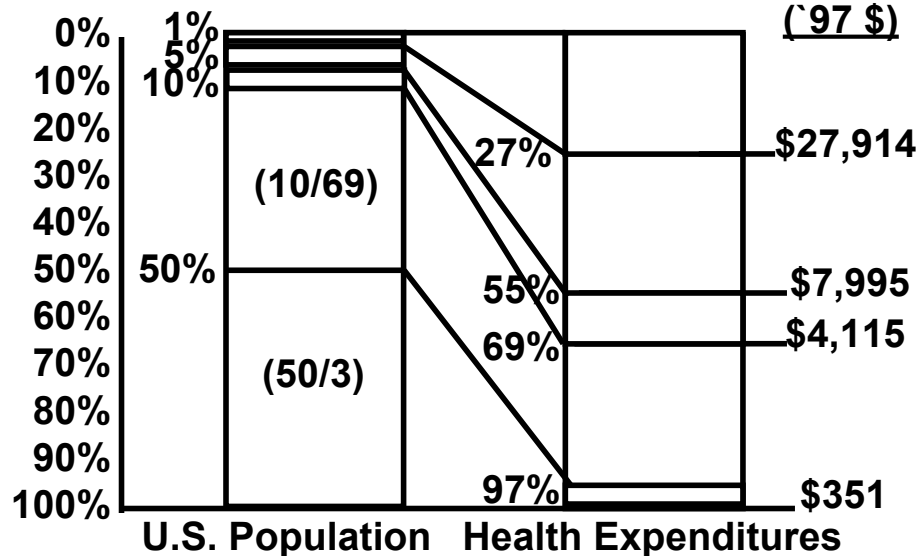
HSA MOMENTEM MILESTONES

- 1. Legally possible 12/03**
- 2. IRS clarification by summer `04**
- 3. Adoption rates since, greater than all forecasts, especially un-insured & small company**
- 4. Tax credits for contributions pending**

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The Bush administration is steadily pushing through a number of additional incentives and refinements to the health savings account movement. To stay on top of these developments you might check in periodically at www.hsainsider.com and www.hsafinder.com.

EXPLOIT CROSS-SUBSIDIES(?) **MCG**



Source: A.C. Monheit, Persistence in Health Expenditures”
 Medical Care 41, supplement 7 (2003) Assoc. teleconference¹⁰

This slide tells two stories: 10% of the population is costing 69% of the healthcare spend; while the bottom 50% of the lightest users use only 3%. We have all known this intuitively within our businesses while we continue to:

- 1) make the healthy workers cross-subsidize the unhealthy ones; and
- 2) don't think about the long-term total employment costs of hiring healthy workers instead of unhealthy ones in a legal, circumvention way. (For six hours of me talking in a taped all-day seminar on “Hiring, Training, Motivating & Keeping The Best Employees” check out our audiotape education kit for \$90 - a steal deal!. It is great drive time entertainment & a catalyst for rethinking all of your personnel systems.

MORE QUESTIONS



- 1. “50/3” employees + @ \$25,000 salary @ (+) \$4000+ insurance premiums; HSAs → \$1,000 - \$2000/year extra tax free savings.**
- 2. “10/69”? \$2000 deductible + \$1000 less income -- they will chose another employer.**

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Because service businesses are often heavily populated by lower-wage, hourly-type workers, the annual cost of health insurance as a percent of this groups' pay is quite high. Spending \$5000 in health insurance on a \$25,000 per year warehouse person is 20% of their total pay. If the company is currently paying \$4000 of the premiums and both the employee and the company could cut the premium costs in half with high-deductible HSAs, then the company could contribute up to \$2000 a year tax free into the employee's account. This would be a huge attraction for healthy employees to want to work for and stay with such a company and plan.

The 10/69 group of employees would not be any worse off with HSAs, if both the company and the person contributed all of their savings into the account to cover all expenses until the deductible was passed and insurance coverage kicked in. But, if the company put in only \$1500 of the \$2000 in premium savings per employee, then the 50/3 group would still be way ahead, but the 10/69 group would be out of pocket each year by \$500. Is that enough of a setback to keep unhealthy people from taking the job to begin with and to look instead for more generous, traditional insurance coverage with another employer?

MORE QUESTIONS



- 3. What happens to total insurance pool (“system”) if “50/3” self selects themselves to HSA companies?**
- 4. Productivity of a pure “50/3” set of employees?**
- 5. Do it or be done to?**

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3) If enough small businesses start to migrate to HSAs that are tuned to attract healthy 50/3 people and repel 10/69 people, then the remainder of the employers will be interviewing and inadvertently hiring more closet, big health-need employees.

4) All companies need to continuously improve and innovate/change. These necessities require all employees to be able to do the old tasks while also experimenting around with the new ones. Change takes extra mental and physical energy and stamina. A company of 50/3 people will have more bottom-up change energy than a 10/69 company in which everyone is taxed just trying to do the minimum requirements of their job

Section 4

Tuning, Selling & Greasing

A Switch to An HSA

Based Insurance

STEPS TO CRAFTING HSA-STRATEGY

- 1. Picking the right high-deductible plan***
- 2. Selecting an HSA custodian**
- 3. Do the math for company contributions & potential employee contributions**
- 4. Prepare education of how to use HSAs for what approp. expense**
- 5. Integrate HSAs with other medical & retirement accounts**

Then, sell it

* "The Small Business Guide to HSAs"
by Laing, pp. 53-73

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MARKETING THE HSA PLAN TO ALL

- 1. Status quo, annual drill? Or,
-- migrate to HDLP* - HSAs
-- offer HSAs as an extra option
& start a steady migration**
- 2. Need a full-blown marketing program with:
-- Director, budget, literature, F.A.B. selling
-- Employee by employee, segment by
segment plan**
- 3. Plus economic transition contributions
(the grease)**

*High Deductible, Low Premium

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1) HSAs are a big change for everyone: employees, health insurance companies, would-be HSA administrators and healthcare providers. Not everyone is going to understand and embrace this change quickly or in some cases ever. You need not only a total marketing plan for your employees, but expectations that you will migrate only certain percentages of your employee base each year. One client, for example, has 48 employees under a group plan. In January, they made an HSA Plan available, and 11 choose to go with it. 34 stayed with the traditional group plan with bigger premium and co-pay sharing, and 3 stayed with a \$1000 deductible PPO.

3) Depending upon how fast a company wants to migrate employees to HSAs, up-front inducements for all comers can be offered. More on this in slide #20.

KEY BENEFITS



- 1. It's extra money in their pocket (indirectly)***
- 2. It's an automatic money saver**
- 3. It's tax free (& investing too)**
- 4. It's portable**
- 5. It's accessible unlike an IRA**
- 6. No vesting or use-it-or-lose-it**
- 7. An inheritable asset**
- 8. A wider array of expenses can qualify**

***If they are a "50/3" person or can stay well
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SEGMENT & SELL HSAs DIFFERENTLY

<u>Demographic</u>	<u>Current Plan</u> HD/LP/HSA	Traditional Plan	Spouse's Plan
Single (50/3) no dependents	① Yes		
Single + dependents		② Not without HRA* help	
Married ± dependents	③ (-) Yes	④(+) not w/out HRA help	Yes, as savings ⑤ acc't

HRA = Health Reimbursement Account

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Corresponding to the circled numbers:

- 1) This group is easily identifiable and easily sold; it is found money for them and the company depending upon how much of the premium savings the company wants to contribute to the HSAs.
- 2) Working (blue-collar) American workers who are single parents operate more out of fear of the unknown and immediate gratification needs. It would be hard to sell these people on being regular contributors to a 401K plan with a generous company match because they spend all that they make and can't normally afford to pay up to \$1000+ of out of pocket medical bills. They will switch to HSAs only slowly with a lot of repetitive education and monetary inducements.
- 3) The high-income, sophisticated people in this segment will see HSAs as better than IRAs and will use them for long-term savings. The low-income ones in segment #4 will be much like segment #2. #5 -this group will continue to be covered by their spouse's plan, but may be tempted to go with the highest deductible, highest annual contribution as possible as a best new savings account solution.

CUSTOMIZE THE PITCH BY EMPLOYEE

- ▶ **Have each one score (then respond)**
 - ▶ **The benefits list**
 - ▶ **The perceived drawbacks (myths) list (e.g. sticker-shock & myth of co-pay)**

- ▶ **The 10/69 group**
 - ▶ **Wider array of expenses can be covered**
 - ▶ **You reach the deductible faster**

**(But, will they have, on average,
an out of pocket income loss?)**

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When employees have to first pay the full doctor visit bill of say \$180 instead of the \$15 dollar co-pay, they may panic. But, we must pre-educate them that the company was paying for the rest all along and that is what is now being contributed by the company into the HSAs. The most aggressive insurance carriers that are currently offering HSAs are actually including about \$700 of administration paperwork savings in their premium quotes. Because the consumer is paying the first group of bills up to the deductible total with a credit card directly to the doctor, the insurance company saves the back end paper costs on those transactions and passes that savings on.

The 10/69 group will actually do better with HSAs – as long as the company puts all premium savings into the HSAs – because they will have more personal choices on what and how to spend the money before the deductible is met and insurance pays thereafter as it always has.

CAN'T SELL ALL 1 - TO - 1?



- ▶ **Top down delegation doesn't work**
- ▶ **Opinion leader peers at dept. level must sell the emotional conviction from the "easy 2 tough"**
 - ▶ **Rule of 5 to 7 to "know it"**
 - ▶ **Rule of 1 to 10 to "sell it, teach it"**
- ▶ **Need for 5 - 10 minute video ed. modules?**
- ▶ **Esp. take-home, to-educate, family tools**
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The gist of this slide is that the company will have to come up with its own take-home educational material (perhaps a DVD based solution?) and key employees in every department will have to be able to teach the benefits with convictional enthusiasm that will speak more loudly than the intellectual message.

HOW MUCH GREASE (CO. CONTRIBUTIONS)?



- 1. Sufficient lump-sum HSA contribution.**
- 2. Cash bonus for those who set up HSA
(cont. to offer to all new employees?)**
- 3. Bounty to dept. managers for each signed
employee.**
- 4. What about co-insurance costs?**

***High Deductible, Low Premium**

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THE “HRA* THREE-STEP”



Assume employee has:

\$2500 deductible

\$5000 maximum out of pocket (OOP)

co-insurance cap

Then:

#1 Company puts \$500 into HSA

#2 Employee pays next \$2000 carefully

#3 Company HRA pays last \$2500

***HRA - health reimbursement account
(company self-insurance tool)**

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SECTION SUMMARY POINTS

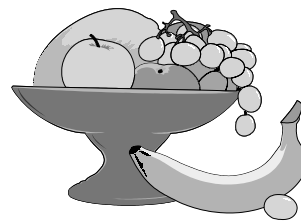
- 1. Must do the math to craft the plan**
- 2. Insurance provider materials won't do.**
- 3. Selling a new paradigm takes a plan.**
- 4. Transition investment needed to get to a self-responsible, wellness culture?**

(Re)Start Your Wellness Program!

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Section 5

(Re)Start Your Wellness Program



(Corporate Wellness Program = CWP)

To better understand this section of slides, please read article # 5.16 AND its support notes at www.merrifield.com. The article link is http://www.merrifield.com/articles/5_16.asp, and the notes link is http://www.merrifield.com/articles/5_16SupportNotes.asp.

HISTORY OF WELLNESS PROGRAMS

- ▶ **First wellness consulting - 1978(?)**
- ▶ **In/out of fashion**
- ▶ **Quality → “Safety” → Productivity & Profits**
-- Hawthorne effect(s)
- ▶ **Health insurance costs ↑; “cessation”**
-- simple bribes & threats don’t work
- ▶ **12/03 HSAs become possible - incentives!?**

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BIG COMPANY CWP ROI'S



- ▶ **Most bigs (500+) have CWP**
- ▶ **Hard & soft benefit ROI's: 2 - 12 x**
- ▶ **Smalls (200-) have not or sputtered**
 - ▶ **Myths of upfront resource needs**
 - ▶ **Sputtered at simple → formal transition**

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WHY RE-ASSESS CWP_s NOW?

- ▶ **Health insurance costs are past critical & health stats for kids & middle-age ↓**
- ▶ **HSAs allow first movers to cherry-pick the employee insurance pool**
- ▶ **HSAs pay employees to be well & shop carefully, but can they?**

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SMALL BIZ (NEW) ASSUMPTIONS

- 1. CWPs aren't just to reduce insurance costs**
- 2. CWPs (x) two groups "10/69" & "50/3"**
- 3. Stage 1 CWPs can be cheap & quick-acting at small companies**
- 4. Exercise & emotional support group activity should be at work for the masses**
- 5. HSA company contributions adjusted to attract "50/3" & repel "10/69"**
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**ASSUMPTION # 1: CWP TOTAL
ECONOMICS**



IF employees get healthier:

(Hard) sick days ↓, absenteeism ↓ productivity ↑

- getting work that is paid for
- substitutes make errors & accidents
- worker compensation claims drop

(Soft)

“company cares about me” ↑

better stamina & energy to hustle ↑

self-esteem + “can do”

new things attitude ↑

retain & recruit (50/3) employees ↑

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2: AIM “INCLUSIVE” CWP AT “50/3” 

IF 50/3 folks:

- get fitter & happier
- stay that way
- lead the wellness, “can do” culture

THEN

- Isn't that a big ROI?
- Couldn't 10/69 eventually nibble too?

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#3: SMALL COMPANIES CAN START CHEAP*



- ▶ **“Fat Jim’s” President’s challenge**
- ▶ **Then, choose a self-selected committee to make it an on-going “program”**
 - ▶ **“Healthy hydration”**
 - ▶ **On-premise food pricing**
 - ▶ **Pedometers (x) walking buddies**
- ▶ **Quick results and culture shift (vs. GM?)**

***See Article 5.16 & Support Notes**

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#4: WORKPLACE = FITNESS SOLUTION FOR MASSES



- ▶ Long commutes (+) no manual labor
(+) fast food = obesity epidemic;
especially bottom 80% of payrolls
- ▶ Most people need:
 - ▶ Structural support
 - ▶ 12-step type of support group
 - ▶ (+) more

to do what they know they should

It is noble & good for firms to do it

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#5: ATTRACT 50/3 & REPEL 10/69

- ▶ **Health costs have gotten (strategically) critical**
- ▶ **If x-subsidy between 2 groups can be exploited with HSA plans, then shift way before all your new hires become 10/69 closet cases**

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CONCLUSIONS



- ▶ **HSAs are a potential revolutionary catalyst**
- ▶ **Small businesses can use them & exploit them very quickly**
- ▶ **HSAs aren't just about:**
 - ▶ **insuring the un-insured**
 - ▶ **managing health insurance costs better**
- ▶ **HSAs can be a key part of a high performance service culture**

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Why do I hedge with the “potential” adjective in the first conclusion above? There are a lot of pre-requisites that have to fall in place for HSAs to really take off. Insurance companies have to offer HSAs with big discounts; the national carriers with the biggest insurance pools are moving slowly and non-aggressively because they will have the biggest problem trying to continue to cross-subsidize the 10/69 consumers. State governments have until 1-1-05 to comply with federal tax savings breaks on HSAs; some may drag their feet and try to block the spread of HSAs. Third-party administrators will have to offer affordable, integrated services for HSAs as they do for IRAs, etc. Healthcare providers will have to offer transparent, easily shop-able pricing so consumers can choose the best deal.

But, small businesses can use HSAs quickly and easily especially if all employees are living in one progressive state. (e.g. Indiana is progressive, Hawaii, New York, New Jersey & Massachusetts are not.) And, they can use HSAs and wellness programs as key catalysts for creating a high performance, innovative culture that attracts healthy employees and repels the unhealthy, which is where the biggest savings and corporate improvements will come from.