



AUSTIN
FINANCIAL
GROUP LLC

Smart Benefit Solutions

White Paper

High Deductible Health Plans— A Cost-Conscious Option

September 2011



Table of Contents

Executive Summary.....3

Background.....4-5

Rising Insurance Costs.....6

Cost-Savings with a HDHP.....7

Cost-Savings—Example.....8

Employee and Employer Advantages.....9

Conclusion.....10

Sources.....11



Executive Summary

As healthcare costs increase, U.S. businesses are adversely impacted in their ability to provide health benefits. Health care coverage is the single largest employee-related expense for U.S. employers. In light of a changing health care landscape, businesses are reexamining insurance packages, opting for High Deductible Health Plans (HDHP) with a Health Savings Account (HSA) to save on premium costs and maintain a competitive health care benefits package for employee retention.

This white paper defines a HDHP and HSA, and outlines the advantages that make them particularly attractive for businesses in the current healthcare marketplace.

The results of the March 2011 National Compensation Survey (NCS) found that 69% of workers in private industry had access to medical plans, of which 51% of these employees chose to participate.¹

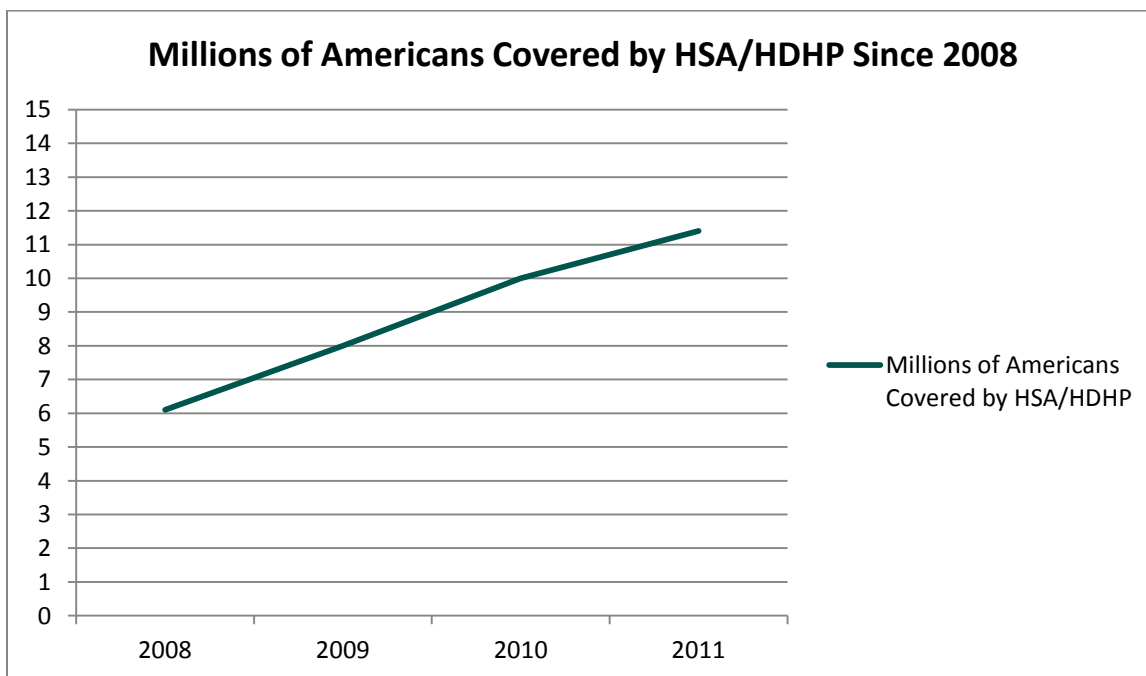
¹ U.S. Bureau of Labor Statistics, 2011, "Employee Benefits in U.S.-March 2011,") March, 2011, on www.bls.gov



Background

What is a High Deductible Health Plan?

A high deductible health plan (HDHP) is another version of a Preferred Provider Organization (PPO) that generally has a higher deductible and lower premium, as opposed to a traditional health plan. The insured person is responsible for paying 100% of the defined annual deductible prior to receiving any coverage from the insurance carrier. A HDHP provides both in and out of network benefits. The number of people enrolled in a high deductible health plan with a health savings account increased from 10 million in January 2010 to 11.4 million in January 2011.²

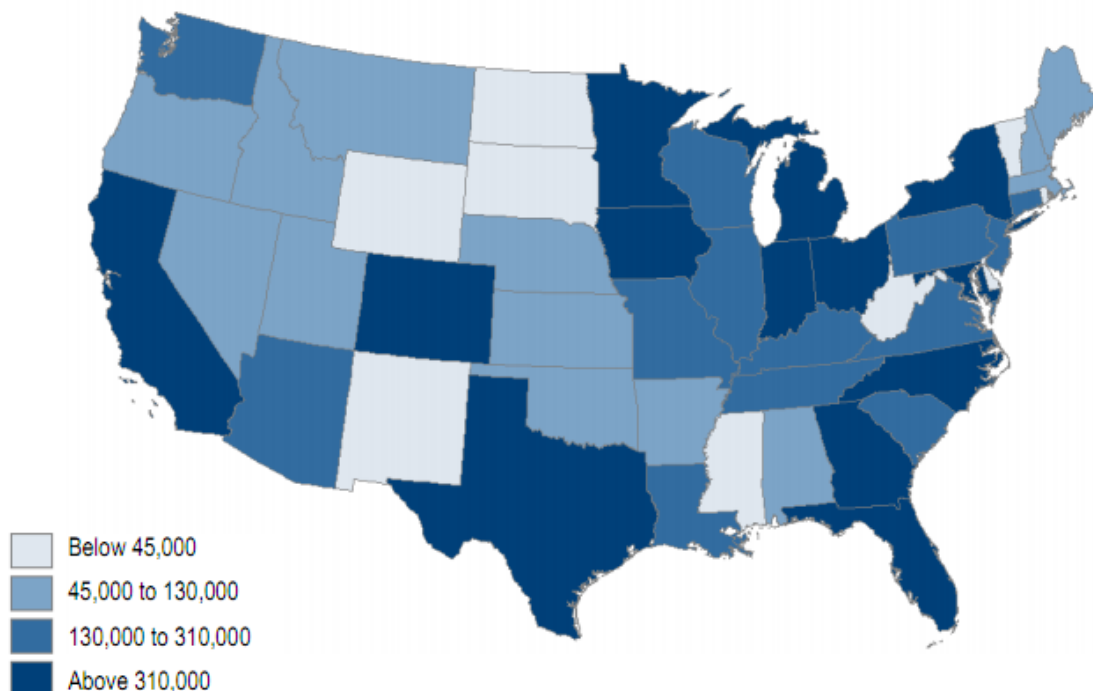


² AHIP Census, "January 2011 Census Shows 11.4 Million People Covered by HSA/HDHP June 2011," <http://www.ahipresearch.org/pdfs/HSA2011.pdf>

What is a Health Savings Account?

A health savings account, or HSA, is a tax-advantaged medical savings account that helps participants save money for medical expenses. Unlike an FSA, the funds in an HSA roll over from year to year if unused. Contributions to this account may be made by the employer and/or the employee, with annual maximums outlined by the IRS. Maximum allowed contributions for 2012, for example, are \$3,100 for an individual and \$6,250 for a family. Funds must be in the HSA in order to pay for qualified expenses. As of January 2011, more than 310,000 lives are covered in HSA/HDHPs in Michigan.³

Figure 4. Number of Covered Lives Enrolled in HSA/HDHPs, by State, January 2011



AHIP Census, "January 2011 Census Shows 11.4 Million People Covered by HSA/HDHP, June 2011"

³ AHIP Census, "January 2011 Census Shows 11.4 Million People Covered by HSA/HDHP June 2011," <http://www.ahipresearch.org/pdfs/HSA2011.pdf>



Rising Insurance Costs

Speculators believe that slowing increases in health insurance costs over the last few years may be largely due to the recession, but overall costs continue to rise faster than wages or inflation.

- Since 2000, average premiums for family coverage have increased 114%.⁴
- Health care accounts for 17% of U.S. Gross Domestic Product⁵
- On average, 7.5% of total employee compensation is health insurance benefits⁶
- The average annual premiums for employer-sponsored health insurance in 2010 were \$5,049 for single coverage and \$13,770 for family coverage⁷
- 35% of surveyed respondents have gross medical plan costs greater than \$10,000 per employee per year, which was up by 25% from 2010 (Based on PricewaterhouseCoopers' Survey, 2011)
- 38% have net costs greater than \$8,000 per employee per year, up from 28% last year⁸

⁴ U.S. Bureau of Labor Statistics, 2011, "Employee Benefits in U.S.-March 2011,") March, 2011, on www.bls.gov

⁵ "Thanks for Nothing" in Life and Health National Underwriter by Allison Bell, March, 21, 2011, on www.lifeandhealthinsurancenews.com

⁶ U.S. Bureau of Labor Statistics, 2011, "Employee Benefits in U.S.-March 2011,") March, 2011, on www.bls.gov

⁷ Kaiser HRET Survey of Employer-Sponsored Health Benefits, 2010, on <http://ehbs.kff.org>

⁸ PricewaterhouseCoopers' 2011 Health & Well-Being Touchstone Survey cited in "High Deductible Health Plans Continue to Grow," by Rebecca Moore, plansponsor.com, July 11, 2011



Cost-Savings with HDHP

How much can a company expect to save by offering employees a HDHP?

Example 1

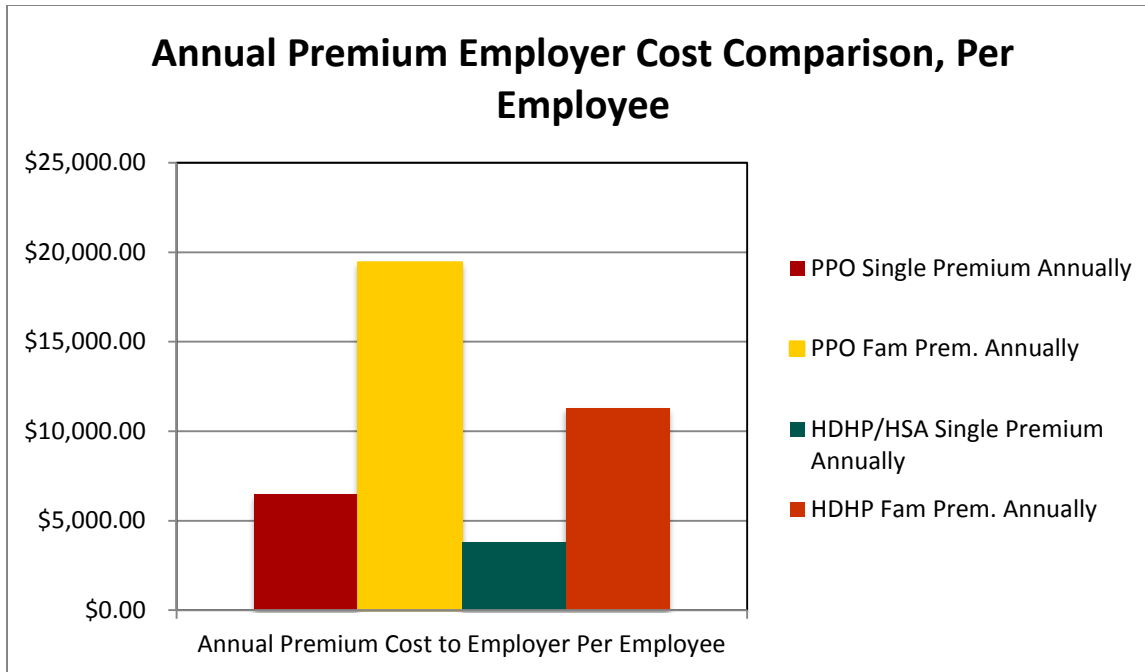
Return on Investment (ROI) for HDHPs may vary. Savings will be influenced by how much the company will pay for a HDHP versus a PPO or HMO and how much, if any, premium savings you give back to your employees in their HSA accounts. That being said, here is a way to look at potential ROI when transitioning from a PPO to a HDHP.

The following charts are based on real savings for a physician group with eight employees. Numbers are subject to vary.

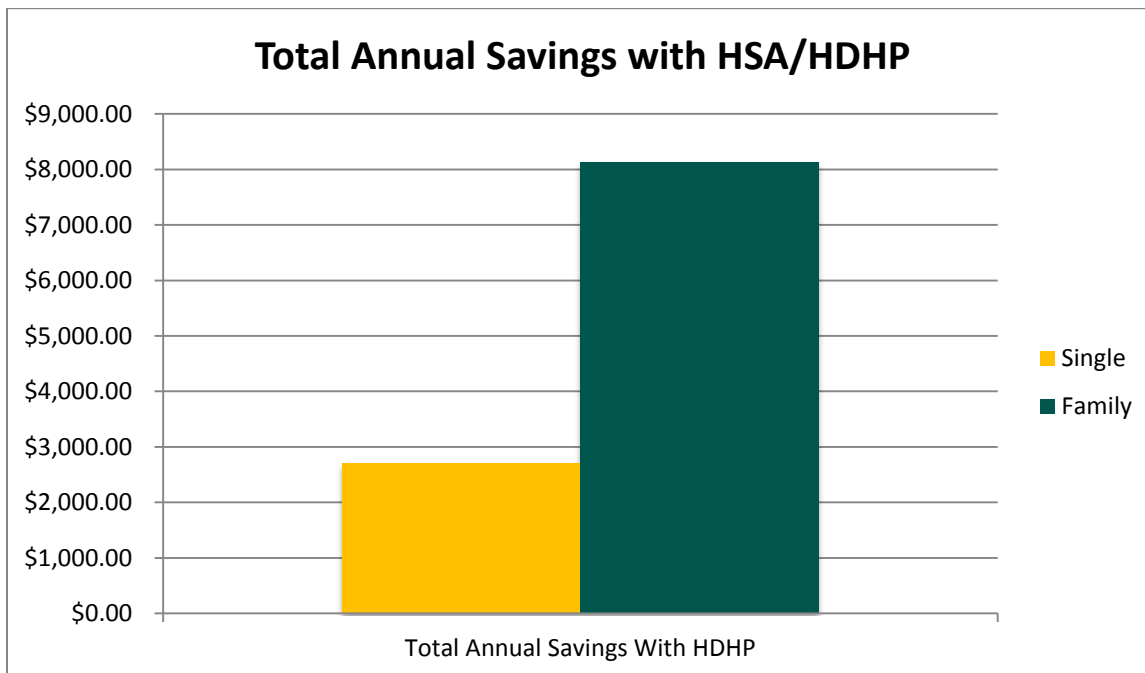
Comparing Plans

This particular client was comparing cost savings and overall quality of medical coverage for their employees during their annual renewal process.

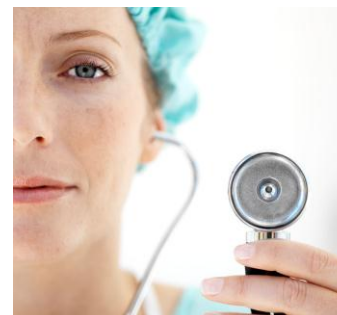
	PPO/100%	HDHP,HSA/100%
Deductible	-	\$1250 single, \$2500 family
Office Visit Co-pay	\$40	-
ER Visit	\$150	-
Out of Pocket Max	\$2500 (s), \$5000 (f)	\$1000 (s), \$2000 (f)
Cost for Single Annually	\$6,480.60	\$3,769.08
Cost for Family Annually	\$19,441.92	\$11,307.24



Annual premium cost to the employer when an employee elects a PPO plan is \$6,480.60 and \$19,441.92 for a single and a family, respectively. In contrast, annual premium cost for the same employer when an employee elects a HDHP with HSA is \$3,769.08 and \$11,307.24.



Overall *employer cost savings* when an employee enrolls in a HDHP with a HSA totals \$2,711.52 for a single and \$8,134.68 for a family.



Employer and Employee Advantages

A High Deductible Health Plan is designed to be advantageous for both the employer and the employee. In addition to substantial cost savings with a HDHP, the employer has options and flexibility to:

- Enjoy premium savings
- Fund all or portion of the employee HSA
- Offer zero contribution, and
- Provide the employee maximum flexibility

Employees also benefit, as more of their hard-earned dollars stay in their wallets or are placed in a tax-free HSA.

Employees may find a HDHP with a HSA attractive because:

- HDHPs are smart for anyone who incurs low health care or related medical expenses
- Advantageous for employees who can afford a high deductible and view a HSA as a tax-free investment
- Lower monthly premiums means more take-home dollars in a paycheck, or an easier way to fund your HSA tax-free
- Funds in an HSA can be used for other qualified medical expenses like eye or dental care
- Max dollar amount cap is advantageous to employee with sick family or with chronic conditions, because they are likely to reach their maximum faster



Conclusion

Substantial cost-savings on part of both the employer and employee make a High Deductible Health Plan with a Health Savings Account an attractive solution to rising health care costs. The plan allows smart health care consumers to be in control of their medical costs and plan for future expenses. Employers are able to maintain the cost of employee benefits, but at a much lower rate than with traditional plans. Exploring the option of a HDHP and HSA may turn out to be not only the right choice for your employees, but a solution that benefits your bottom line.

About Austin Financial Group

Austin Financial Group is a leading employee benefits firm offering insurance, enrollment and administrative solutions. At Austin Financial Group, 'Smart Benefit Solutions' means more support, smart spending, and expert consulting.

A successful employee benefits program designed and managed by Austin Financial Group not only results in improved financial management and administrative techniques for your company, but overall employee satisfaction. Our expertise in plan design and market analysis, ongoing management and online enrollment services contribute to our clients' success.



Sources

America's Health Insurance Plans (AHIP), "January 2011 Census Shows 11.4 Million People Covered by HSA/HDHP June 2011," <http://www.ahipresearch.org/pdfs/HSA2011.pdf>

Kaiser HRET Survey of Employer-Sponsored Health Benefits, 2010, on <http://ehbs.kff.org>

PricewaterhouseCoopers' 2011 Health & Well-Being Touchstone Survey cited in "High Deductible Health Plans Continue to Grow," by Rebecca Moore, plansponsor.com, July 11, 2011

"Thanks for Nothing" in Life and Health National Underwriter by Allison Bell, March 21, 2011, on <http://www.lifeandhealthinsurancenews.com>

U.S. Bureau of Labor Statistics, 2011, "Employee Benefits in U.S.-March 2011," March, 2011, on www.bls.gov

Watson Wyatt Worldwide, Inc. cited by Cari Tuna in "Cuts are here to stay, companies say", Wall Street Journal, June 22, 2009 on www.onlne.wsj.com



40950 Woodward Avenue
Suite 360
Bloomfield Hills, MI 48304
(248) 594-5550 • (888) 277-0077
www.austinfsg.com

