CAN A Health Savings Account SAVE YOUR CHURCH BIG BUCKS?

With rising healthcare costs, HSA plans offer churches greater control over their benefit packages.

BY JENNIFER WESLEY

At an employee meeting in 2007, church accountant Kathy Warren and pastor of operations Bob Darden faced what felt like a mutiny. After considerable research and comparative analysis from Darden and Warren, the personnel committee at Bell Shoals Baptist Church, Brandon, FL, had decided to move to a consumer-directed, high deductible health plan with a Health Savings Account (HSA). Employees reacted with fear and confusion. Three months into the plan, the church seriously considered dropping it.

What a difference three years make. This year, Warren and Darden faced a no less passionate employee meeting. Now employees rallied to keep the HSA plans. In fact, that first year's most vocal critic is now one of the plan's biggest champions.

Bell Shoals' experiences reflect some of the challenges and triumphs for employers who choose consumer-directed health plans. Designed to give consumers more direct control over their healthcare dollars, these plans typically combine a federally-qualified high deductible health plan (HDHP) with a consumer-managed account like an HSA. By offering higher deductibles and fewer "first-dollar" benefits — like co-pays for doctor visits and prescription drugs — consumer-directed plans typically have lower premiums. The idea is to use these savings to help fund healthcare expenses through the accompanying tax-advantaged account.

Positives and negatives

This exposes both positives and negatives for the plans. "If we hadn't moved to the plan with the HSA, we wouldn't have been able to maintain our benefits level," says Warren. "It gave us flexibility to fund in a different way while moving employees toward more cost-sharing. We also wanted to help them become wiser healthcare consumers."

But those last two points, cost-sharing and becoming more involved healthcare consumers, can create some of the strongest employee pushback. For decades trends in insurance have shielded consumers from the true cost of care. (It doesn't really cost only $20 to go to the doctor.) Most consumer-directed plans offer few first-dollar benefits and/or have fairly high deductibles. Except for preventive care services, employees and their families are generally responsible for the full cost of care until they meet their deductibles. This can give employees a serious case of sticker shock.

"In the beginning, everyone seemed to panic a little. People had surgeries and procedures that the hospital was requiring full payments for up front. They had to pay in full for prescriptions. It was tough, especially that first year," Darden recalls.

To ease the transition, Bell Shoals decided to continue contributing 100 percent of premiums for employees and 50 percent for dependents. Additionally, they contributed 70 percent of the health plan's deductible amount into the employees' HSAs. "By moving to the qualified high deductible health plan, we saw a drop in premium costs for us," says Warren. "We could've pocketed it for the church, but we decided to fund employees' HSAs instead. We knew everyone would be starting from scratch. Maintaining our benefits level was a personnel committee priority."

"That first year felt like a disaster," Warren remembers. "We didn't know what we didn't know." Employee response was overwhelming. After having a general session, the HR team resorted to one-on-one meetings to deal with individual issues. At that crucial three-month point, their benefits provider, GuideStone Financial Resources, sent a dedicated representative to Florida to do additional educational meetings.

"Pre-enrollment educational and Q and A meetings are crucial," says Warren. "I'd suggest that other churches make sure they have a pre-enrollment meeting followed by another Q and A about a month out. That first meeting, everyone's just trying to keep up. They don't know what their questions will be. After a month, they'll have a better idea of what to ask."

The learning curve affected everyone. Set-up for the HSAs generally provided through a third party, can be complex. Educating employees and staff about how to deposit and transfer funds, submit claims and receive reimbursements is an involved process.

Skin in the game

Over time, the education and support started to take effect. Employee confusion and frustration turned to empowerment. "We started to see employees take control of those healthcare dollars in a way they hadn't before. They're negotiating with hospitals, comparing prices, asking for generics. It helps to have some skin in the game," Warren says.

This is at the heart of the consumer-directed movement. HSAs are employee-owned, which means that the money is theirs to use for approved healthcare costs both now and in the future. By giving control of at least part of the healthcare budget to consumers, these plans encourage wise spending habits. While some critics warn that employees may avoid preventive care or necessary procedures, Darden and Warren say they generally didn't see this happen.

According to Darden and Warren, employees seemed to understand that they could pay less now to get the early treatment or pay more later on when things got worse. And for HDHPs, eligible preventive care services are not subject to the deductible.

The Federal government sets annual limits on HSA contributions. For 2010, the limits are $3,050 for individual coverage or $6,150 for family coverage. The funds may be used for "qualified healthcare expenses" as defined by the IRS: The expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness.

Funds roll year-to-year, which means that employees can accrue money to help pay for future medical expenses. In the first year, Bell Shoals contributed 70 percent of the deductible amount into their employees' HSAs. Moving forward, Bell Shoals' plan was to lower that contribution level to help offset rising premiums and control overall costs.

After the first year, three-quarters of employees had money remaining in their HSAs. "We actually left the contribution level at 70 percent in the second year to see how things were working," says Darden. "But that meant that when we lowered the contribution level in the third year, the employees obviously perceived their cost increase negatively."

To churches implementing plans with HSAs, Warren recommends lowering the contribution levels incrementally every year. "It helps employees adapt and plan. They expect it'll be lowered next year, so they manage their HSAs in a different way."

HEALTH SAVINGS ACCOUNT (HSA)

WHAT IT IS: A tax-advantaged account that may be used to fund qualified medical expenses. Core characteristics of HSAs:

- To be eligible, employee must be covered by a qualified HDHP and no other health plan
- Contributions and earnings are exempt from federal income taxes, and distributions are also tax-exempt as long as they are used for eligible medical services
- HSAs are individually owned and controlled by employee
- Contributions may be made by employer, employee or others on owner's behalf
- Balance rolls over at the end of the year
- Can be used as savings/investment vehicle for future medical expenses

The road ahead

Overall, the move to consumer-directed plans has been a good one for Bell Shoals. Because the plans allow for them to manage how much they contribute to employees' HSAs as well as how much premium they'll pay, the church can better control overall expenses.

Should healthcare reform legislation pass, certain provisions may impact consumer-directed plans. But it's unclear what those impacts would be or even whether any such legislation will come to pass.

Darden and Warren aren't deterred. "Even if they were to go away tomorrow, moving to these plans has been totally worth it," Darden asserts. "We're quite pleased with where we are." CE

Jennifer Wesley is a writer for GuideStone Financial Resources, Dallas, TX. [www.GuideStone.org]