The Brave New World of Health Care

Helping employees transition to full ownership and a long-range view of their financial wellness

Executive summary

With health care costs continuing to increase at two to three times the rate of inflation, offering traditional health insurance benefits is no longer an option for most companies.¹ The future is unclear for company executives: Only 25% report that they are very confident that health insurance as an employee benefit will be offered in 10 years.² This paper presents recent views from corporate leaders and CFOs about the health care crisis. It provides three key strategies for employers of every size to consider for helping employees take the reins to own their health care for immediate needs and long-term retirement. This is a road map to the brave new world of U.S. health care.

Table of contents

The future of employee health care benefits .............. 2
Reframing health care benefits ..................... 3
Key strategies employers can take today .............. 3
Health savings accounts can help ................. 5
Balancing health care needs ..................... 7
Available resources .............. 8
The future of employee health care benefits

Historically, corporate benefits packages have included tax-deferred savings plans for retirement, and health insurance plans that cover annual medical needs. This operating model has been successful for most employers for years. By offering integrated benefits packages that help employees pursue financial wellness, employers have been able to attract and retain talent, improving productivity and profitability.

With the ongoing escalation of health care costs, the increasing complexity of the medical and insurance systems, and the implementation and management of the Affordable Care Act, plan sponsors find themselves at a crossroads: How can they continue to provide sustainable health care benefits for employees when faced with ongoing uncertainty and costs rising at least twice as fast as inflation?

There is considerable discussion among employers about their ability to continue offering employees the same level of health insurance benefits. In the Towers Watson report “2014 Employer Survey on Purchasing Value in Health Care,” only 25% of respondents were very confident that their organizations will offer health care benefits 10 years from now. These respondents were not random employers but “best performers”—companies that have already created strategies to lower overall costs of providing employees with health care benefits.

A survey of U.S. financial executives in Bank of America Merrill Lynch’s “2014 CFO Outlook” found that health care is “causing pain.”

• 67% of surveyed CFOs reported that rising health care costs are a significant concern, ahead of concerns about the effectiveness of the U.S. government (62%) and the U.S. budget deficit (57%).

• More than half (53%) of surveyed CFOs anticipate higher labor costs due to health care.

While CFOs are not health care management experts, they spend enormous time and resources on these issues on behalf of their companies and the employees who count on employer-provided health care coverage.

Soaring health insurance premiums

Since 2005, total average premiums for family coverage have increased 61%, and worker contributions have increased 83%. Rising costs create significant financial strain for employers and, in turn, for their employees.

Reframing health care benefits

At Bank of America Merrill Lynch, we believe the key to solving some of the health care benefits issues is to change the view about health insurance as an annual benefit and elevate it as a key component of long-term financial wellness. It should become as important as saving for retirement.

• **Strategic leveraging by employers.** Employers may need to think about new health insurance strategies that allow them to leverage longer contract arrangements with insurers, negotiate better pricing on a longer-term basis, and explore new options that are becoming available under the Affordable Care Act.

• **Active engagement by employees.** Employees need to fully embrace ownership of their plans and become fully engaged in their health care management and costs. (See page 7 for more information.)

In short, employees will need to transition from being passive receivers of health care to becoming active consumers. They may need to adapt to new types of health insurance arrangements, as traditional insurance benefits are replaced. Employees may need help during the transition to learn how to manage their new health care benefits and how to maximize the value of those benefits to effectively manage today’s needs while saving for health care costs during retirement.

**Key strategies employers can take today to help employees own their health care**

It may take time and effort for employees to embrace the coming health care changes and learn to navigate a new model of health care benefits. Employers can play a fundamental role in guiding employees to become health care consumers—just as they did when retirement savings shifted from defined-benefit plans to defined-contribution plans.

1. **Provide more information to employees**
   
   — **Educate employees about their health care benefits.** One step is to provide more accessible and understandable information. Ask your health care suppliers about educational programs they can provide to your employees.
   
   — **Promote healthier lifestyles in the workplace.** Preventive steps can help to keep employees healthier and more productive. Healthier employees may typically have lower expenses. Use incentives and rewards to encourage healthier behaviors.
   
   — **Help employees make educated choices about the health care benefits your plan offers.** If you offer a High Deductible Health Plan (HDHP), encourage more employees to enroll. They may see savings from lower premiums than were paid with a traditional insurance plan. Pairing a HDHP with a Health Savings Account (HSA) or Health Reimbursement Account (HRA) can be powerful. Help employees fully understand how those accounts work and the range of tax advantages they carry.

**Retirement health care costs are high**

The current health care estimate for couples who retire at age 65 is approximately $266,000.

Source: HealthView Services: 2015 Retirement Health Care Cost Data Report. Assumes life expectancy of 87 for the male, 89 for the female, and a Modified Adjusted Gross Income (MAGI) income level below $170,000. Retirees whose MAGI exceeds this income bracket will face Medicare surcharges and higher costs.
2. Provide cost transparency

— **Illustrate employer contributions.** Employees generally have little idea how much their total health insurance premiums amount to. Use both year-end benefits plan summaries and ongoing communications to clearly show employer contributions made on employees’ behalf. Remind employees about the value of the benefits they are receiving.

— **Show employer contributions to health insurance.** One way to do this is to include a section on employee paychecks. Employees only see deductions for their portion of health care premiums on their paycheck summaries. They do not have a comprehensive view of their total health care benefits.

— **Provide instructions for employees on how to evaluate medical billing.** It is difficult for employees to find out the cost of various medical services. Instructions on determining the procedure codes and diagnostic codes doctors use to drive the billing systems can help them become better consumers. Each code corresponds to a different cost, and the costs differ by doctor and by insurance company arrangement. Your company may want to consider working with a third-party provider that offers access to cost information and resources that your employees can use to help them make more informed health care choices.

### Average cost of insurance plans

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Cost (Average Total Premiums)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDHP</td>
<td>$15,970</td>
</tr>
<tr>
<td>HMO</td>
<td>$17,248</td>
</tr>
<tr>
<td>PPO</td>
<td>$18,469</td>
</tr>
</tbody>
</table>

Most employees are unaware that their employers are paying about 72% of the insurance premium for family coverage, and 83% for individual coverage, which amounts to thousands of dollars in “hidden” benefits each year.


HDHPs are less expensive to offer, help employees manage their current health care spending and may allow for employee retirement health care savings as well.

Health savings accounts can help employees and employers

- **Help employees find strategies for both health care and retirement spending.** Employees and employers face two difficult financial situations when it comes to managing health care costs. The first is increasing costs. Employee insurance premiums for family coverage have increased 61% over the past five years, and more of the overall medical insurance cost increase is shifting to them. The second is saving for long-term retirement health care needs. Saving specifically for retirement health care over many years is an important strategy. Employers can help employees find appropriate strategies that address both situations.

- **Evaluate current and future medical expenses with HSAs.** These tax-advantaged accounts allow employees to make pretax contributions, withdraw the money for today’s qualified medical expenses tax-free, and carry over any balance at the end of the year for future health care needs.

- **Show employees the value of using HSAs as retirement health savings accounts.** Not every employee has large health care expenditures every year. Any amount that he or she does not use will automatically roll over and can be used for retirement health needs in the future.

---

**HSA contribution limits are set by the IRS**

- **Individuals can contribute up to $3,350**
- **Families can contribute up to $6,750**

Source: IRS for 2016

---

82% of employers expected to offer a HDHP in 2015

3. Create a financial wellness action plan for long-term savings

— Determine long-term financial goals and strategies. In order to pursue long-term financial wellness, employees must save sufficiently for retirement lifestyle and for retirement health care. In order to do that, help your employees identify their long-term financial goals as early as possible and establish savings strategies to pursue those goals. By identifying retirement health care as a separate long-term goal, employees can begin to save and invest for this key component of their futures.

— Choose appropriate plans and provide an optimum investment allocation. Offer a range of tax-advantaged accounts through your plan benefits to help your employees gain and maintain their overall financial wellness. Make online comparison tools available during open enrollment.

— Help employees think both short-term and long-term about health care. Account-based health plans — those offered with higher deductibles and HSAs or HRAs — typically cost less overall when compared to other plans such as HMOs or PPOs. HSAs enable employees to set aside funds to pay for qualified health care expenses now and in retirement on a tax-advantaged basis.

Clearly there is a significant health care information gap to close — and helping employees make the transition to more consumer-centric health care management will take time and effort. Helping to motivate employees to take greater ownership of their health care and personal financial wellness is part of the brave new world of health care.
Ownership means balancing today’s health care needs with saving for retirement health expenses

Going forward, each worker’s financial wellness depends on mastering new rules for health care — both for current-year needs and looking long-term toward retirement health care needs. Employees will still need to meet near-term day-to-day household expenses, manage long-term debt and save adequately for retirement and college, leveraging 401(k)s and IRAs.

In their new role as health care owners, employees will have to segregate and manage health care in new ways. The health care component of the financial wellness equation will be split into two sections: near-term expenses and longer-term retirement health care. To manage this new role, employees may find it helpful to:

- Be informed and educated about their new role.
- Navigate the complex health care and medical systems.
- Make informed decisions about where and when to have medical procedures.
- Understand how costs and insurance work and how they can manage their budgets with the most tax-efficient health care products and accounts available through their employers.

Going forward, each worker’s financial wellness depends on mastering new rules for health care — both for current-year needs and looking long-term toward retirement health care needs.
For more information

For more information about how we can help your company and employees navigate the brave new world of health care, contact your Bank of America Merrill Lynch representative or call 1.877.902.8730. Visit us online at baml.com/workplaceinsights or email us at benefitplans@baml.com.

---

3 Sponsored by Bank of America Merrill Lynch. 602 interviews with financial executives from U.S. companies with annual revenues from $25 million to $2 billion. The survey was conducted 11/7/2012–1/18/2013.
5 Participants can receive tax-free distributions from their HSA to pay or be reimbursed for qualified medical expenses they incur after they establish the HSA. If they receive distributions for other reasons, the amount withdrawn will be subject to income tax and may be subject to an additional 20% tax. Any interest or earnings on the assets in the account are tax-free. Participants may be able to claim a tax deduction for contributions made to the HSA. We recommend that applicants and employers contact qualified tax or legal counsel before establishing an HSA.

This article is designed to provide general information to institutions and is for discussion purposes only. This material should be regarded as general information on health care considerations and is not intended to provide specific health care advice. If you have questions regarding your particular health care situation, please contact your health care, legal or tax advisor.

Always consult with your independent actuary, attorney and/or tax advisor before making any change to your plan. Bank of America is prohibited by law from giving legal or tax advice outside the company.

Workplace Insights, Bank of America Merrill Lynch and the stripes design are trademarks of Bank of America Corporation.

© 2015 Bank of America Corporation. All rights reserved. | ARWLMRF | WP-10-14-0428 | 11/2015