Positioning for Growth: Why TPAs Should Embrace a Thriving HSA Market

Health Savings Accounts (HSAs) have been growing in popularity over the past decade. Due to healthcare reform in Washington, D.C., and market demands, HSA enrollment looks as if it will continue to surge. With multiple entities placing an increased focus on HSAs, TPAs need to know how to position themselves in order to take advantage of this lucrative revenue stream. Those who don't could lose out on a potential fortune.

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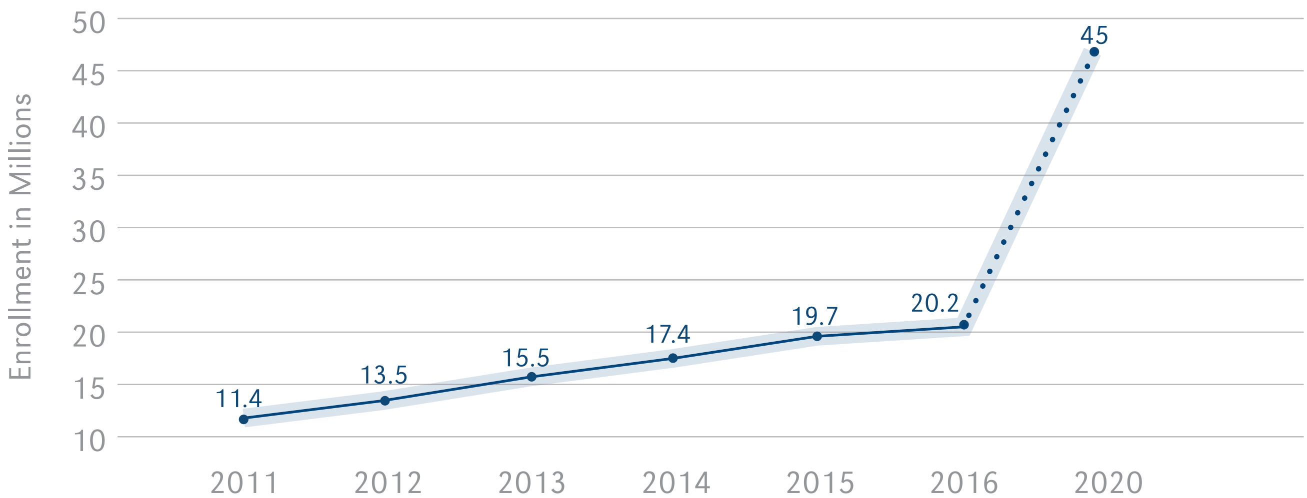
History

HSAs are the newcomer in the consumer directed healthcare market. In 2005, HSAs became available for people with a qualifying high deductible health plan (HDHP), joining Flexible Savings Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) as employer-sponsored, tax-advantaged benefit accounts. Initially slow to build, the market for HSAs is now booming.

Enrollment in HSA-eligible HDHPs totaled just over 1 million in 2005, increasing to 6.1 million by 2008. By 2016, reported enrollment totaled almost 20.2 million.[1] The first twelve years of HSA/HDHP eligibility saw a 2000 percent increase in plan enrollment, and some estimate that enrollment will balloon to 45 million by 2020[2]. If achieved, that would mean over a 125 percent increase in the market over the next four years.



Thanks to changing market demands and increased government focus, HSA/HDHP enrollment may reach unprecedented heights and possibly even exceed industry expectations.

Current Legislative Climate

Since the passage of the Affordable Care Act (ACA) in 2009, Republican leaders on Capitol Hill have vowed to reform the legislation. Since 2016, there have been at least three major legislative proposals, all of them with significant focus on HSAs.

One proposal was made by Republican Senator Rand Paul of Kentucky. Senator Paul's proposal, called the Obamacare Replacement Act[3], called for a dramatic expansion of HSAs. Within the sweeping expansion, the Senator's proposal sought to untether HSAs from the HDHP requirement, while allowing those on Medicare, VA benefits, TRICARE, and the Indian Health Service (IHS) to establish HSAs. In addition, the plan would remove annual contributions limits, permitting individuals to contribute as much as they wanted, tax-free.

Congressional HSA Proposals include:

- **Remove HDHP requirement**
- **Raise or eliminate contribution limits**
- **Expand eligible expenses to include OTC medications**
- **Add grace period for eligible expenses**
- **Lower taxes on withdrawals for non-qualified expenses**

Another plan was submitted in 2016 by House Speaker Paul Ryan, a Republican from Wisconsin. Ryan's plan, titled "A Better Way"[4], also proposed a major expansion of HSAs. Most notably, "A Better Way" proposed expanding HSAs to those on TRICARE and IHS, and "set the maximum contribution to an HSA to the maximum combined and allowed annual deductible and out-of-pocket expense limits."

Then, in early 2017, House Republicans passed new legislation titled the "American Health Care Act" (AHCA[5]). In its current form (as of press time), the AHCA doubles 2017 annual contribution limits, lowers taxes on distributions for non-qualified expenses, and adds a grace period for claims incurred within 60 days of HDHP and HSA enrollment. It also includes over-the-counter medications among eligible expenses, further expanding its usability and attractiveness for account holders.

It's clear that Republican leadership in Washington, D.C., views HSAs as a centerpiece to healthcare reform. This emphasis on HSAs, along with changing market forces, could significantly impact the CDH market and particularly TPAs.

Market Forces

In combination with government forces, the market appears to be shifting as well.

A 2015 study[6] reported that 90 percent of all employers offered an FSA, while 44 percent offered HSAs, and just 20 percent offered an HRA. While penetration of FSA offerings by employers is extremely high at 90 percent, significant gains can still be made in the HSA market (e.g., the prediction of 45 million HSA accounts by 2020). Even though FSAs are the longest-running tax-advantaged CDH account, and the most popular among employers, the winds are changing.

Nearly 60 percent of employers think HSAs should replace FSAs completely, and nearly 75 percent believe HSAs should be open to all employees, regardless of health plan coverage[7].

Part of the reason employers favor HSAs over healthcare FSAs (and limited purpose FSAs) is liability. With a healthcare FSA, the employer is on the hook if the participant uses all their funds before the end of the plan year, then leaves the company. With an HSA, the participant can only spend up to their current balance. The AHCA proposes removing caps from annual contribution limits for FSAs; for employers, an FSA without annual limits presents an astronomical potential liability. If Congress does not phase out healthcare FSAs, employers may be forced to make the switch based on economics alone.

In fact, economic concerns are already having an impact: employers continue to pass off a greater share of healthcare expenses to employees. In 2015, one-third of employers chose to only offer HDHPs to their employees, and over 80 percent had added HDHPs to their list of health insurance offerings[8].

Another market factor is the Millennial generation. A recent report noted that Millennials are more satisfied with their health plan choices – including HDHPs – than their older counterparts; this group is also healthier and less likely to use medical services. In addition, Millennials are also more likely to do a cost comparison before making health care decisions for medications and procedures[9]. This up-and-coming demographic could influence how employers make decisions when it comes to benefit offerings.

There's also the issue of overlapping account utility. FSAs and HSAs cover essentially the same IRS-declared eligible expenses. If the annual contribution limit is raised or removed from HSAs, and the HDHP requirement is eliminated, HSAs could cannibalize healthcare FSAs. Nearly every American would have access to an HSA, making healthcare FSAs no longer necessary. Having two accounts that are nearly similar in their tax advantages could also result in the government suffering a tremendous loss in revenue.

A subsequent drop or even elimination of healthcare FSAs, whether by government or market forces, would create a seismic shift in employer offerings that would dramatically affect TPAs, banks, and other businesses that serve these markets.

How Does this Affect TPAs?

For TPAs who do not offer HSA administration services, the HSA market surge could severely impact their long term business model. For decades, FSA administration has been the bread and butter for many administrators. When HSAs came along, many of the same TPAs eschewed HSA services because they didn't want to take on additional work, especially when the market was so fresh. Over a decade later, however, signs are pointing to a significant shift and missing the HSA train could derail a TPA's long-term viability.

Traditional banks are currently the largest threat to a TPA, but they could be vulnerable. They offer the basic savings accounts for free, though many don't have the administration capabilities or experience to administer HSAs on their own. Nevertheless, many TPAs have largely ignored the challenge because of the perceived amount of work involved with HSA administration. Account owners with bank HSAs often wind up essentially managing their HSAs themselves, without professional experience to guide and assist them.

Another factor working against TPAs are disruptive technologies, which are hard to predict. Startup companies who see a market angle that is not currently being addressed by banks or TPAs will swoop in and take a chunk of market share. If and when this happens, it will impact TPAs most because banks, who tend to have deeper pockets and diversified revenue strategies, will not experience as large of a hit. However, preparation can buffer the threat from this type of competition.

Employers want an option to help attract and retain talent, and many are willing to pay the administration costs if it results in not only lower healthcare cost burdens, but also higher satisfaction among their workforce. In order to stake their ground in this competitive field, TPAs need to offer an HSA solution to employers that leverages their strengths so they can provide great service while also minimizing the administrative workload and costs.

TPAs who do not offer HSA administration must consider adding it to their menu of services. The fact of the matter is, like many businesses, TPAs are focused primarily on addressing today's concerns. What about positioning themselves for the future?

The Right Position – Leveraging Your Strengths

Third party administrators have a wealth of advantages that banks and market disruptors do not. While they must charge for their services and cannot account for unknown entities, TPAs can secure their position in the market with a bevy of strengths that outmatch or counter their competitors:

A. **Experience** – Most importantly, TPAs know the ins-and-outs of benefits administration like no other. Banks are financial institutions that offer HSAs as a 'side gig'; market disruptors focus on exploiting one aspect of the market, often with little to no understanding of the bigger picture. For TPAs, their expertise with benefits administration (and its unique compliance issues) gives them the ability to provide comprehensive professional service, which can be a major differentiator over their competition.

B. **Simple Account Administration** – Partnering with a platform provider that enables easy account administration is key. TPAs have a lot of duties to juggle, so spending an exorbitant amount of time on account administration takes away from other tasks. An administrative platform with easy account setup, streamlined administration, the ability to auto-substantiate claims, and similar options, would permit the TPA to gain a share of the market, without taking on a lot of extra work, while offering their valuable services to their clients.

C. **Flexibility** – In addition to easy account administration, TPAs need the ability to offer various plan designs to meet the diverse needs of their clients. This is another area where expertise trumps cheaper alternatives and fancy new toys. An experienced platform provider, who controls both the software and the banking relationship, can offer more flexibility than a partnership with separate entities involved.

D. **Plan Features and Benefits** – The workplace is a competitive field for employers. In order to attract and retain top-notch talent, employers need strong benefits packages. An HSA provider who offers accounts replete with a secure web portal, account-linked debit cards, online receipt vault, convenient mobile apps, robust investment tools, and more, can help the company stand out in its offer to potential hires.

E. **Low Investment Threshold** – One of an HSA's key advantages is allowing account holders to invest their money and grow their funds tax free. A low investment threshold facilitates stronger, quicker account growth, and delivers higher client satisfaction. Some banks offer a $0 minimum for investment, but what actual value is there for account holders in being able to invest $10? The returns are minimal. However, there are platform providers that offer a minimum threshold as low as $1,000, which is low enough to tantalize (and forego the gimmicks) while allowing the account holder to see actual growth if they choose to invest.

F. **Investment Tools and Experience** – Along with a low investment threshold, account holders should have a wealth of information at their fingertips (such as an investment prospectus, investor statements, and RIA-developed lifestyle models). In addition, a platform provider that offers investing services should employ a certified investment adviser to address any concerns about knowledge and reliability.

G. **Customer Support** – A TPA's reputation relies heavily on customer satisfaction. An all-in-one platform provider, with payment processing, investment services, etc., provides a single point of contact should a problem arise, and should be able to provide quicker problem resolution, than if there are multiple entities involved in the process. In the end, this is a key component to delivering higher customer satisfaction.

H. **Reporting and Tax Forms** – Running a business is challenging, but the ability to access data can lessen the burden. Some administration platforms offer robust reporting with the ability to schedule data delivery. In addition, account holders need to easily access tax forms; a platform that allows them to download these forms through a secure online portal greatly benefits both the account holder and TPA.

I. **Marketing** – An all-in-one HSA platform provider can help TPAs build their business profile with their clients by providing marketing materials and services, including facts, blogs, employee engagement programs, and more.

Conclusion

HSAs are taking center stage in the CDH market, due to government and market forces. TPAs who do not offer HSA administration need to evaluate their firm's current and future needs and capabilities. As competition starts to increase, they must position themselves to make the most of their strengths – experience, knowledge, and service – by partnering with an all-in-one solutions provider. This type of partnership should enable TPAs to minimize the amount of work assumed by administering HSA accounts while also grabbing a larger share of the overall market.

Questions to Ask

1. If healthcare FSAs are displaced by HSAs, can your business survive without an alternative revenue source?
2. Are you currently offering HSA administration services?
3. Does your banking partner market HSAs to your clients, putting your business and relationship at risk?
4. What features and benefits does your current solution provider offer you? To your clients?
5. Is your current solution flexible? Will it allow you to shift with the market?

About the Author and Company:

Bo Armstrong is the Director of Marketing for DataPath, Inc., a Little Rock-based company that provides technology solutions for employer benefits administration. He holds a bachelor's degree from Texas A&M University and a master's degree from Liberty University and possesses almost 20 years of marketing leadership experience. Founded in 1984, DataPath has been a market leader in HSA administration solutions since 2005 with HSAToday®. DataPath is also the only platform provider that is also an end-to-end card processor, offering account-linked debit cards for employer-sponsored benefits accounts. Learn more at ***www.dpath.com*** *or call* ***(855) 209-8006****.*

1 2016 Survey of Health Savings Account – High Deductible Health Plans, AHIP

2 FSA, HSA & HRA Report: Trends & Predictions, June 2015, Flexible Benefit Corporation

3 The Obamacare Replacement Act, Senator Rand Paul (R-KY)

4 A Better Way: Our Vision for a Confident America, Speaker Paul Ryan (R-Wis)

5 American Health Care Act of 2017, Representative Diane Black (R-TN)

6 FSA, HSA & HRA Report: Trends & Predictions, June 2015, Flexible Benefit Corporation

7 Health Savings Accounts and Retirement Plans, Plan Sponsor Council of America

8 https://www.nytimes.com/2014/09/02/business/increasingly-high-deductible-health-plans-weigh-down-employees.html?_r=0

9 https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/younger-employees-health-care-spenders.aspx

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