



# Employer Health Strategies: Agents of Change

Presented by: James Gandolfo



- HR Benefits
- HR Management
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# Today's Presenter:



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## JAMES GANDOLFO

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**Jim Gandolfo** is a Product Advisor within PNC's Treasury Solutions Group. Jim has a varied background including, the securities sector, healthcare financial sector and for years has supported both industry and PNC's Treasury Management professionals related to comprehensive solutions for commercial payments, receivables and information management.

Currently, Jim is responsible for Consumer Driven Health development and distribution. Previously, he was with PNC Global Investment Servicing, where he was responsible for its Health Savings Account (HSA) administration solution. His experience also includes a long tenure with Wilmington Brokerage Services Company, a registered broker-dealer, where he was President & CEO.

His FINRA licenses include Series 6, 7, 24 and 63. He is Chairman of the American Bankers Association's HSA Council and a member of the Board of Directors of the HSA Coalition. Jim has been recognized by an industry forum for his work with public policy.

He is a graduate of Radford University in Radford, Virginia and holds a Bachelor of Science degree in Political Science and History. He is based in Wilmington, Delaware.

The views expressed in these slides are solely the views of James S. Gandolfo who prepared them and do not

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# Discussion Points



- Current Update: Public Policy & Consumer Driven Health Accounts
  - Notional Accounts: Flexible Spending Arrangement; Health Reimbursement Arrangement
  - Health Savings Accounts
    - American Health Care Act and HSAs or Better Care Reconciliation Act
    - SB 403, Cassidy / Graham HSA Proposal; Tax Reform Bill; SCHIP or Budget Reconciliation Bill 2018
- National Employer Trends
  - Facts
  - Sentiments
  - Tactics

# Definitions

HSA is authorized on legislation, notional is authorized by regulation\*



## Health Savings Accounts (HSA)

- Funded by employee, employer or combination
- Funds always belong to the account owner / employee



## Flexible Spending Accounts or Arrangements (FSA)

- Fixed amount set aside by the employee pre-tax/employer
- Use it or lose it (must spend by end of plan year), or rollover \$500



## Health Reimbursement Arrangements (HRA)

- Employer-funded “promise to pay”
- Unused funds remain with employer



\*<https://www.irs.gov/pub/irs-pdf/p969.pdf> / <https://www.congress.gov/bill/108th-congress/house-bill/1>

Note: HSAs may be paired with Limited Purpose FSAs or HRAs covering dental or vision.

# Relevant Regulation & Legislation



## Flexible Spending Arrangements:

- U.S. Treasury modification to “Use It or Lose It Rule” (2015)\*
  - I. Allows a \$500 rollover from plan year to next plan year



## Health Reimbursement Arrangements:

- Qualified Small Employer Health Reimbursement Arrangement (Cures Act 2016)\*\*
  - I. “...the arrangement is funded solely by an eligible employer, and no salary reduction...”
  - II. “...provides, (after employee proof of coverage), payment to, or reimbursement of, an eligible employee for expenses for medical care (as defined in Code section 213(d)) incurred by the eligible employee or the eligible employee’s family members ....”
  - III. “...the amount of payments and reimbursements ... for any year do not exceed \$4,950 (\$10,000 ...payments or reimbursements for family members of the employee...)”
  - IV. “...the arrangement is provided on the same terms to all eligible employees of the eligible employer “

\* <https://www.treasury.gov/press-center/press-releases/Documents/103113FSA%20Fact%20Sheet.pdf>; <https://www.irs.gov/pub/irs-pdf/p969.pdf>

\*\* <https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/faqs/aca-part-35.pdf>

# Legislation to Watch

## Health Savings Accounts

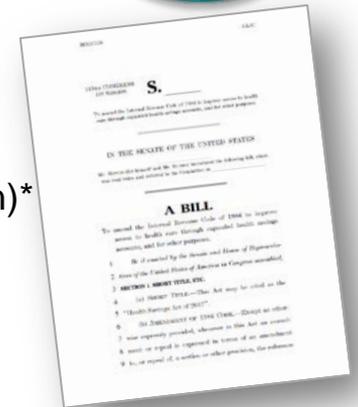


### Health Savings Act of 2017 (Hatch, Rubio S. 403\*)

### & U.S. Budget Reconciliation Process

### HR 1628, Senate Bill BCRA and Graham / Cassidy Amendment\*\*:

- Repeal Rx requirement for OTC medicine distributions from HSAs (Hatch-Paulsen)\*
- Lower penalty for non-qualified distributions to 10% (Hatch-Paulsen)\*
- Raise HSA contribution limits to HDHP OOP Max (Hatch-Paulsen)\*
- Allow spouses to make catch-up contributions to the same HSA (Hatch-Paulsen)\*
- Expenses incurred within 60 days of HDHP coverage but before HSA account is established (Hatch- Paulsen)\*
- Excess premium tax credit funds may be deposited into HSAs.\*\*
- Purchase of insurance from a HSA. (HSA qualified policies, individual market only)\*\*\*
- Primary care enhancement\*\*\*
- Exclusion from HSAS of HDHPs including coverage for abortion except when necessary to save the life of the mother or if the pregnancy is the result of rape or incest, beginning in 2018.



\* <https://www.congress.gov/115/bills/s403/BILLS-115s403is.pdf> / <http://www.cbpp.org/research/using-reconciliation-process-to-enact-health-reform-would-be-fully-consistent-with-past>

\* \* [www.waysandmeans.house.gov](http://www.waysandmeans.house.gov)

\*\*\* <https://www.cassidy.senate.gov/imo/media/doc/Section%20by%20Section%20Final.pdf>

Note: ABA's HSA Council advised and supports the Hatch, Rubio S. 403 [www.hsacouncil.com](http://www.hsacouncil.com)

# Focus on HSAs



- Employer and employee contributions (pre-tax through IRC 125 Cafeteria Plan potentially included in “price calculation” for so-called “Cadillac Plans” high value excise tax) \*
- A. Section 4980I was added to the Code by § 9001 of PPACA, as amended by § 10901 of PPACA, and as further amended by § 1401 of HCERA. Section 4980I is effective for taxable years beginning after December 31, 2017. \*
- Department of Labor so-called reintroduced “Fiduciary Rule.” \*\*
- A. Definition of the Term “Fiduciary”; Conflict of Interest Rule — Retirement Investment Advice [4/20/2015]

\* Section 4980I — Excise Tax on High Cost Employer-Sponsored Health Coverage Notice 2015-16, <http://www.irs.gov/pub/irs-drop/n-15-16.pdf>

\*\* <http://webapps.dol.gov/FederalRegister/HtmlDisplay.aspx?DocId=28201&AgencyId=8>

# ABA's HSA Council Reasons to Exclude



- **Cadillac Tax and Fiduciary Rule (Summarized ABA's HSA Council)**
- **Cadillac Tax\*:**

HSA's are not insurance plans/ownership:

Field Assistance Bulletin (FAB) 2004-12 that "HSAs generally will not constitute employee welfare benefit plans" at all. DOL reasoned that HSAs are personal healthcare savings vehicles rather than a form of group health insurance. For example, funds deposited in an HSA generally may not be used to pay health insurance premiums, and the beneficiaries of the account have sole control and are exclusively responsible for expending the funds in compliance with the requirements of the Code.

Behavior of HSA owners:

- A. Account contributions tend to increase as employees age and prepare for retirement.
- B. Individuals who have a chronic condition (diabetes, COPD, etc.) contribute more, presumably because they know they'll be using the account frequently.

- **Fiduciary Rule\*\*:**

- A. HSAs are Distinguishable From IRAs and Other Retirement Investment Arrangements and should be exempt from the proposed rule.
- B. Application of ERISA-Type Investment Rules is Inappropriate for HSA Deposit-Type Arrangements.
- C. If HSAs Are Not Excluded From the Proposed Rule, Clarify That The Platform Provider Exception Applies.
- D. The Proposed Rule should clarify that HSA Trustees/Custodians do not provide Individualized Investment advice by merely providing a menu of pre-selected HSA investment options.

\*<http://www.aba.com/Issues/HSA/Documents/ABA%20HSAC%20Letter%20on%20Excise%20Tax%205-15-15.pdf>\*

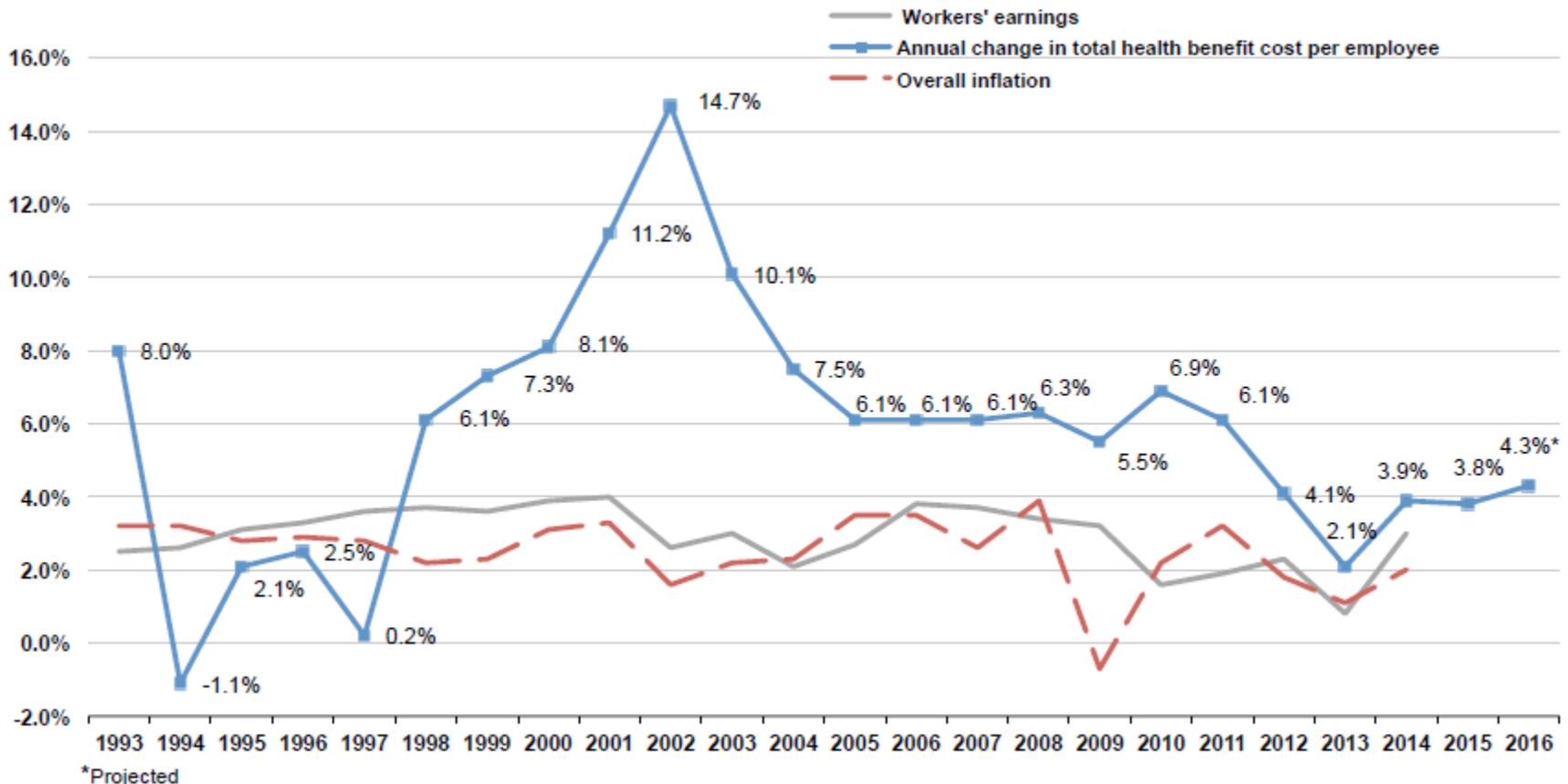
\*\*excerpted from projected conclusions in ABA HSAC Advisory Letter to IRS Dated May 15, 2015  
[www.aba.com/Issues/HSA/.../default.aspx](http://www.aba.com/Issues/HSA/.../default.aspx)



# Employer Trends

Facts

# Average Annual Increases in Health Benefit Costs



## Cost growth slowed in 2016, but faster growth is predicted for 2017

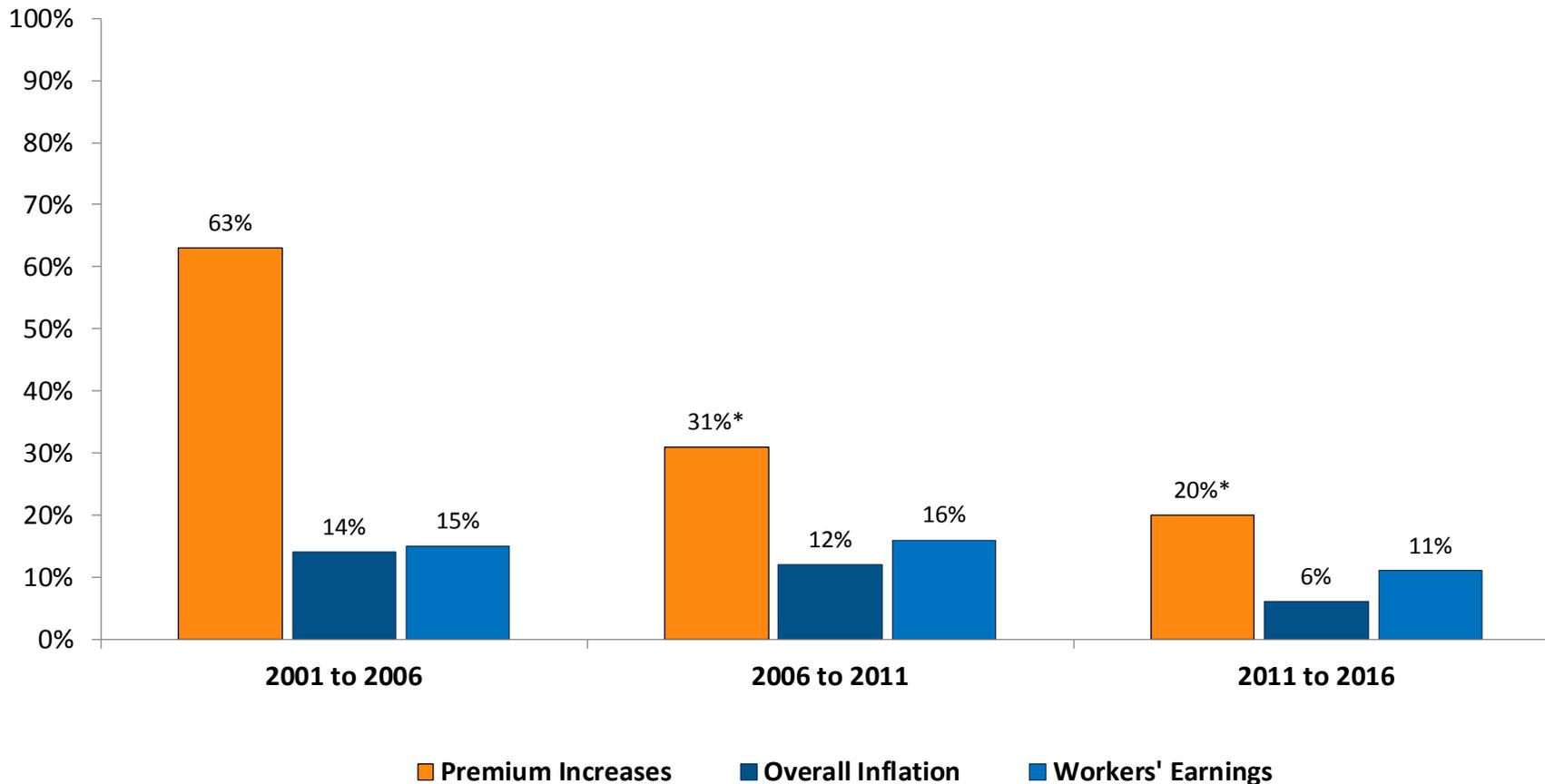
The underlying trend – the average cost increase before plan changes – remains around 6%, far outpacing inflation.

- Source: Mercer's National Survey of Employer-Sponsored Health Plans [www.Mercer.com](http://www.Mercer.com)
- <https://www.mercer.us/our-thinking/health/mercer-national-survey-2017.html>

# Costs Increasing for Employees & Employers



Cumulative Premium Increases for Covered Workers with Family Coverage, 2001-2016



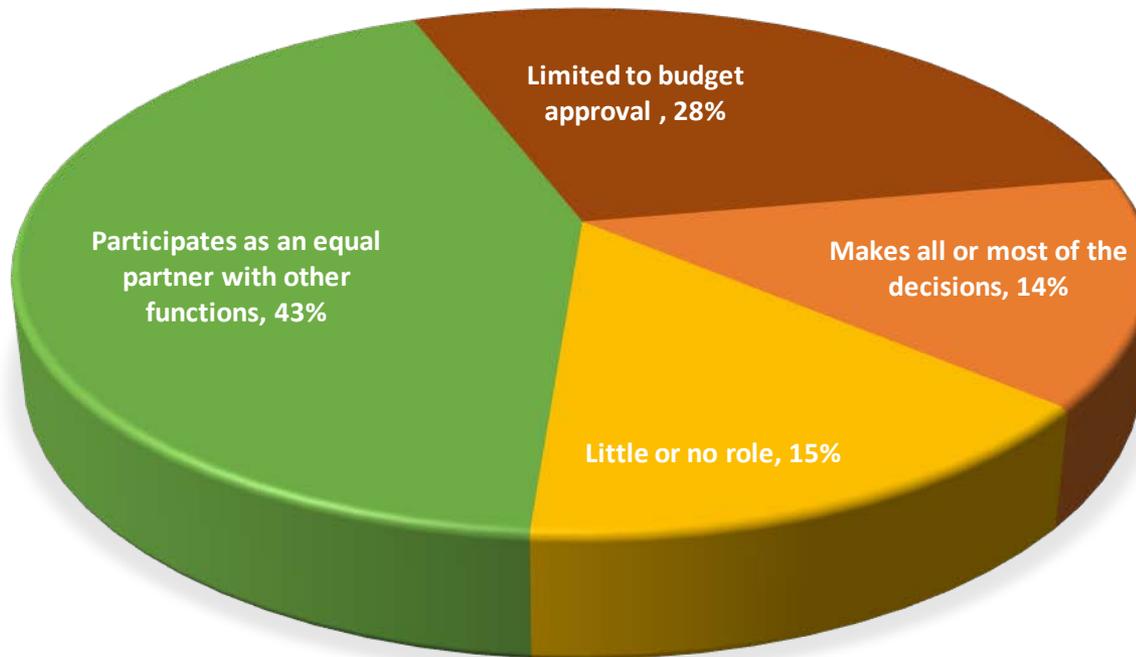
\* Percentage change in family premium is statistically different from previous five year period shown ( $p < .05$ ).

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2001-2016. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2001-2016; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2001-2016 (April to April).

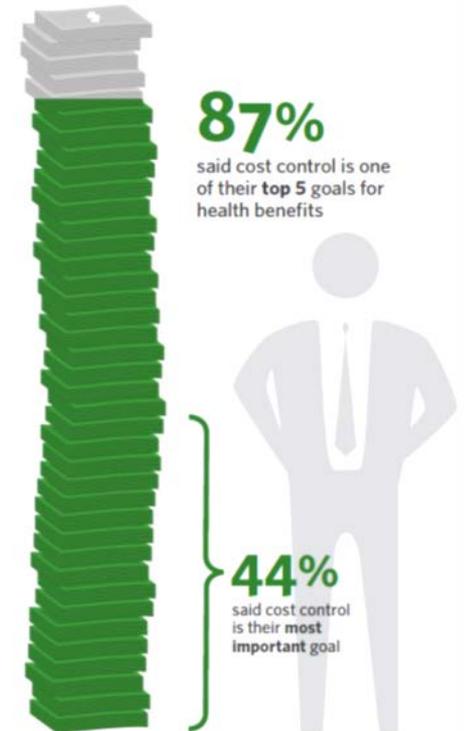
# Confluence of Co- Joined Goals (CFO/HR)\*



## CFO ROLE IN MAKING DECISIONS ABOUT HEALTH-RELATED BENEFITS



CFOs are motivated by more than costs.

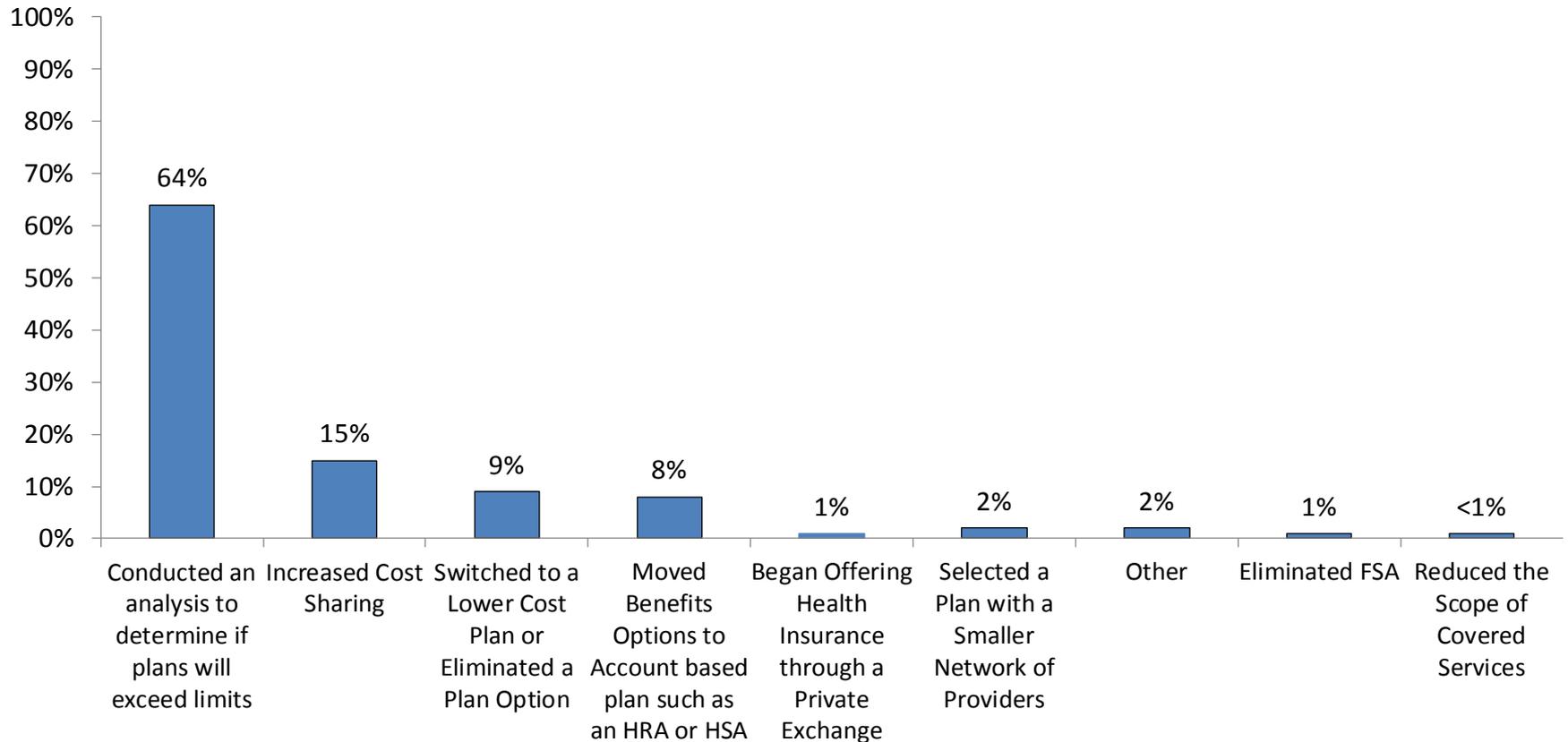


\* Source: Integrated Benefits Institute: IBI CFO Survey - [https://www.ibiweb.org/https://ibiweb.org/?ACT=65&id=txXzdlgpsFVTvP9VW7-kanTr0ATrBiyR29sqaD2yTShKz0yi\\_sBY7RYS0sPtLYPLfnyhq0dZyT632TSRL5WFgw](https://www.ibiweb.org/https://ibiweb.org/?ACT=65&id=txXzdlgpsFVTvP9VW7-kanTr0ATrBiyR29sqaD2yTShKz0yi_sBY7RYS0sPtLYPLfnyhq0dZyT632TSRL5WFgw)

# Employers React to Cadillac Tax

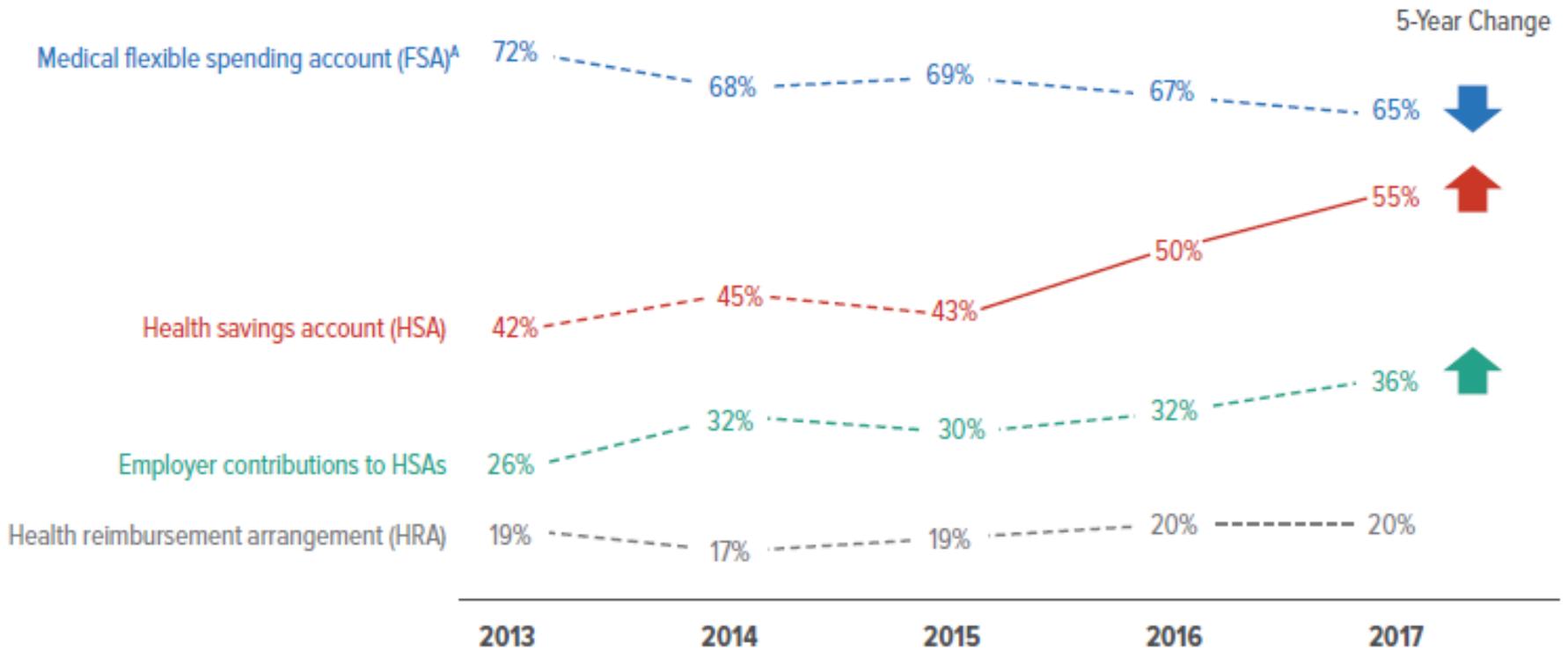


## All Large Firms (200 or More Workers)



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2016  
www.KFF.org

# MORE ORGANIZATIONS OFFER AND CONTRIBUTE TO HEALTH SAVINGS ACCOUNTS



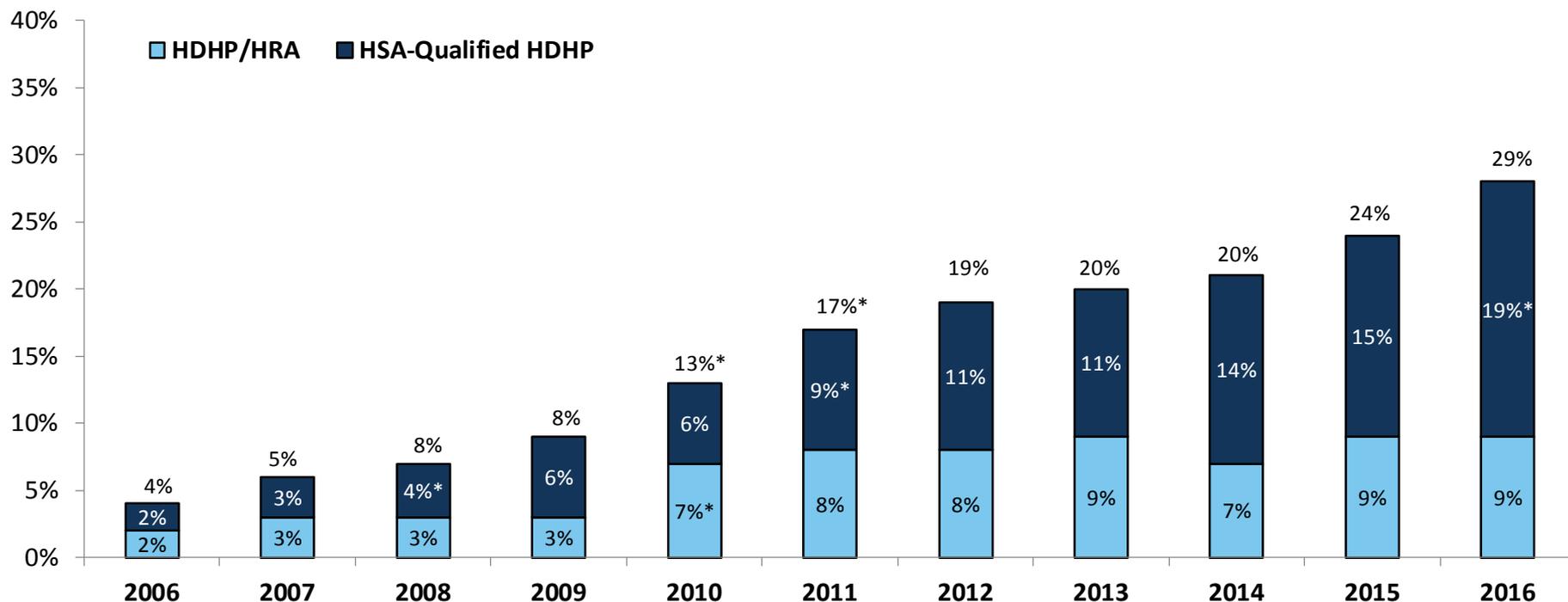
**Source:** 2017 Employee Benefits (SHRM) [www.SHRM.org](http://www.SHRM.org)

[https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2017 Employee Benefits Report.pdf](https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2017%20Employee%20Benefits%20Report.pdf)

# Shift to HDHP / HSA Continues



Percentage of Covered Workers Enrolled in an HDHP/HRA or an HSA-Qualified HDHP, 2006-2016

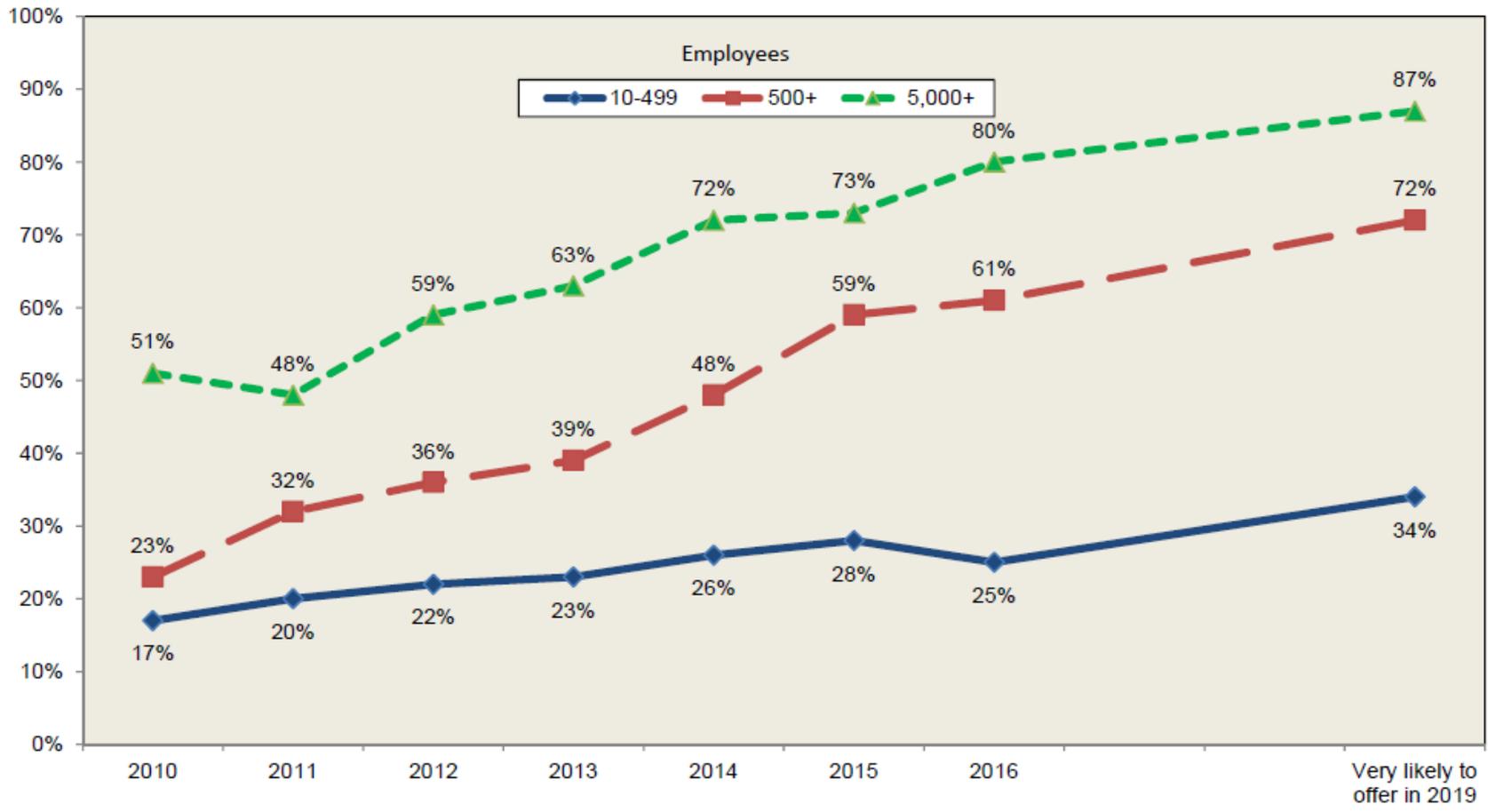


NOTE: Covered Workers enrolled in an HDHP/SO are enrolled in either an HDHP/HRA or a HSA-Qualified HDHP. For more information, see the Survey Methodology Section. The percentages of covered workers enrolled in an HDHP/SO may not equal the sum of HDHP/HRA and HSA-Qualified HDHP enrollment estimates due to rounding.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2016.

www.kff.org

# Percentage of Employers Offering HSA-Eligible Health Plan/HRA

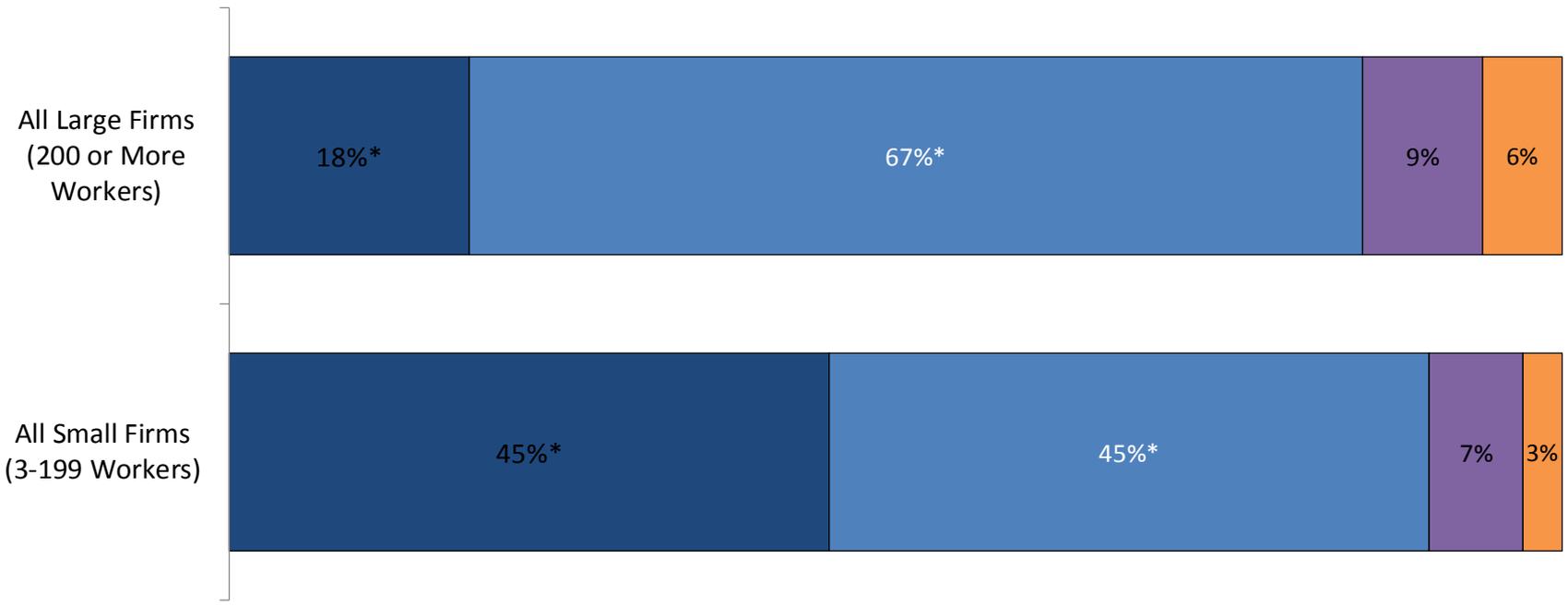


Source: Figure 6 in <http://www.mercer.com/newsroom/national-survey-of-employer-sponsored-health-plans-2016.html>

# % Percentage of Employers Various Approaches to Family Premium Contributions



- Firm contributes the same dollar amount for family coverage as for single coverage
- Firm contributes a larger dollar amount for family coverage than single coverage
- Some other approach
- Varies by class of employees



\*SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2016. www.KFF.com



# Employer Trends

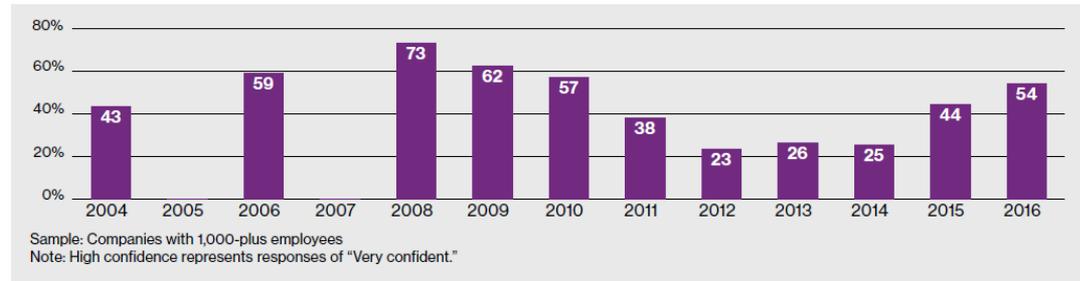
Sentiments

# Employer Sentiment: By the Numbers



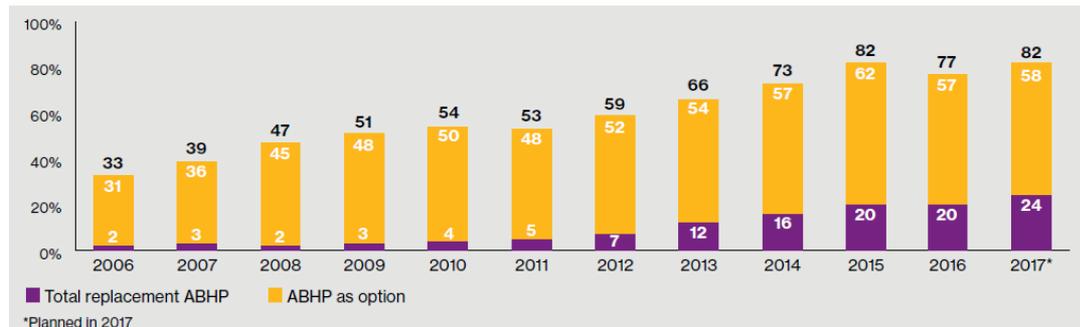
## Employer Health Benefits: It's here to stay

- Employer confidence in sponsoring healthcare benefits in 10 years increased over the last five years



## Continued Trend to ABHP as employers' only plan

- Nearly four in five companies offer an ABHP
- **82%** plan to offer ABHPs in 2017
- **24%** plan to offer as their only plan
- **91%** will include an HSA
- **83%** will seed the employees' HSA
- **41%** promote the value of ABHPs with a year-round communication strategy, moving to **68%** in 2017 and **80%** in 2018.
- As their workforce age into a retirement mindset, 50% of employers will incorporate education on the benefits of an HSA into their retirement planning tools.



# Employer Trends: Top Priorities



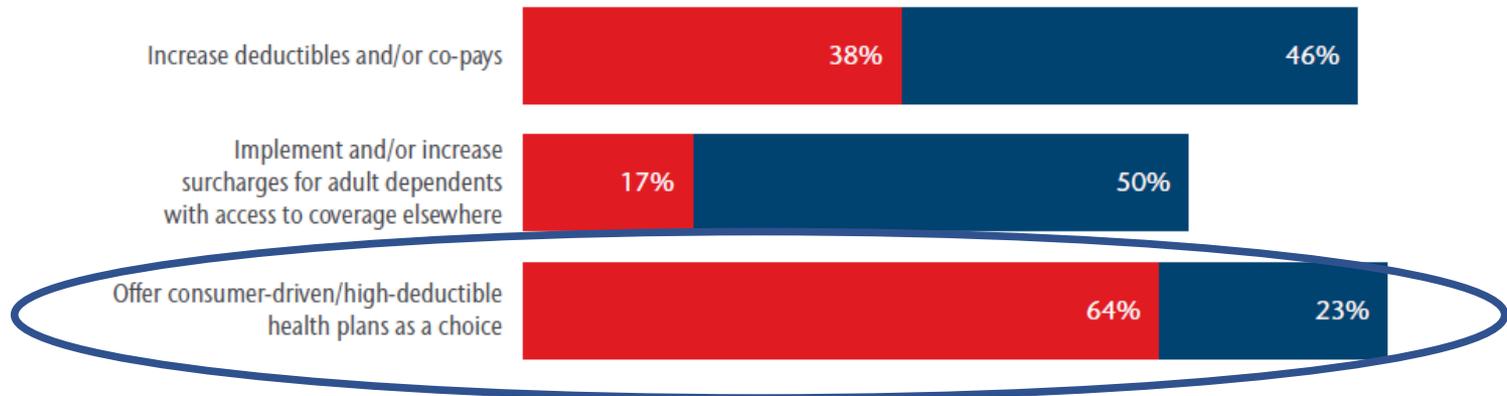
The top three priorities for employers are managing pharmacy costs, evaluating health program design value and increasing participation in health and well-being.

Other priorities for employers include:

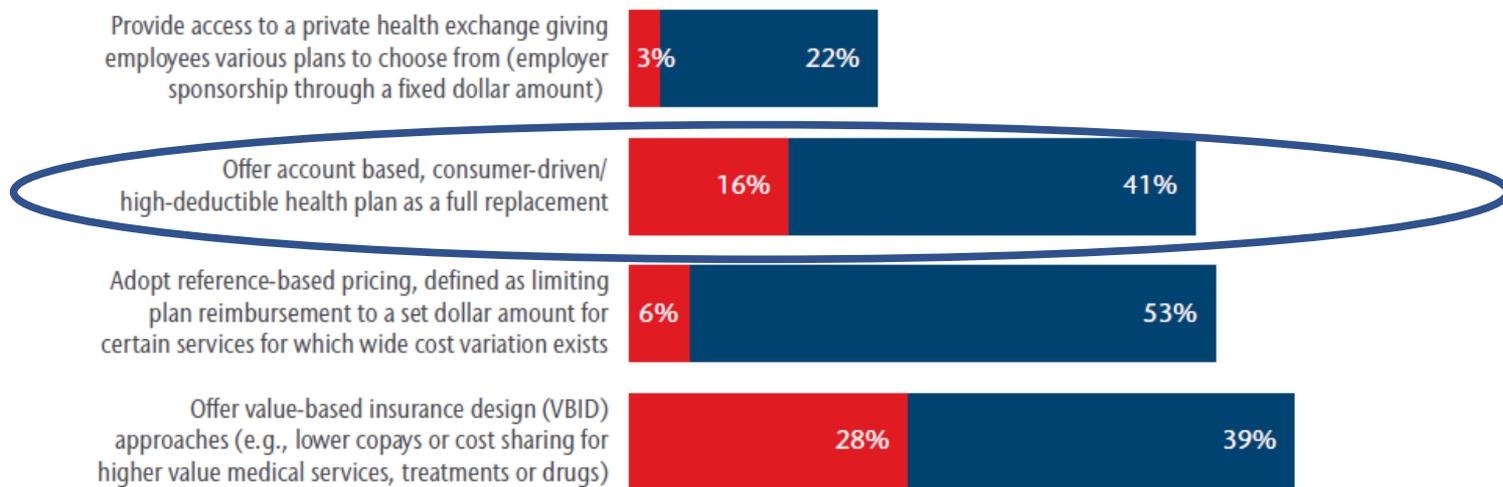
- Evaluate overall health program design value and subsidy levels (81%)
- Increase participant engagement in health and well-being (81%)
- Identify and effectively manage population health risks (71%)
- Evaluate vendor partnerships to determine the entities best-positioned to help deliver on the company's strategy (68%)
- Access health care delivery and networking strategy to maximize the purchasing value of health care services (63%)
- Evaluate spousal and dependent subsidies and their participation in the health program (53%)

# Employer Trends: Incremental and Transformational

## Incremental Changes



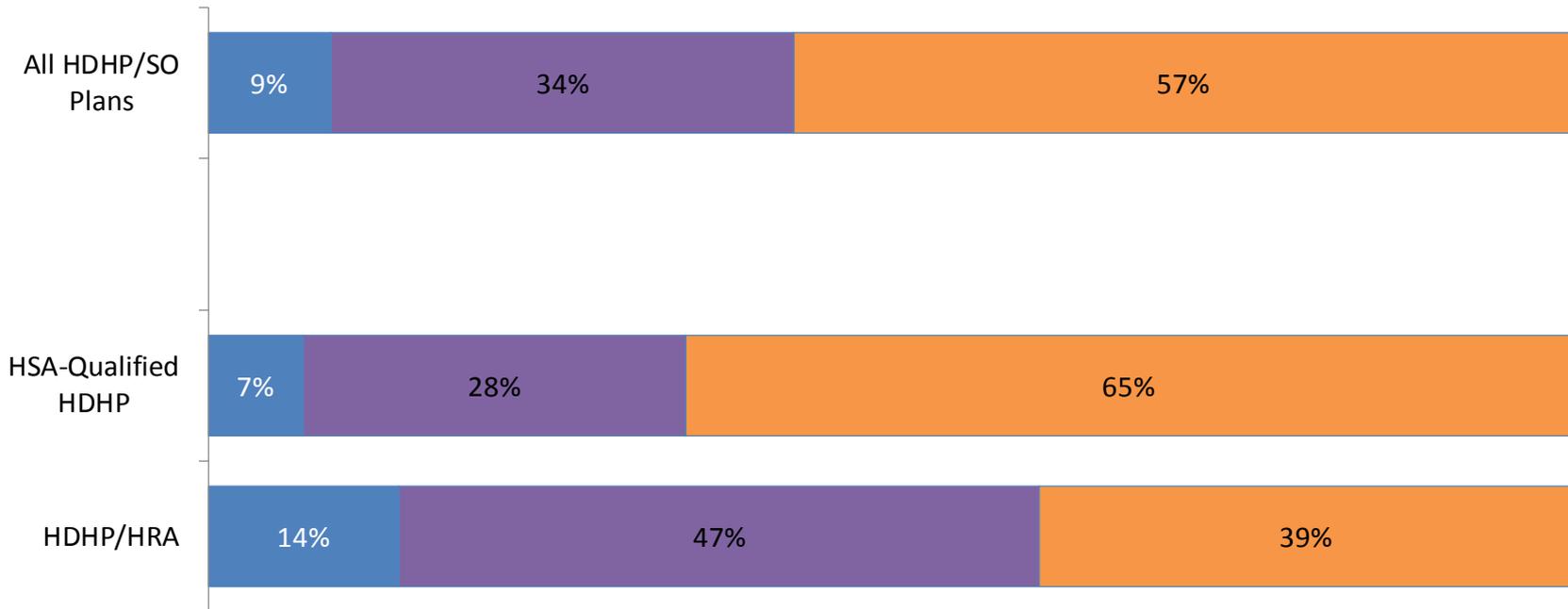
## Transformational Changes in Sponsoring Health Benefits



# HDHP/SO, Average Annual Deductibles for Single Coverage After HRA/HSA Contributions, 2016



- Account Contribution Greater Than or Equal To Deductible
- Deductible After Contribution Is \$1,000 or Less
- Deductible After Contribution Is More Than \$1,000



NOTE: The net liability for covered workers enrolled in a plan with an HSA or HRA is calculated by subtracting the account contribution from the single coverage deductible. HRAs are notional accounts, and employers are not required to actually transfer funds until an employee incurs expenses. General annual deductibles are for in-network services.

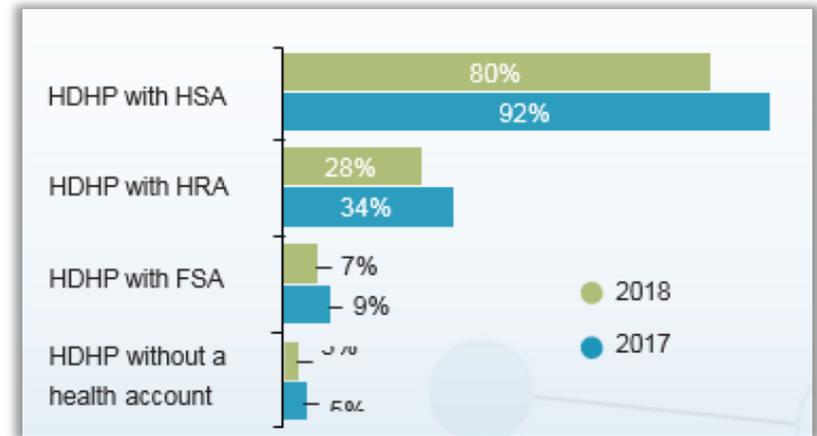
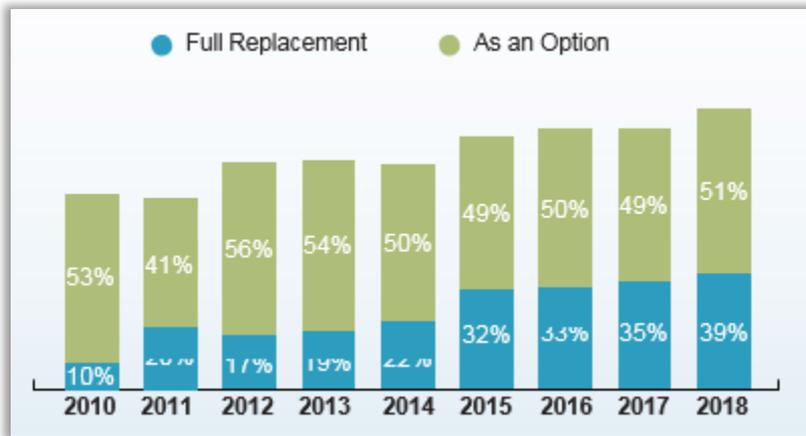
SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2016. [www.kff.org](http://www.kff.org)



# Employer Trends

Tactics

# Looking Ahead – Large Group Market



- The adoption of CDHPs continues to increase among large employers. In 2018, **90%** of employers will offer at least one CDHP, up significantly from 84% in 2017.
- The percentage of employers who will offer only CDHPs to their employees has increased, from 35% in 2017 to **39%** in 2018.
- By 2020, nearly all large employers (97%) will offer a CDHP as an option

# Employer Trends: Workforce Well-being



In the crosshairs: the realization that a healthier and more financially secure employee equals a more productive employee.

- Top priority: Change hearts and minds by building corporate culture of well-being and encouraging healthy behavior and lifestyle
- Focus on boosting health care engagement and consumerism
- Focus on the (4) pillars of employee well-being
  - Physical
  - Emotional
  - Financial
  - Social



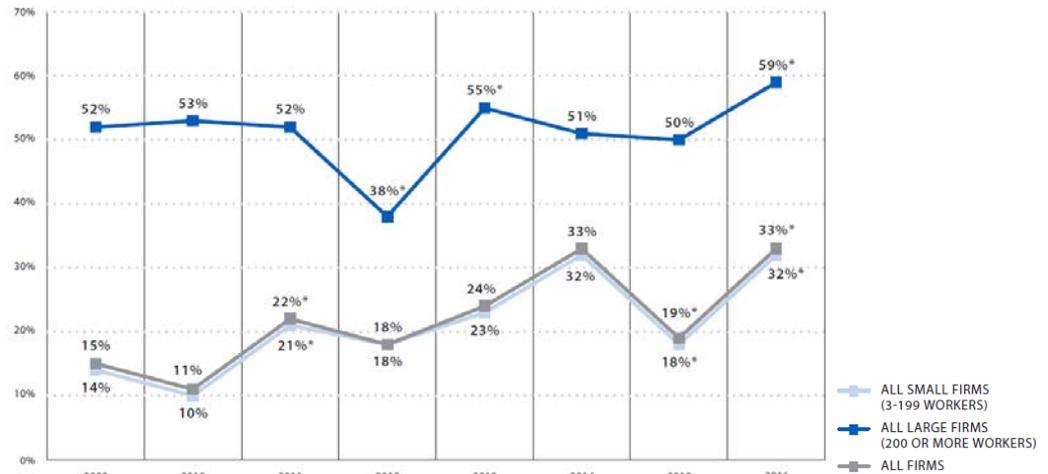
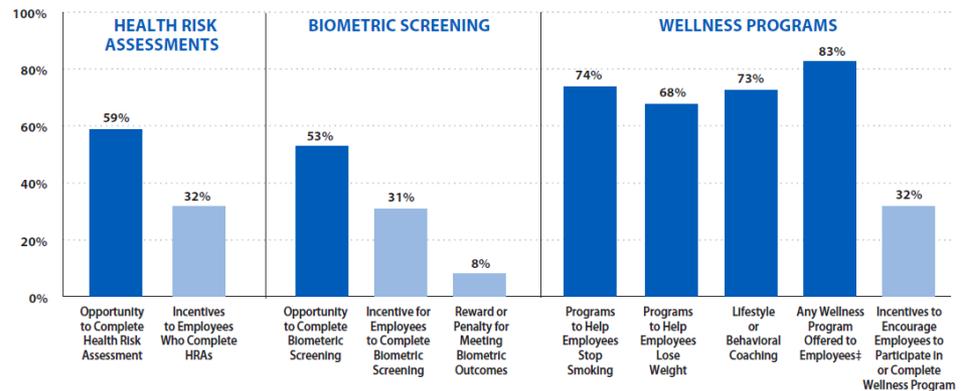
# Employer Trends: Carrot or a Stick



**Employers are using a “carrot” in the form of financial incentives to drive employee behavior and increased participation in health and well-being programs.**

- Identify health issues
  - Health Risk Assessments
  - Biometric Screenings
  - Health / Wellness Promotion Programs
- Take steps to improve their health
  - Exercise programs
  - Health education classes or courses
  - Stress management counseling
  - Health coaching
  - Smoking cessation programs
  - Weight loss and/or lifestyle programs

Among Large Firms (200 or More workers) Offering Health Benefits, Percentage of Firms Offering Incentives for Various Wellness and Health Promotion Activities, 2016

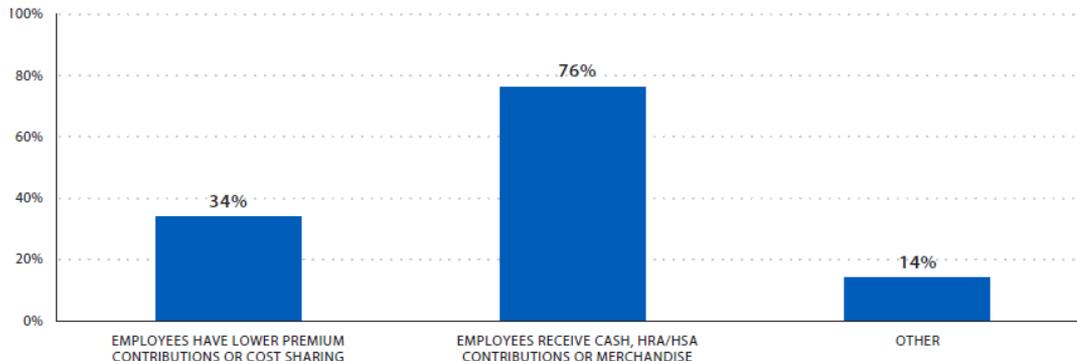


# Employer Trends: Incentives



Employers are using different tactics deliver incentives to drive participation in or complete wellness programs.

- Lower Premiums or Reduced Cost Sharing
- Gift Cards or Merchandise
- **HSA / HRA contributions**
- Leverage incentives to drive participation
  - 26% maximum incentive less than \$150
  - 35% maximum incentive between \$150 and \$500
  - 23% maximum incentive between \$500 and \$1,000
  - 9% maximum incentive between \$1,000 and \$2,000
  - 7% maximum incentive of \$2,000 or more

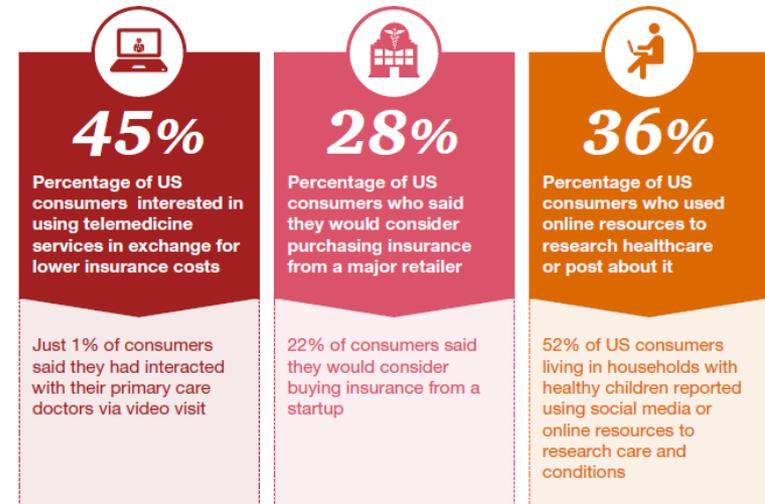


# Employer Trends: On the Horizon



Consumerism growing the market for platforms and support by driving consumers to options that are cheaper, more efficient and convenient.

- Leverage technology
  - New platforms and enhanced websites
  - Wellness experiences and tracking tools
- New ways to shop for care
  - Telemedicine
  - Retail clinics
- Make better health decisions
  - Access to information; cost vs. value
  - Cost transparency and estimating tools



How likely would you be to choose the following for yourself if it cost you less than a traditional option and the technology or service were available?



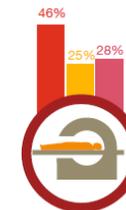
Send a digital photo of a rash or skin problem to a dermatologist for an opinion



Have dialysis at a medical clinic in a retail store



Have a live visit with a physician via an application on your smartphone



Get an MRI at a clinic in a retail store or pharmacy

■ **Healthy families:**  
US households with healthy dependent children under the age of 18.

■ **Consumers with chronic disease:**  
US consumers with problems affecting a single body system such as hypertension and require uncomplicated disease management.

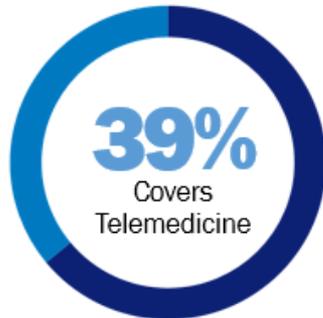
■ **Consumers with complex chronic disease:**  
US consumers living with one or more chronic diseases affecting multiple body systems and requiring complicated disease management.

# Employer Trends: On the Horizon

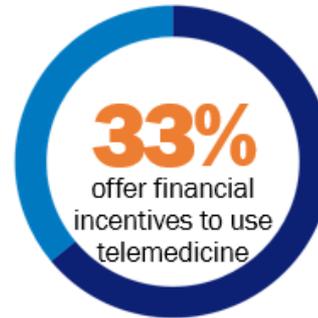


An example of new avenues for the efficient and convenient delivery of routine healthcare services is the increased use of telemedicine.

## Telemedicine on the Move...



**LARGE**  
[200 or more workers]  
**COMPANIES**





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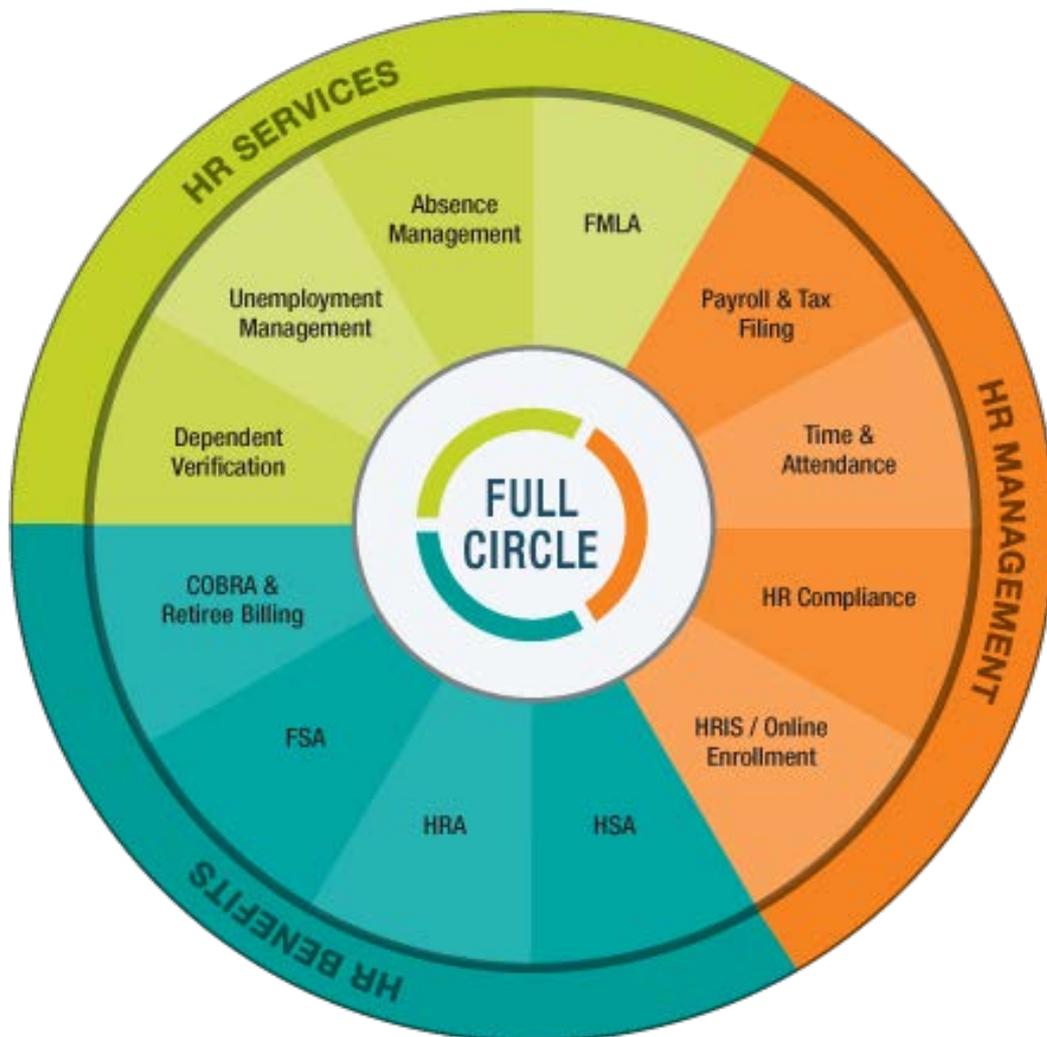
# Questions



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