



Health Savings Account Adoption, Contribution and Spending Behavior

The following are key observations from a study of 25,000 individuals enrolled in Health Savings Account (HSA) plans for the full year of 2005, the first full 12-month period for which data is available. The purpose of the analysis, conducted by UnitedHealth Group's Definity Health business, is to better understand the influence of plan structure and consumer characteristics on HSA adoption and use. Relating health plan data to account contributions, disbursements and balance amounts, this analysis addresses three fundamental questions regarding HSA-eligible individuals:

- 1. Who opens an HSA?*
- 2. Who funds (or doesn't) their HSA?*
- 3. Who saves or spends funds in their accounts?*

The findings suggest that a majority of individuals enrolled in an HSA-eligible plan through Definity are opening the account, contributing their own funds and carrying over balances, indicating that consumers better understand how their benefits work and are realizing the advantages of saving early on for future health care expenses. In order to understand the effect that various demographic and environmental characteristics have on the account holder's saving and spending behaviors, this analysis also considered gender, age, family status, income, employer size, and plan strategy.

Beginning in 2005, significantly more employers and their employees participated in HSAs, thereby making this information more mature than other recent industry studies, which either focused on a smaller number of employees or an earlier group of enrollees before HSAs were widely offered. This study was made possible because of the integration between Definity Health and Exante Financial Services, UnitedHealth Group's fully-owned bank. Few other health plans have a similarly comprehensive view across both health and financing arenas to provide a comparable level of detail and insight.

Who Opens an HSA?

Publicly reported information indicates that approximately 60% of eligible high-deductible health plan (HDHP) enrollees typically open a Health Savings Account (HSA) at a bank. There are specific opportunities to increase that rate of adoption. The employers in this study provided an integrated health and financial solution, including a single, comprehensive enrollment process that pairs the HSA with online enrollment technologies, comprehensive communication initiatives and, frequently, an employer contribution to the account. As a result, their employees opened Health Savings Accounts at rates averaging 84%.

Employer contributions significantly affect account openings. On average, 91% of eligible employees open an account when their employer contributes funding, compared to just 45% opening an account when their employer does not contribute.

A number of other factors also influence account openings. For instance, the uptake rate varies slightly with employer size. While 88% of eligible employees who work for large employers (5,000+ employees) open the bank account, that percentage drops slightly to 79% of workers at mid-sized employers (100-4,999 employees) and 81% of workers at small employers (1-99 employees).

Age and family status have a minor impact on account adoption. While the rate of account opening varies across life stages, the range is relatively tight (78% among young singles to 89% of young families). Families and mature couples are most likely to open an account, while young singles are least likely to open an account. (For the purposes of this study, “mature” is defined as 40 years or older, and “young” is under 40 years old.)

Despite fears that HSAs would only appeal to the wealthy, the analysis found that HSAs are utilized by consumers across all income ranges. Overall, the rate of account openings varies only from 80% to 84% across all income ranges. Most notably, 80% of low-income individuals (those earning \$25,000 or less annually) open their accounts. However, income plays a clear role in account adoption when the employer does not make a contribution to the account. In those cases, accounts are opened by:

- 23% of those earning less than \$25,000
- 39% of those earning \$25,000 to \$49,000
- 50% of those earning \$50,000 to \$99,000
- 58% of those earning \$100,000 or more

Gender was not shown to have a material impact on account opening.

How Was The Analysis Conducted?

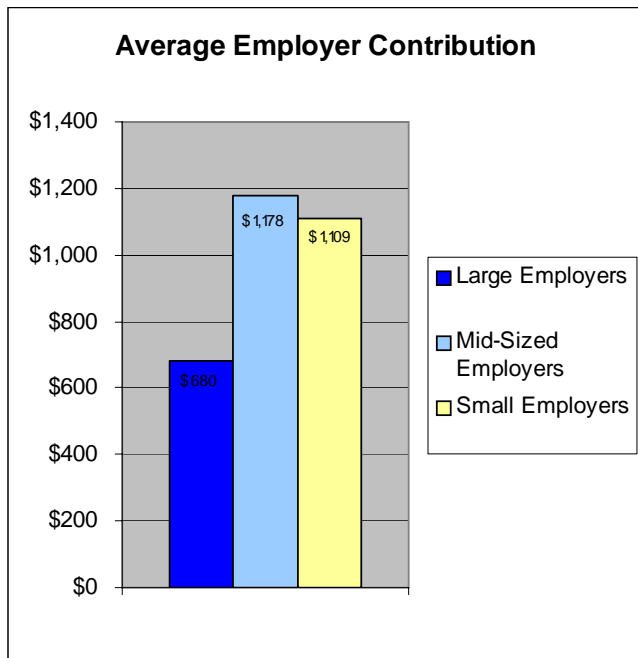
UnitedHealth Group, which is the largest provider of HSAs in the country with nearly 1 million HSA members, conducted the analysis based on the saving and spending patterns of 25,000 individuals enrolled in its employer-sponsored HSA plans for all 12 months of 2005. Pairing health plan membership information with financial transaction data from the company’s own health care bank, Exante Financial Services, made the study possible.

Who Funds (or Doesn’t) Their HSA?

Approximately two-thirds of employers (68%) and consumers (67%) contribute money to their bank accounts, demonstrating a clear recognition of the connection between the accounts and the ability to plan for future health care needs.

There are, however, observable differences in account contribution based on a variety of factors. For instance, employer contributions tend to vary by the size of the employer, with large employers (5,000+ employees) contributing an average of \$680 to their employees’ accounts, while mid-sized employers (100-4,999 employees) and small employers (1-99 employees) contribute more than \$1,100 each. **[SEE GRAPH A].**

Additionally, employers who have adopted a full-replacement HSA program tend to make larger contributions (\$1,260 on average) than those introducing an HSA as a plan option (\$780 on average).



GRAPH A

Among consumers who open an account, 67% contribute their own dollars – an average of \$1,206 each – suggesting that enrollees understand the plan and consider the future benefit of savings, even in a program’s first years. Even among low-income individuals (earning \$25,000 or less per year), 56% of account holders make their own contributions to the account. Steady increases were observed as income ranges rose, with 74% of those earning more than \$100,000 adding their own funds to their account.

There are not material differences in employee funding patterns related to employer company size, except that employees of large companies are less likely to contribute their own dollars if their employer does not also contribute.

As expected, younger single enrollees (56%) are less likely to contribute to the account than are older couples (76%) and families (72% – 75%).

When individuals open a bank account as part of a full-replacement HSA program offered by their employer, the total employee-employer contribution (combined) exceeds \$2,150, compared to less than \$1,800 for programs that are not full-replacement.

Gender does not have a material impact on account funding behaviors.

Who Saves or Spends Funds in Their Accounts?

A large majority of individuals – 86% – carried an HSA balance into 2006, indicating a likely desire to save for future health care expenses. The average year-end balance was \$815, representing 30% of the average deductible (\$2,700) and 44% of the average total contribution (\$1,861). [SEE GRAPH B]

Saving activity is observed across all income groups, although predictably, the likelihood of spending is highest among those with lower incomes, and the ability to save within an HSA increases with income. However, even among low-income individuals, who are more likely to use the account for transactions, rather than as a savings vehicle, 80% carried a balance into 2006, with an average balance of \$761.

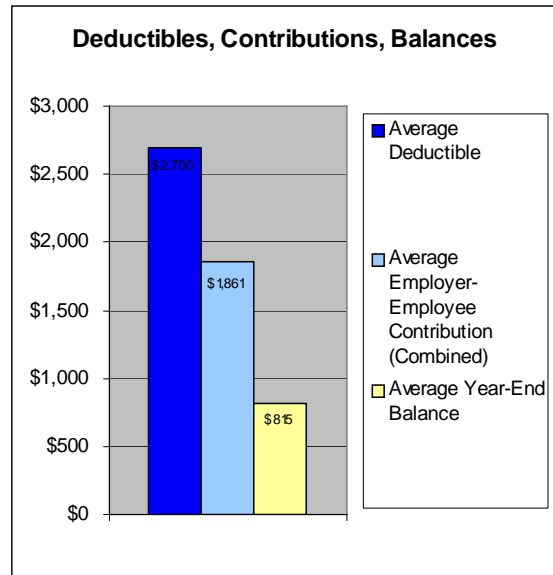
As expected, young people (singles, couples and families) are more likely to spend out of their account, with mature couples being most likely to save. The group with the lowest year-end balance (\$70 on average) is comprised of young people who earn less than others and are less likely to benefit from an employer contribution to their account.

Interestingly, individuals are typically spending more out of their accounts when they’re enrolled in full-replacement programs (\$1,221 on average) than under option-based plans (\$1,028 on average). Additionally, enrollees in full-replacement plans ended 2005 with higher balances on average than those in option-based plans (\$908 compared to \$769).

As part of the analysis, we segregated participants into five classes of relative spending or saving behavior. In doing so, there appears to be a normal bell curve distribution of how people utilize their HSA dollars.

- Those we classified as “Savers” ended the year with an average account balance that exceeded \$1,500. These individuals are paying for their share of plan costs with other funds and preserving account dollars.
- On the opposite end, those who used the account principally for transactions ended the year with a balance that was much lower – an average of \$70.

Gender does not have a material impact on saving or spending behaviors.



GRAPH B

In Summary

The following findings can be used to better inform employers’ future decisions around HSA-based programs:

- Integrated models like the one offered through UnitedHealth Group, which pair the HSA as a core element of a complete plan approach, including communication, enrollment processes, and contribution strategies, increase the rate of account openings among employees.
- Full-replacement HSA programs tend to reflect higher levels of employee funding, account use and savings. One reason may be that employers introducing a full replacement approach typically engage in intensive employee education and change management processes. Lessons from these implementations can be shared with employers who want to maximize account use and savings.
- Employer contributions to the account are the single greatest driver in account uptake among participants, as well as in overall levels of contribution and balance growth.
- HSAs do not appear to disadvantage lower-income employees, but the data suggests that employers with low-paid populations should provide an account contribution. Also, if saving for future health needs is a key objective, additional thought should be given to specific strategies for lower-income individuals.
- Given the tendency for young people to treat the account as a spending rather than a savings vehicle, employers with young populations will want to structure communication strategies that align with their objectives for the program.
- Paired with UnitedHealth Group’s June 2006 study, which showed an increased level of preventive care, lower overall costs and decreased utilization without adverse effects on health outcomes for individuals in a consumer-driven health plan, the data is beginning to establish a clear pattern of how account-based plan designs are working well to support health care affordability and quality.