Susan Berry just returned from a national conference on compensation and benefits where she attended a session on health savings accounts (HSAs). Susan is the human resources director at Frontline PR, and the company has been struggling with the cost of health care insurance. After speaking with several experts at the conference, Susan now thinks an HSA might be a viable option for the company.

Frontline PR is a public relations firm located in the Northeast that employs close to 150 people in four different offices. Public relations professionals make up most of the staff, but the company also employs a complete administrative and operations staff. All of Frontline’s employees work full-time schedules and are eligible to participate in its health care insurance plan. Frontline currently offers a standard fee-for-services health care insurance option. The plan has a modest deductible of $300 per year and a 20 percent coinsurance requirement. In addition, the company offers a flexible spending account (FSA) that allows employees to set aside pretax earnings to pay for the deductible, coinsurance, and other medical expenses.

Susan is considering offering an HSA along with a high-deductible health insurance plan instead of the current insurance plan and FSA. At the conference, Susan learned that making such a change could result in significant cost savings for a company. The high-deductible health insurance plan would cost a lot less for the company than the standard fee-for-services plan that Frontline currently offers. While Susan suggests that Frontline make contributions to each employee’s HSA, the overall costs for the health care benefit would still be less than its current option. Beyond cost savings on premiums, many believe that consumer-driven health care tends to reduce overall health care costs. Some of the experts Susan spoke to at the conference stated that when employees have a greater say in their health care decisions, they make wiser decisions and do not spend as much on health care.

Susan has discussed the HSA option with Frontline’s director of finance, Allison Jones. From the financial perspective, Allison agrees that the option would be a good step to start controlling health care costs. However, as an employee who would use the benefit, Allison isn’t so sure that an HSA with a high-deductible health insurance plan is the right option for the company. Based on Susan’s initial explanation, Allison didn’t really understand how the HSA worked. Further, she was concerned that she would have to spend more out of pocket on her own health care.

Susan is convinced that the HSA option would offer a significant cost savings to Frontline. However, after her discussion with Allison, Susan is still unsure if it is the right path to recommend for her company.

Questions:

1. 10-6. What are some advantages of implementing the HSA option?
2. 10-7. What are some potential disadvantages of the HSA option?
3. 10-8. What do you recommend? Why?