



Exploring Health Savings Accounts

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Agenda

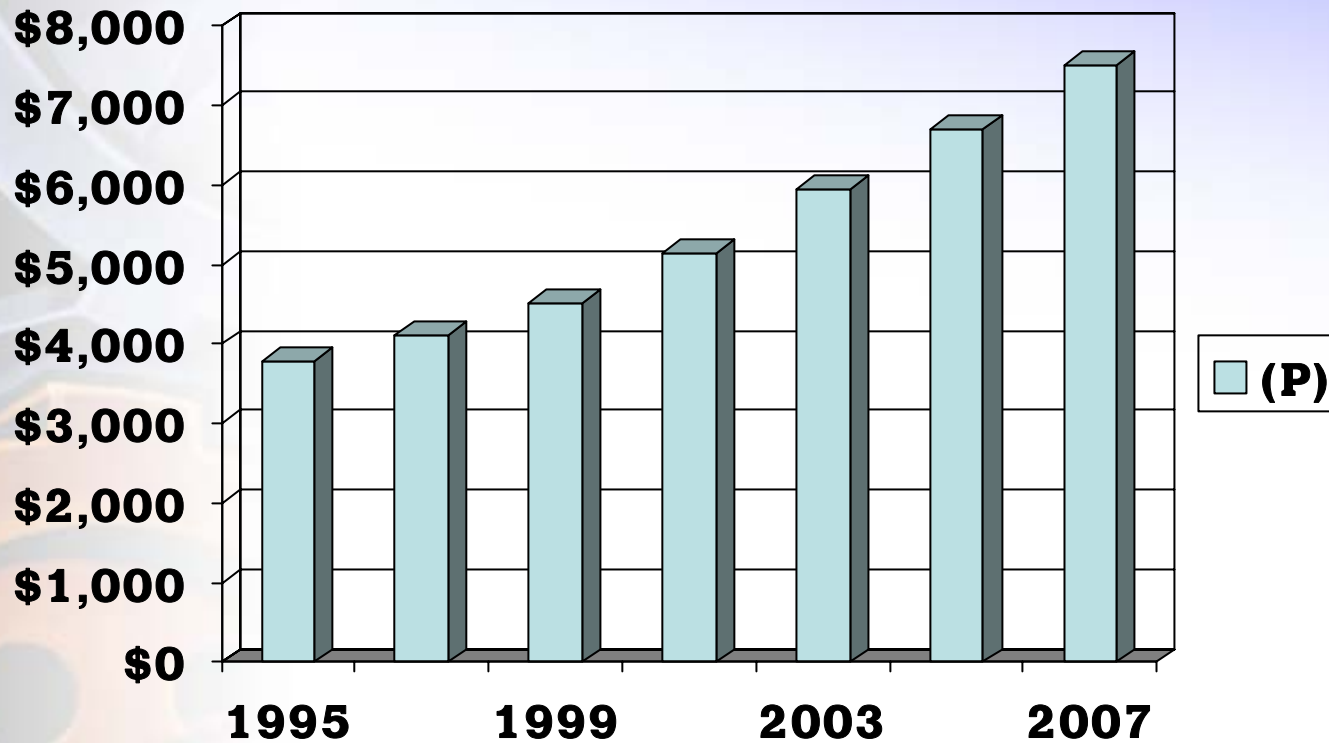
- Food for thought...
- What are Health Savings Accounts
- How do High Deductible Health Plans (HDHP) work with HSA?
 - -Comparison of PPO and HMO to HDHP
- HSA Eligibility
- HSA Contributions
 - -How Medicare Affects HSAs
 - -Catch-up Contributions
- Qualified Expenses to Draw from HSA accounts, and employer contributions
- Consumer-directed Health Plan Advantages
- HSA Trends
- Employer Best Practices

Food For Thought

What groceries would cost if prices had increased as fast as health care costs since the 1930's:

- **Apples \$6.99/lb**
- **Eggs \$45.83/Dozen**
- **Bacon \$58.43/lb**
- **Banana \$9.17/lb**
- **Orange \$61.66/lb**

National Healthcare Spending Per Person



Health Savings Accounts

"Medical IRA"

- Use tax free* money to pay for current medical expenses and save for retirement
- Interest and distributions for qualified expenses are tax free*

Choice and Flexibility

- Tax free* money to pay for medical, dental, vision, long term care, Medicare and COBRA premiums

*Currently state tax applies in CA, AL, NJ, and WI



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Traditional PPO & HMO Plans

All health insurance plans have 4 key components:

- 1. Deductible**
- 2. Co-pay**
- 3. Co-insurance**
- 4. Annual Maximum Out of Pocket (max OOP)**

Traditional PPO vs. HDHP

Traditional PPO		HDHP
100% Coverage (In Network)	Out of Pocket Maximum in Network	100% Coverage (In Network)
80% Coverage (50% out of Network)	\$3,600 \$6,000 Annual Deductible	100% Coverage (80% Out of Network)
	\$250/\$500	Out of Pocket Max. Out of Network \$1,500 \$3,000 Annual Deductible & Out of Pocket Max in Network \$1,500/\$3,000

HSA Eligibility

- **Account holder must have HSA compatible HDHP coverage**
- **Account holder cannot have dual (non HSA compatible) health coverage**
- **Account holder cannot be on Medicare**
- **Account holder cannot be claimed as a dependent on someone else's tax return**
- **Account holder cannot have a general purpose healthcare FSA or HRA**

HSA Contributions

Federal maximum limits 2009:

- **\$3,000 single**
- **\$5,950 family***
- **\$1,000 catch up contributions (for age 55+)**
- ✓ **No “use it or lose it” provision**
- ✓ **FSA, HSA, and IRA rollovers allowed**
- ✓ **Portability of contributions**

How Medicare Affects HSAs

- **No further contributions allowed if receiving Medicare**
- **Distributions for Medicare premiums are allowed tax free (at age 65 or older)**
- **Prior to age 65 distributions for non-qualified expenses are subject to a 10% penalty and are taxed**

Qualified HSA Expenses

- Medical, Dental and Vision (account holder and/or spouse and dependents) sample expenses include:
 - Prescription Drugs
 - Dental (Orthodontics etc.)
 - Lasik
 - Doctors Office Visits
 - Hospital Bills
- **COBRA, long term care and Medicare part B & D premiums**

Employer Contribution Comparability Rules

- **Must be the same dollar amount or percentage of deductible for “like employees”**
- **“Like employees” can be defined as ee, ee+spouse, ee+child(ren) and ee+family**
- **Full/Part time and Union vs. Non Union distinctions allowed**
- **Higher HSA contributions may be made for non highly compensated employees**
- **Contributions made by the employer are NOT included in income for the employee for Federal tax purposes**
- **May be made at any time in any amount**

Summary of Health Savings Accounts

Functionality and ROI

- Our account works like a checking account with debit card and online access
- 3% APY* across all deposits in H.S.A.
- Low monthly fee
- Employer group contributions available
- Investment options available
- Knowledgeable representatives to provide onsite presentations to your staff

*Rates subject to change at any time

*State taxes apply in AL, CA, NJ and WI



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Consumer-Directed Health Plan (CDHP)

Consumers More Conscious

**71% in CDHP plans consider cost when seeking medical care
vs. 49% in traditional plans ***

**57% ask about lower cost alternatives
vs. 38% in traditional plans***

* Kaiser Family Foundation Survey, November 2006

CDHP Enrollees More Engaged in Wellness and Tracking Expenses

HSA members are more engaged in wellness programs and likely to plan and save for healthcare compared to those in traditional plans

- ✓ 17% More Likely to Exercise**
- ✓ 20% Participate in Smoking Cessation programs vs. 6%**
- ✓ 22% Participate in stress management vs. 8%**
- ✓ 63% Tracked health care expenses vs. 43%**

HSA Advantages to Employers

- **Employer contributions are not taxable* to employees- Employer HSA contributions are a business expense**
- **Reduces the current spend and rate of growth for healthcare costs**
- **Reduces FICA, FUTA match and Workers' Compensation if employee contribution runs through payroll (reduces gross payroll)**
- **Supports employee involvement to abate escalating cost of health care**

* Currently state tax applies in CA, AL, NJ, and WI

HSA Advantages to Employees

- **Contributions and earnings grow tax deferred and are portable**
- **Tax advantaged vehicle for asset accumulation**
- **Source of funding medical/dental/vision/long-term care services for self and family tax free**
- **Financial incentive to practice healthy lifestyles**
- **Accounts can accumulate over time in tax sheltered investments***

*Currently state tax applies in CA, AL, NJ, and WI



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Summary Thoughts and Trends

HSA is not a magic bullet, but a powerful tool

From an employer's perspective, HSAs:

- Reduce current health benefit costs**
- If employee contributions flow through payroll system, reduces gross payroll and thus reduce workers' compensation and FUTA/FICA cost**
- Abate future health benefits**
- Encourage employee savings for future medical expense**

Example: Current Silicon Valley Client with 50 Employees

IN FORCE PLANS:

- Kaiser HMO
- HealthNet HMO/PPO
- Low/No Copay
- Low/No Deductible

Annual Premium: **295,716**

HSA OPTIONS:

- Kaiser HSA
- HealthNet HSA
- Low/No Copay
- Low/No Deductible
- \$1,500 Annual Deductible

Annual Premium **\$158,760**

Savings \$136,956

Net Result: Employer funded all 50 employees at \$125 per month, or \$1,500 per year and still save \$61,956. Was able to offer dental and vision plans, and still save.



HSA Growth Trends

- **National Market Potential of HSAs**

- 2005: 1.5 million accounts*

- 2006: 3.5 million accounts*

- 2007: 5.5 million accounts**

- 2008: 12 million accounts**

- 2009: 19 million accounts***NB

- 2010: 21 million accounts***

- **Adoption curve is faster than that of IRAs and 401(k)s in late 1980s and early 1990s**

*United Health Care Investor Presentation Q3 2004

**HSA Insider, February 2005

***US Treasury Dept., January, 2006

NB: HSA Insider, 5/07, predicts 30M HSA enrollees by Year End 2009



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Key Elements: Benefit Design

- Understand and address exposure to out-of-pocket costs
- Choose plans where preventative care is not subject to the deductible
- Seed HSA accounts to speed adoption
- Strong endorsement and support by senior management
- Communicate early and frequently to educate employees
- Address worries about catastrophic claims

What to Communicate

- Employees at the center of decision-making about health and HSA use
- Emphasize financial incentives for good decision-making
- Describe how the HDHP plan works with their HSA



Fact or Fiction?

**HSA-compatible health plans
are only for the wealthy**

Fact or Fiction?

HSA-compatible health plans are only for the wealthy

- **42% of HSA account-holders have annual income of less than \$50,000 (US dept of Treasury)**
- **Lower wage earners are advantaged by the ability to pay for services free of federal taxes**



Fact or Fiction?

**HSA compatible plans are only
for the young and/or healthy**

Fact or Fiction?

HSA compatible plans are only for the young and/or healthy

- 46% of HSA account-holders within the individual market are at least 40 years old (January 2008 Census, AHIP)
- No significant difference exists between having an HSA-compatible health plan and a non-HSA-compatible health plan with regards to health outcomes, (*Resource: HSA Bank Consumer Benchmark Survey, April 20*)



Fact or Fiction?

**The funds in the Health Savings Account are
“Use it or Loose it”**

Fact or Fiction?

**The funds in the Health Savings Account are
“Use it or Loose it”**

- **Funds in an HSA are owned by the account holder and are not taken away if unused.**
- **HSA’s are a vehicle for retirement savings**
- **HSA’s allow for tax deferred growth**



Fact or Fiction?

**If I have a lot of medical expenses,
I am better off with a traditional plan**

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**If I have a lot of medical expenses,
I am better off with a traditional plan**

The most important part of a health care plan design to a high utilizing individual is the maximum annual out of pocket amount. Often this figure is significantly lower in HSA compatible plans



Questions and Answers



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