

Introduction to Consumer-Driven Health Care

Presented By:

James F. Olney, JD



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Consumer-Driven Health Care

- Basic economics don't apply to healthcare—employers buy and employees use—no understanding of true costs
 - Employee has no stake—“What do I care, it's the insurance company's money”
 - Current system provides no rewards/carryovers for those with good health (does not promote good health or wise spending)



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Consumer-Driven Health Care

- Goal is to encourage employees to behave as consumers when it comes to health care in order to keep costs down
 - Employee has a stake—employees become aware of actual costs and see this as “real money”
 - Encourages interactive process between employee and doctor
 - Increased accountability (promotes good health and wise spending)



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Health Plans Today

- Average employer cost of health insurance (2009)
 - Single: \$4,824
 - Family: \$13,375
- Average cost of HSA-qualified HDHP (2009)
 - Single: \$3,829
 - Family: \$10,396



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Health Savings Account (HSAs)



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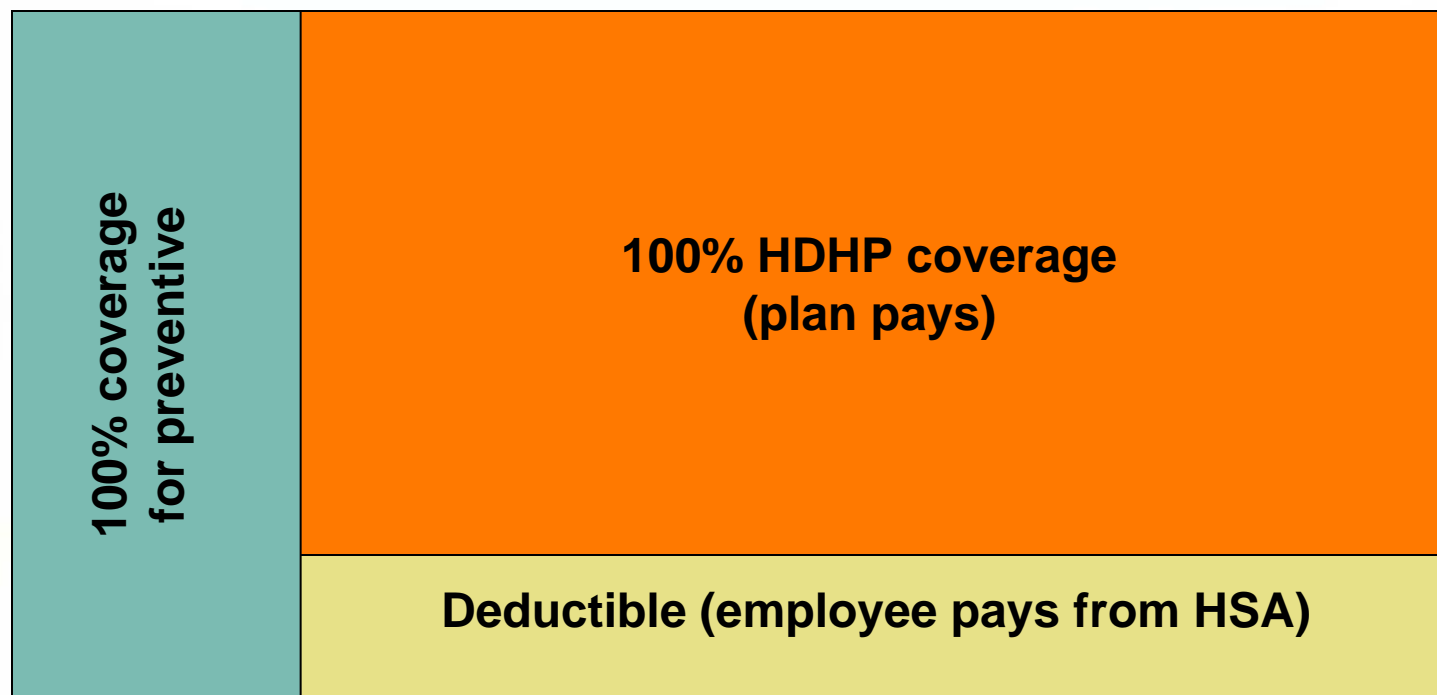
How Do HSAs Work?

1. Employer provides a High Deductible Health Plan (HDHP) which provides core coverage that kicks in once the deductible is met.
2. Employee opens an HSA Account which they use to pay for their below-deductible and other uninsured medical expenses on a tax free basis.
3. Employer may help fund employee's HSA account, and/or employee may fund it pre-tax through payroll, and/or employee may fund it with their own after-tax contributions and then get an income tax deduction.



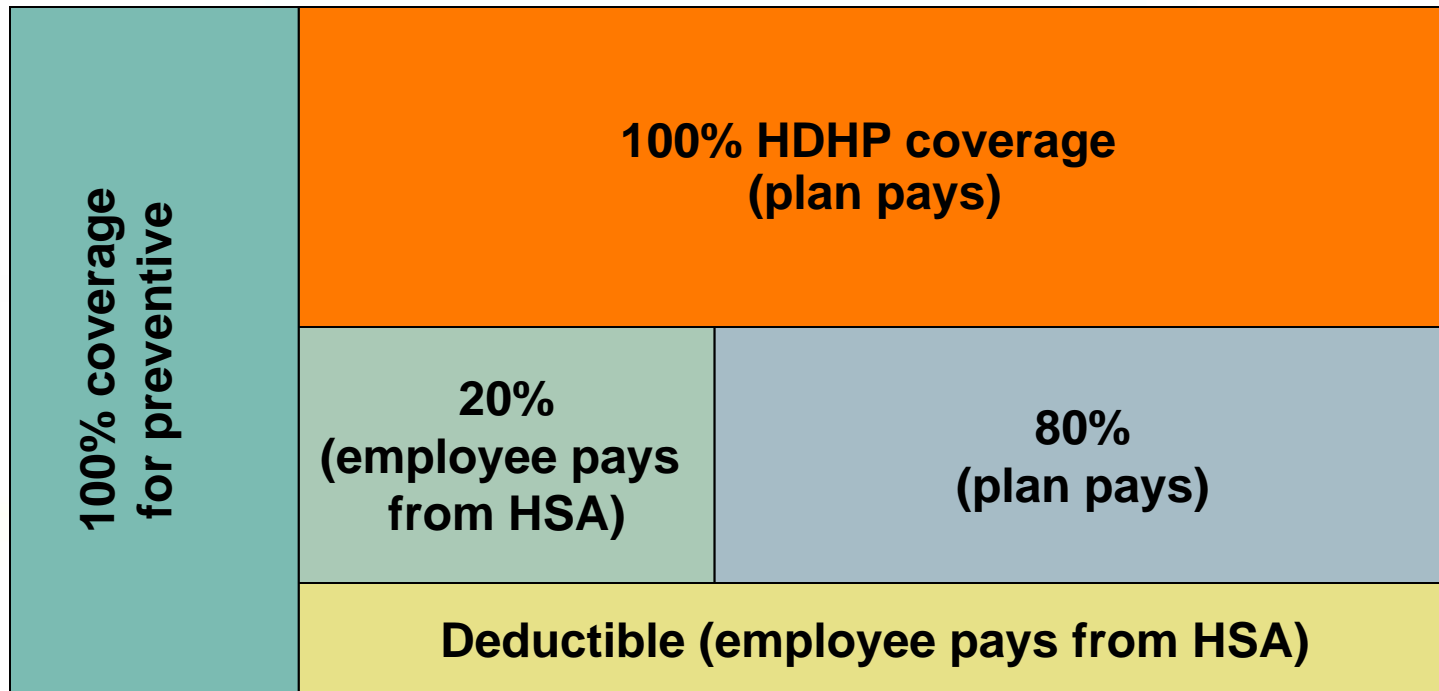
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High Deductible Health Plan With An HSA (sample plan design #1)



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High Deductible Health Plan With An HSA (sample plan design #2)



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Employee Benefits of an HSA

- Employees “own” the HSA account, and take it with them when they leave
- HSA funds are immediately vested (employee’s money)
- Can fund HSA with money saved on premiums
- Funds can be invested and earn interest if not used
- Unused funds rollover and accumulate tax free
- Tax savings when funded by pre-tax contributions
- Increased involvement and awareness of health care decisions



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Employer Benefits of an HSA

- Keeps your health care costs down through consumerism
- You can help fund HSA with money saved on HDHP premiums
- Great tax savings for employees and employer
- Employee administered (no administration costs or hassles)
- HSAs are not subject to COBRA, HIPAA or ERISA (but the HDHP is)



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Health Savings Accounts (HSAs): The Nuts and Bolts



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HSA—Who Can Participate?

To be HSA Eligible an individual:

1. Must be covered by a qualified High Deductible Health Plan (HDHP), and
2. Must not be covered by impermissible low deductible coverage (i.e. Medicare, Health FSA, spouse's plan, etc.)

Note: Self-employed and 2%+ shareholders in a S-Corp/LLC can participate in an HSA, but cannot make pre-tax contributions



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What is a Qualified HDHP?

- Must have a minimum annual deductible of at least:
 - \$1,150 / \$1,200 (2009 / 2010) for single coverage, and
 - \$2,300 / \$2,400 (2009 / 2010) for family
- Minimum deductible is a “true deductible”
 - Plan may pay no expenses until deductible is satisfied (*other than preventative care*)
 - No office copays or Rx copays
- Max out of pocket expenses are capped
 - \$5,800 / \$5,950 (2009 / 2010) for single coverage
 - \$11,600 / \$11,900 (2009 / 2010) for family coverage
 - Includes copays, coinsurance, and other out-of-pocket costs
 - IRS will allow many common plan designs like lifetime limits, limits on specific benefits, etc.



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Non-HDHP Coverage

- HSA account holder may not have coverage under any other plan that is not an HDHP
 - Impermissible forms of non-HDHP coverage:
 - Medicare
 - Spouse's employer's health plan
 - General purpose Health FSA
 - Spouse's employer's Health FSA
 - Permissible forms of non-HDHP Coverage
 - Dental and Vision Plans
 - STD, LTD, Long-term Care and Workers Comp
 - Disease specific plans / Hospital indemnity plans
 - Dual option plans are options



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Contributions to an HSA

- Both employees and employers can contribute to an HSA on a tax-free basis
- Employer contributions are optional
 - Many employers use premium savings from switching to HDHP to help fund HSA
 - Front loading or seed contribution often important to sell employees on HSA concept



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Contribution Limits

- Maximum annual contribution:
 - \$3,000 / \$3,050 for single (2009 / 2010)
 - \$5,950 / \$6,150 for family (2009 / 2010)
- Special rules if both husband and wife have an HSA
- May need to be prorated if employee has less than 12 months of HDHP coverage
- Employee + 1, Employee +2, etc. are subject to family maximum annual contribution
- Both employee and employer contributions count towards maximum



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Contributions are Non-forfeitable

- All contributions are immediately owned by employee and can't be forfeited
 - Balance rolls over from year-to-year
 - No cap on maximum accumulation
- Account balances are portable at termination of employment
 - Employee can continue to contribute to HSA as long as employee has HDHP (e.g., COBRA, new employer, etc.)
 - If no HDHP, funds can still be withdrawn for medical expenses and funds grow tax free



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HSA Distributions

- HSA funds can be used to pay for “qualified” medical expenses of employee, spouse & dependents
 - Distributions for non-qualified expenses are subject to federal income tax and 10% penalty (65)
- Can reimburse any medical expense incurred after the date the employee opens the HSA
- Employee cannot withdraw more than is in the HSA account



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HSA Qualified Medical Expenses

- All expenses incurred for medical care
 - Same as Health FSA, including OTC drugs
- There is no administrator with an HSA
- Employee (not employer) is responsible for:
 - Determining qualified medical expenses
 - Maintaining documentation
 - Reporting excess contributions and taxable distributions on tax return



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Health Reimbursement Arrangements (HRAs)



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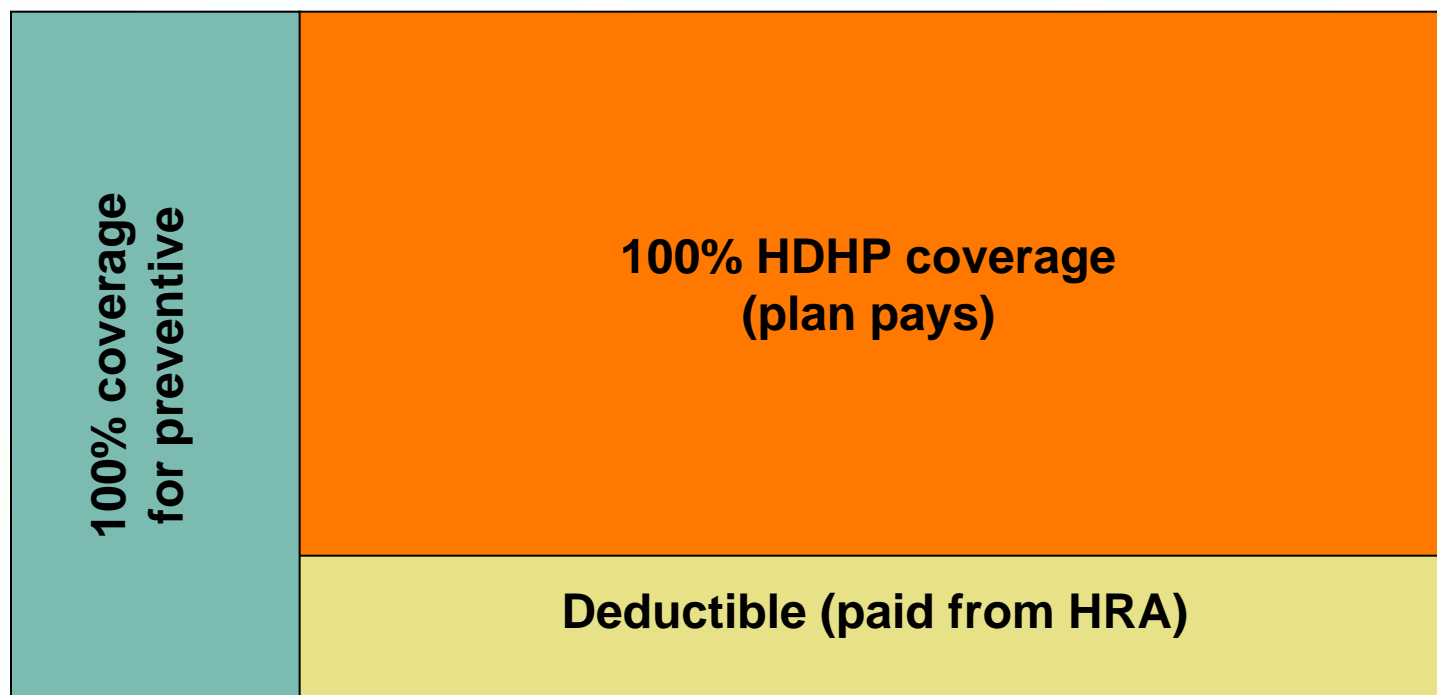
How Do HRAs Work?

1. Employer **usually** provides a High Deductible Health Plan that provides core coverage
2. Employer creates an HRA Account which they use to pay for employee's below deductible medical expenses on a tax free basis



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High Deductible Health Plan With an HRA



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HRAs—What Are They?

- An HRA is an employer account
 - Funded by employer with no employee contributions
 - Usually administered by a TPA who approves and pays claims, track balances, etc.
 - HRA can be designed to:
 - HRA pays first
 - Employee pays first
 - 50/50 cost share between employee and HRA



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HRAs—What Are They?

- HRA will usually only cover medical expenses that are also covered under the high deductible plan (i.e. count towards the deductible)
 - But an HRA can be designed to cover all medical expenses, similar to an HSA
- HRA funds can rollover at the end of the year or can be forfeited
- Unlike an HSA, employee's cannot take HRA balances with them when they leave the company
 - But HRAs are subject to COBRA



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HRA—Participation

- Who can participate in an HRA
 - Generally HRA will be set up to only pay for medical expenses of those enrolled in the health plan (i.e. employee, spouse and dependent children)

Note: Self-employed, partners and 2%+ shareholders in a S-Corp/LLC can't participate in an HRA on a tax favored basis. Must either be excluded from participating (conservative) or taxed on the value of the HRA (aggressive).



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HRA Requirements

- There are TWO MUST requirements of HRA plan design:
 - MUST be employer dollars—cannot be funded by employee dollars either directly or indirectly
 - ONLY “Medical Expenses” can be reimbursed



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HRA—Funding

- Typically, claims are paid out of employer's general assets; contributions & balances are just bookkeeping entries



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HRA—Claims

- HRA claims must be submitted to an administrator for review & approval
 - Self-administered
 - TPA
- Claims must qualify as eligible medical expenses under the tax code as well as satisfying any additional limits imposed by the plan



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Great Flexibility in an HRA

- Most other design issues are optional:
 - Usually connected to a high deductible plan but not required
 - Employer determines amount of HRA allocations
 - Employer HRA allocations can be made all at once or on a periodic basis, i.e uniform coverage need not apply



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Great Flexibility in an HRA

- Most other design issues are optional:
 - Expense need not be incurred during current plan year (but can't reimburse expense incurred prior to enrolling in HRA)
 - May allow rollover of unused funds
 - Many employers have a maximum benefit “bank”



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What HRA Plan Design Options Are Excluded?

- No Cash Out
- No reimbursement of expenses reimbursed under another plan or deducted by the participant (no double dipping)
- No reimbursement of premiums for employer's major medical coverage



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Thank You!



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