

# Banking and Technology Track: Employee H.S.A Options, Case Studies, Legislative Review, Adoption Strategies

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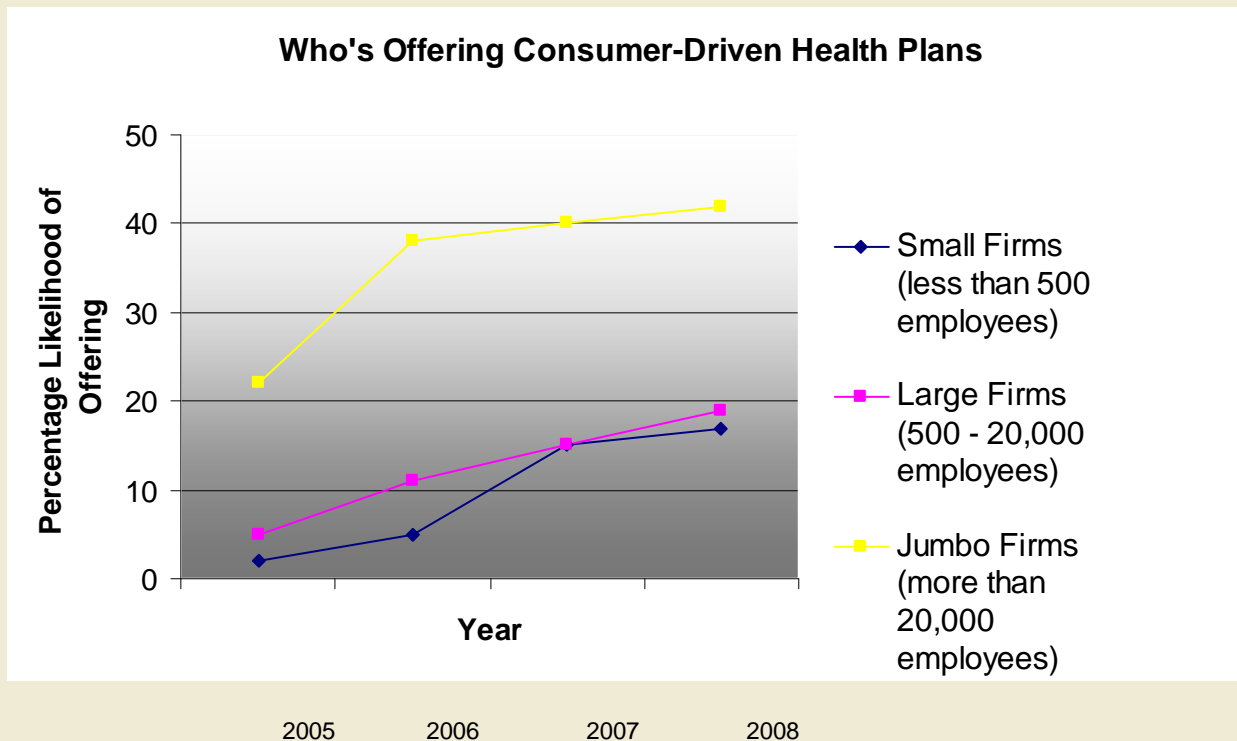
# Today's Agenda

- The Concept of Consumer Driven Health Care
- The Creation of Health Savings Accounts (HSAs)
- Deciding How to Structure Your Health Plan(s)
- Legislative Changes Making HSAs Even More Attractive
- A Real Employer Example

# *The Concept of Consumer Driven Health Care*

# How can Employers reduce healthcare benefit costs?

- CDH single most influential movement in healthcare
- Exposes employees to the true cost of health care
- The emergence of 'consumerism'
- Retiree benefits are rapidly disappearing



# What are the Benefits of CDH?

- Better educated and engaged health care consumers
  - Translates into better health care for all
- Reduce health care costs for the employer by lowering and sharing the responsibility for health care with the participant
  - Lower premiums provide savings that can be invested in H.S.A for current or future medical expenses
- Tax advantaged savings for individuals
  - Wellness programs
  - Retirement or future medical expense management

## *The Creation of Health Savings Accounts (HSAs)*

# Health Savings Accounts Introduced in 2004

- Created under Medicare reform legislation passed in 2003
- HSAs pair a high deductible health insurance plan with a health savings account to cover medical expenses until the deductible is reached.
- Contributions are made with pre-tax dollars, and the account is controlled and owned solely by the individual.
- HSAs are a *savings* tool and can be used at any time for eligible medical expenses.

# HSAs Are Full Tax-Advantaged Accounts

- Put money aside to pay for eligible medical care expenses pre-tax\*
- No tax on investment earnings
- Make eligible medical payments tax-free

	With Plan	Without Plan
<b>Annual Income</b>	\$40,000	\$40,000
<b>Employee Contribution</b>	\$1,500	--
<b>Employer Contribution</b>	\$1,000	--
<b>Taxable Income</b>	\$38,500	\$40,000
<b>25% Taxes</b>	\$9,625	\$10,000
<b>After-Tax Healthcare Spending</b>	--	\$2,500
<b>Remaining Pay</b>	\$28,875	\$27,500
<b>Savings</b>	<b>\$1,375</b>	

\*Tax references are for federal taxes only. State taxes vary. Consult your tax advisor.

# Who Is Eligible to Open an HSA?

- Participants in a high-deductible health plan (HDHP) with a minimum deductible of:
  - ◆ \$1,100 for individual \*(same for 2008)
  - ◆ \$2,200 for family \* (same for 2008)
  
- Must not be covered under any other healthcare arrangement
  
- Annual out-of-pocket maximum cannot exceed:
  - ◆ \$5,500 for individual \*(increase to \$5,600 in 2008)
  - ◆ \$11,000 for family \* (increase to \$11,200 in 2008)

# How Much Can You Contribute?

- Up to the annual HSA limit
  - ◆ \$2,850 individual for 2007 (\$2,900 in 2008)
  - ◆ \$5,650 family for 2007 (\$5,800 in 2008)
  - ◆ Amounts are indexed for inflation each year
- Catch-up contributions available for individuals over 55

Individuals 55 and older who are covered by an HDHP can make additional catch-up contributions each year until they enroll in Medicare. The allowable “catch-up” contributions are as follows:

  - 2007 - \$800
  - 2008 - \$900
  - 2009 and after - \$1,000

# What is an Eligible Medical Expense?

- Most out-of-pocket health care expenses are eligible:
  - ◆ Co-pays
  - ◆ Deductibles
  - ◆ Eyeglasses and contacts
  - ◆ Prescription Costs
  - ◆ Some over-the-counter medications
  
- Items covered under IRS Publication 502\* and IRC Section 213(d)
  
- Qualified medical expenses don't include insurance premiums

*\*IRS Publication 502 is not a complete list, as IRC 213(d) also deals with what is an eligible tax-free distribution from an HSA*

## *Deciding How to Structure Your CDH*

# Do You Go Full Replacement?

- Companies must choose between offering a high deductible health plan as full replacement or as a “slice” among other options
- If just another choice, the HDHP adoption rate is about 8% among eligible employees
  - ◆ Rates vary significantly based on company education, commitment, and financial incentives – anywhere from 5% to 70%
- Today about 5% of companies offering CDH offer it as the only option (full replacement)
- Some argue that full replacement goes against the whole concept of consumerism and choice in health care

# Deciding Between an HSA and an HRA

- A Consumer Driven Health Plan can use either an HSA or a Health Reimbursement Arrangement (HRA)

## HRAs

1. Employer to retain control over type of medical expenses covered since contributions are made and owned by the employer
2. Permit coordination with Flexible Spending Accounts
3. Employer discretion to let money roll from year-to-year and also ability to retain unused funds

## HSAs

1. Far easier to administer (no substantiation or liability)
2. Tax savings for both the employer and employee if pretax payroll deductions used
3. Employee owned account for current or retirement benefit

# Deciding Between an HSA and an HRA

	<b>HSA</b> <b>HEALTH SAVINGS ACCOUNTS</b>	<b>HRA</b> <b>HEALTH REIMBURSEMENT ARRANGEMENTS</b>
<b>Availability</b>	Individuals and employees of any size group	Any size group (not available to partners in a partnership, members of an LLC, or shareholders who own more than 2% stock in a Sub S corporation.
<b>Restrictions</b>	Must have a qualifying high deductible health plan. Employees cannot be covered by another low deductible health plan, although some exceptions apply.	Limited to reimbursement of medical expenses of employee and dependents as defined by 213(d) of Internal Revenue Code.
<b>Qualifying Uses (May be allowed under plan)</b>	Medical, dental and vision expenses of employee, spouse, or dependent children not covered by insurance; co-pays; deductibles; chiropractic expenses. Generally not available for insurance premiums.	Medical, dental, and vision expenses not covered not covered by insurance; co-pays; deductibles; chiropractic expenses.
<b>Eligible Contributors</b>	Employer and/or employee, individual	Employer only
<b>Maximum Contribution</b>	\$2850 for self-only coverage \$5650 for family coverage Catch up provisions for those over 55. (These amounts for 2007 only.)	Maximum reimbursement is determined by the Employer's Plan.

# Deciding Between an HSA and an HRA

	<b>HSA</b> <b>HEALTH SAVINGS ACCOUNTS</b>	<b>HRA</b> <b>HEALTH REIMBURSEMENT ARRANGEMENTS</b>
<b>Tax Deductibility</b>	Employee contributions are tax-deductible by employee. Employer contributions can be pre-tax to employee and tax-deductible by employer.	Contributions are tax-deductible by employer.
<b>Portability</b>	Yes	No
<b>Carry over of unused balances</b>	Yes	Yes, if Employer's plan so provides
<b>Withdrawals for Non-Qualified Medical Expenses</b>	Allowed income tax will apply and 10% penalty on the amount withdrawn will generally apply.	Not allowed

*Recent Legislative Changes Make HSAs Even More Attractive for Employers and Employees*

# The Health Opportunity Patient Empowerment Act of 2006

Health Savings Accounts become much more attractive savings vehicles with legislative changes signed in December 2006!

Provision	Old Law	New Law
Increased HSA Annual Contribution Limit	HSA contributions were limited to the lesser of the statutory dollar limits (\$2700 for individual coverage and \$5450 for family coverage in 2006) or the annual deductible for the individual's HDHP.	The limit related to the individual's HDHP deductible has been eliminated. In 2007 any individual with HDHP coverage may make a deductible HSA contribution up to the statutory dollar limit (\$2850 for individual coverage and \$5650 for family coverage).

# The Health Opportunity Patient Empowerment Act of 2006

Health Savings Accounts become much more attractive savings vehicles with legislative changes signed in December 2006!

Provision	Old Law	New Law
Simplify HSA Contribution Rules for Mid-Year Enrollees	If someone became eligible to contribute to an HSA anytime after the beginning of a calendar year, his HSA contribution was limited to a pro rated portion of the annual dollar limit over the period of time during the calendar year he had HDHP coverage.	An individual that becomes eligible to make contributions to an HSA during the year will be entitled to a full-year HSA contribution for that year (without incurring taxes or a penalty on the amount of the contribution), provided that the individual continues to be eligible for a period beginning December 1 of the year in which he or she became eligible and ending on December 31 of the following year.

# The Health Opportunity Patient Empowerment Act of 2006

Provision	Old Law	New Law
Consolidation of HRA and FSA funds into an HSA	There was no mechanism for transferring amounts from a flexible spending account (FSA) or a health reimbursement arrangement (HRA) to an HSA.	A one-time qualifying transfer before 12/31/2011 to an individual's residual balance in his HRA or Health FSA. The transfer is considered a rollover and does not decrease the HSA accountholder's maximum allowed contribution for the year.
FSA "Grace Period" No Longer Disqualifies HSA Eligibility	The 2 ½ month grace period for FSA claims disqualified a participant from making an HSA contribution since this was considered as having "other coverage."	If the participant starts the year with zero balance in his remaining Health FSA or if he transfers his Health FSA balance to an HSA then the grace period coverage will not impact the participant's ability to make an HSA contribution.
Tax-Free Transfers to an HSA from an IRA	Rollovers from an IRA to an HSA were not permitted.	A one-time tax-free irrevocable rollover from an IRA to an HSA is now permitted. The amount of the rollover counts against the individual's HSA contribution limit in the year the rollover is made.

# The Health Opportunity Patient Empowerment Act of 2006

Provision	Old Law	New Law
Higher Contribution Limits for Lower-Paid Employees	Employer contributions to an HSA must be “comparable” for all participants, unless those contributions are run through the employer’s cafeteria plan.	An employer can make higher contributions to non-highly compensated employees
HSA Cost-of-Living Limits to be Released Sooner	HSA limits were based on annual cost-of-living factors that could not be determined until late in the year, typically around early November.	The code provisions have been changed requiring the indexed limits to be computed and released by June 1.

# Department of Labor Field Assistance Bulletin 2006-02

- Clarification issued in October 2006
- Employers may open Health Savings Accounts and contribute on behalf of employees without triggering ERISA
- Employee still controls and has ownership over funds deposited into the HSA
- The employer's selection of an HSA provider does not constitute making or influencing an employee's investment decisions

## *A Real Employer Example*

# Can Your Company Realize the Benefits of CDH?

Example: A manufacturer with 1600 employees in 9 states. Company headquarters is in the northeast.

- ◆ Started migrating to CDH 4 years ago by modifying PPO, adding deductibles, and changing its co-pay structure – health care costs had been trimmed to \$8.5 MM a year, 30% lower than its insurance carrier’s average.
- ◆ Offered HSAs for the first time in 2007
- ◆ Realized 23% HSA adoption!
  - Used the term “upfront deductible” rather than “high deductible”
  - Funded \$250 in the HSA at beginning of year
  - Employed an extensive company education campaign
  - Materials used “plain English,” not legalese or insurance-speak
- ◆ For 2007, the company will realize \$7.7 in further health care cost savings over 3 year period
- ◆ Results also prove HSA “young, healthy, and wealthy” perception incorrect
  - 50% of HSA-openers earn less than \$50,000 a year
  - 10% under 30 years old

# What are we learning about the adoption of High Deductible Health Plans?

# Criticisms Proving Untrue

## ■ CDH plans only appeal to the young, healthy and wealthy

### ◆ FACT: 46% of enrollees are aged 40 or older\*

- Like all new things, CDH will have a learning curve
- The “young, healthy and wealthy” are, generally, better educated
- As the general population learns more, they will likely opt in
- A good education program can offset this argument

*\* AHIP Center for Policy and Research, April 2007 Census*

## ■ CDH plans shift cost from the employer to the employee

### ◆ FACT: Average premiums for HSA-qualified plans are approximately 20-30 percent lower than average premiums in the overall employer market.\*

- Surveys indicate that educating employees and changing their behavior is more important to employers than saving money
- Employees are saving on premiums as well
- Many employers are putting some of their cost savings into the employee's HSA

*\* AHIP HSA Census, January 2006*

# Criticisms Proving Untrue

- CDH plans encourage employees to not seek treatment
  - ◆ FACT: 99% of HSA/HDHP enrollees had plans that offered preventative benefits before the deductible is met\*
    - Many HDHP's have first dollar coverage for preventive care
    - Some patients will seek the lowest cost and some will be willing to pay more for what they view as better care

*\* AHIP Center for Policy and Research, April 2007 Census*

# Questions?

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