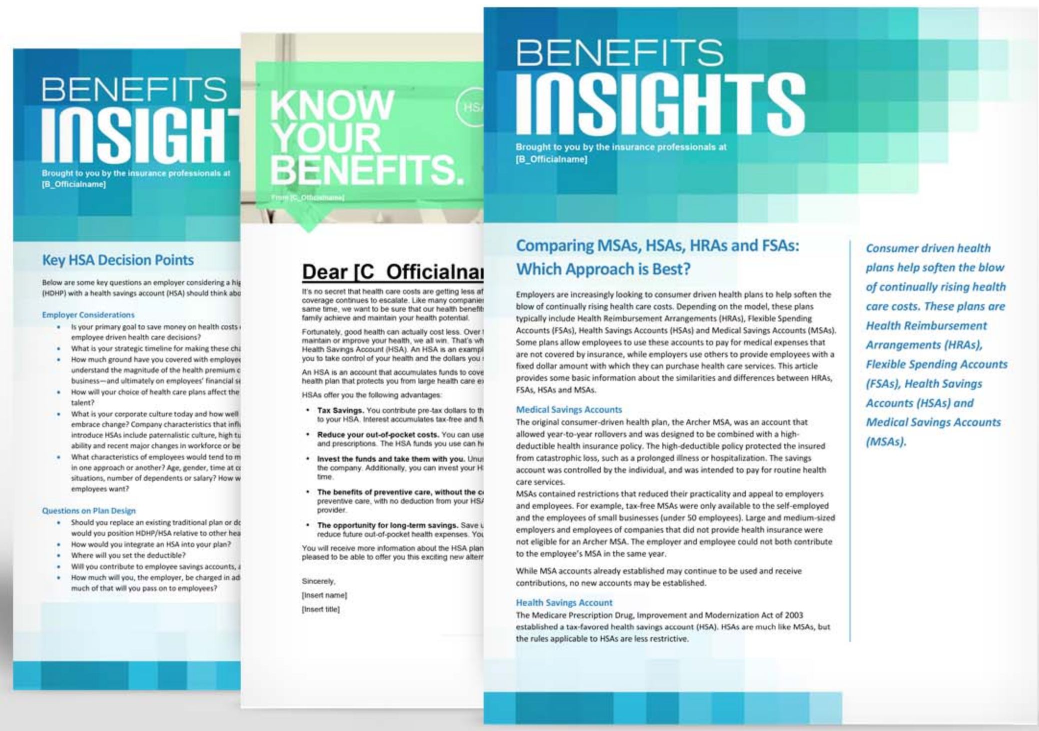
Better Business Planning, Inc.

Your HSA Partner



Can a health savings account (HSA) program save your organization money?

We have all the information that you need to fully understand this plan option. Our educational materials will help you determine whether an HSA is the right choice for your organization.

Are you worried about legal compliance?

We can help. We have a wealth of resources that you can use to remain compliant with federal regulations related to consumer-directed plans.

Would you like help setting up your HSA program?

To help you roll out a new HSA to employees, we have a game plan for you to follow, including preparation suggestions, sample announcements, educational materials and communication for you to use during open enrollment.

BETTER BUSINESS PLANNING INC.

Better benefits | Better people

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Health Savings Accounts

In an effort to respond to the rising cost of health insurance, many employers have made use of tax-favored accounts such as health flexible spending accounts (health FSAs), health reimbursement arrangements (HRAs) and health savings accounts (HSAs) to offer consumer-driven health plans.

This article provides answers to commonly asked questions related to HSAs. It highlights guidance issued by the Treasury Department and Internal Revenue Service (IRS), as well as recent legislation.

What is a Health Savings Account?
An HSA is a tax-exempt trust or custodial account established for the purpose of paying qualified medical expenses. HSAs are much like Archer Medical Savings Accounts (MSAs), but the rules applicable to HSAs are less restrictive.

An HSA can be a powerful tax savings tool for paying qualified medical expenses. In general, HSA contributions made by an eligible individual are tax-deductible and employer HSA contributions made on behalf of an eligible employee are excluded from the employee’s gross income. Interest and other earnings on HSA contributions accumulate tax-free. Amounts distributed from an HSA for qualified medical expenses are generally tax-free as well.

Keep in mind that some states define income differently than the IRS. As a result, HSAs that are tax-exempt at the federal level may not be tax-exempt at the state level.

Who can establish an HSA?
An individual may contribute to an HSA in any month in which he or she is:

- Covered under a high deductible health plan (HDHP) on the first day of the month;
- Not also covered by another health plan that is not an HDHP (with certain exceptions)

Comparing MSAs, HSAs, HRAs and FSAs: Which Approach is Best?

Employers are increasingly looking to consumer driven health plans to help soften the blow of continually rising health care costs. Depending on the model, these plans typically include Health Reimbursement Arrangements (HRAs), Flexible Spending Accounts (FSAs), Health Savings Accounts (HSAs) and Medical Savings Accounts (MSAs). Some plans allow employees to use these accounts to pay for medical expenses that are not covered by insurance, while employers use others to provide employees with a fixed dollar amount with which they can purchase health care services. This article provides some basic information about the similarities and differences between HRAs, FSAs, HSAs and MSAs.

Medical Savings Accounts

The original consumer-driven health plan, the Archer MSA, was an account that allowed year-to-year rollovers and was designed to be combined with a high-deductible health insurance policy. The high-deductible policy protected the insured from catastrophic loss, such as a prolonged illness or hospitalization. The savings account was controlled by the individual, and was intended to pay for routine health care services.

MSAs contained restrictions that reduced their practicality and appeal to employers and employees. For example, tax-free MSAs were only available to the self-employed and the employees of small businesses (under 50 employees). Large and medium-sized employers and employees of companies that did not provide health insurance were not eligible for an Archer MSA. The employer and employee could not both contribute to the employee’s MSA in the same year.

While MSA accounts already established may continue to be used and receive contributions, no new accounts may be established.

Health Savings Account

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a tax-favored health savings account (HSA). HSAs are much like MSAs, but the rules applicable to HSAs are less restrictive.

Consumer driven health plans help soften the blow of continually rising health care costs. These plans are Health Reimbursement Arrangements (HRAs), Flexible Spending Accounts (FSAs), Health Savings Accounts (HSAs) and Medical Savings Accounts (MSAs).

Key HSA Decision Points

Below are some key questions an employer considering a high deductible health plan (HDHP) with a health savings account (HSA) should think about:

Considering implementing a high deductible health plan paired with a health savings account? This article includes several key questions to consider.

Employer Considerations

- Is your primary goal to save money on health costs or to move toward employee driven health care decisions?
- What is your strategic timeline for making these changes
- How much ground have you covered with employees in helping them understand the magnitude of the health premium costs' effect on your business—and ultimately on employees' financial security?
- How will your choice of health care plans affect the recruiting and retaining of talent?
- What is your corporate culture today and how well does your organization embrace change? Company characteristics that influence the ability to introduce HSAs include paternalistic culture, high turnover, communication ability and recent major changes in workforce or benefits.
- What characteristics of employees would tend to make them more interested in one approach or another? Age, gender, time at company, personal situations, number of dependents or salary? How well do you know what your employees want?

Questions on Plan Design

- Should you replace an existing traditional plan or do a side-by-side? How would you position HDHP/HSA relative to other health coverage?
- How would you integrate an HSA into your plan?
- Where will you set the deductible?
- Will you contribute to employee savings accounts, and if so, how much?
- How much will you, the employer, be charged in administrative fees, and how much of that will you pass on to employees?

10 Ways to Implement a Successful HSA

Offering a health plan that includes an HSA option is something an increasing number of employers are choosing to do. You may not be sure where to begin when trying to implement a successful HSA plan, but by following these suggestions, you can ensure that your plan is successful and beneficial to your employees.

Employee Communication

Communicating with your employees about plan options and details is important, but it's not as simple as it seems. You need to ensure that your communications are accessible to all employees—remember, employees may have physical or cognitive impairments that inhibit their ability to understand specific types of communication, for example an employee with hearing loss would miss an announcement over the company's speaker system. Provide plan details in multiple formats and languages to ensure that you are reaching all of your employees.

Open Enrollment Meetings

Rather than simply passing out open enrollment information and counting on employees to read and understand their options, have open enrollment meetings where the costs and benefits of each plan are clearly explained. Employees may be unfamiliar with high-deductible health plans (HDHPs) that are coupled with HSAs, so explaining what these are may spark more interest and enrollment. Remember to explain to employees how HDHPs and HSAs can save them money, and show them the cost differences between premiums and contributions for these plans in contrast to the other plan types offered. At open enrollment meetings, be sure to define relevant terms (including deductibles, coinsurance, out-of-pocket maximum and coverage gap).

Deliver Tools

Find out whether or not the insurance carrier or administrator provides consumer tools to assist employees in making healthy and cost-effective decisions regarding their care. If so, evaluate whether or not you need to offer employees training on how to use the consumer tools. If no tools are provided, create your own—educating your employees will help them make the best decisions for their health care needs.

Providing employees with easy access to prevention and wellness information could decrease the number of claims made, and, as a result, increase the benefit that employees are getting from their HSAs.

HSA Education and Rollout
Action Timetable

	Start	Actual Complete	Better Business Planning Responsibility	Responsibility
1 Planning Phase/Meeting				
- Determine objectives				
- Determine scope of project				
- Discuss timetable				
2 Information Gathering				
- Develop benefit summary matrix				
- Discuss potential plan design changes				
3 Bank Selection				
- Conduct preliminary review of Health Savings Account (HSA) terms				
- Develop report and recommendations regarding finalists				
- Select finalist				
4 Renewal Confirmation				
- Finalize benefit plans, phantom premiums and contributions				
- Finalize employer contribution toward HSA				
- Review alternative quote for administration and insured				
5 Employee Communications				
- Review prior communications and current goals				
- Decide on approach/medium and develop plan (who, what, when, where)				
- Preliminary announcement to employees				
- Optional employee meetings on HSA basics				
- Approve/modify communication material				
- Posters and written material on HSAs				
- Draft text (PowerPoint presentation)				
- Obtain input from third party administrator (TPA) and HSA bank finalist				
- Open Enrollment employee education meetings				
6 Enrollment				
- Determine enrollment methodology (active or passive)				
- Establish necessary connectivity with HSA bank finalist				
- Open Enrollment (coordinate with all lines of coverage)				
- Furnish enrollment data to vendors: TPA and HSA bank finalist				
- Stop loss terms finalized				
7 Implementation				
- Amend Section 125 Plan				

Dear Employees:

It’s no secret that health care costs are getting less affordable every day. And the cost to provide health care coverage continues to escalate. Like many companies, we need to control these costs to stay competitive. At the same time, we want to be sure that our health benefits do what they are intended to do, which is to help you and your family achieve and maintain your health potential.

Fortunately, good health can actually cost less. Over the long-term, if our health benefits program can help you maintain or improve your health, we all win. That’s why we are excited to offer an innovative new plan option called a Health Savings Account (HSA). An HSA is an example of a consumer-driven health plan that is designed to empower you to take control of your health and the dollars you spend on your care.

An HSA is an account that accumulates funds to cover your health care expenses. It comes with a high deductible health plan that protects you from large health care expenses.

HSAs offer you the following advantages:

- **Tax Savings.** You contribute pre-tax dollars to the HSA. will also make an annual contribution to your HSA. Interest accumulates tax-free and funds are tax-free to withdraw for medical expenses.
- **Reduce your out-of-pocket costs.** You can use the money in your HSA to pay for eligible medical expenses and prescriptions. The HSA funds you use can help you satisfy your plan’s annual deductible.
- **Invest the funds and take them with you.** Unused account dollars are yours to keep even if you retire or leave the company. Additionally, you can invest your HSA funds, so your available health care dollars can grow over time.
- **The benefits of preventive care, without the cost.** Receive 100 percent coverage for nationally recommended preventive care, with no deduction from your HSA or out-of-pocket costs for you when you see an in-network provider.
- **The opportunity for long-term savings.** Save unused HSA funds from year to year – money you can use to reduce future out-of-pocket health expenses. You can even save HSA dollars to use after you retire.

You will receive more information about the HSA plan as we get closer to our annual open enrollment period. We are pleased to be able to offer you this exciting new alternative for our employee health benefits plan.

Sincerely,

[Insert name]

[Insert title]

Understanding a Health Savings Account

What is a health savings account?

Otherwise known as an HSA, a health savings account can be funded with your tax-exempt dollars, by your employer, by a family member or by anyone else on your behalf. Dollars from the account can help pay for eligible medical expenses not covered by an insurance plan, including the deductible, coinsurance, and even health insurance premiums, in some cases.

Who is eligible for an HSA?

Anyone who is:

- Covered by a high deductible health plan (HDHP);
- Not covered under another medical plan that is not an HDHP;
- Not entitled to (eligible for AND enrolled in) Medicare benefits; or
- Not eligible to be claimed on another person's tax return.

What is a high deductible health plan (HDHP)?

A high deductible health plan is a plan with a minimum annual deductible and a maximum out-of-pocket limit as listed below. These minimums and maximums are determined annually by the Internal Revenue Service (IRS) and are subject to change.

Type of Coverage	Minimum Annual Deductible	Maximum Annual Out-of-Pocket
Individual	$1,300 (for 2016 and 2017)	$6,550 (for 2016 and 2017)
Family	$2,600 (for 2016 and 2017)	$13,100 (for 2016 and 2017)

How does an HSA work?

Part 1: Qualifying High Deductible Health Insurance Plan

Provides health care benefits after the deductible has been met.

Part 2: Health Savings Account

Pays for out-of-pocket expenses incurred before the deductible is met.

A health savings account can be funded with your tax-exempt dollars, by your employer, by a family member or by anyone else on your behalf.

What are the steps in an HSA?

1. Employee, employer, family member and/or someone else funds the employee's HSA account.
2. Employee seeks medical services.

HSA Case Study 1

Justin is a healthy 28-year-old single man who is active in sports and goes to the gym three times a week. He contributes $1,000 each year to his HSA. His plan's annual deductible is $1,500 for individual coverage. If Justin uses his HSA to pay for covered services, this will reduce his out-of-pocket amount needed to meet his deductible before traditional health coverage begins. Here is a look at the first two years of Justin's HSA plan, assuming the use of in-network providers.

Year 1

HSA - $1,000 contribution	**$1,000**
<u>Total Expenses:</u> Prescription drugs - $150 Routine Physical/Lab tests - $350	**$500**
Paid by preventive care benefit* – no deduction from HSA	**$350**
Amount paid from HSA (Justin's choice)	**$150**
HSA Rollover to Year 2	**$850**
Since Justin did not spend all of his HSA dollars, he did not need to pay any additional amounts out-of-pocket this year.	

Year 2

HSA Balance: $850 from Year 1, plus $1,000 contribution for Year 2	**$1,850**
<u>Total Expenses:</u> Office visits - $100 Blood work - $150 Prescription drugs - $200	**$450**
Paid by preventive care benefit* – no deduction from HSA	**$150**
Amount paid from HSA (Justin's choice)	**$300**
HSA Rollover to Year 3	**$1,550**
Once again, since Justin did not spend all of his HSA dollars, he did not need to pay any additional amounts out-of-pocket this year.	

** If preventive care is covered by the health plan. Effective for plan years beginning on or after Sept. 23, 2010, health plans must cover preventive care without any cost sharing (deductibles, copayments and coinsurance). This preventive care mandate does not apply to plans that have grandfathered status under the health care reform law.*

Frequently Asked Questions about HSA Plan Usage

How do I manage my HSA?
Your Health Savings Account (HSA) is your account; the HSA dollars are your dollars. Since you are the account holder or HSA beneficiary, you manage your HSA account. You may choose when to use your HSA dollars or when not to use your HSA dollars. HSA dollars pay for any eligible expense. Most commonly, the HSA account holder will use HSA dollars to pay the out-of-pocket expenses associated with their high deductible health plan, such as a deductible or coinsurance.

What expenses are eligible for reimbursement from my HSA?
HSA dollars may be used for qualified medical expenses incurred by the account holder and his or her spouse and dependents. Qualified medical expenses are outlined within IRS Section 213(d). In summary, the IRS Section 213(d) states that “the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness.”

In addition to qualified medical expenses, the following insurance premiums may be reimbursed from an HSA:

- COBRA premiums
- Health insurance premiums while receiving unemployment benefits
- Qualified long-term care premiums*
- Any health insurance premiums paid, other than for a Medicare supplemental policy, by individuals ages 65 and over

Are dental and vision care qualified medical expenses under an HSA?
Yes, as long as these are deductible under the current rules. For example, cosmetic procedures, like cosmetic dentistry, would not be considered qualified medical expenses.

What expenses are NOT eligible for reimbursement from my HSA?
The following expenses may not be reimbursed from an HSA:

- Premiums for Medicare supplemental policies
- Expenses covered by another insurance plan
- Expenses incurred prior to the date the HSA was established
- Over-the-counter drugs purchased without a prescription, except insulin

Since you are the account holder or HSA beneficiary, *you* manage your HSA account. You may choose when to use your HSA dollars or when *not* to use your HSA dollars.

What is a coverage gap?
This is the gap between total out-of-pocket expenses associated with your high deductible health plan (HDHP) and your HSA dollars. For example, assume that you have a $2,000 deductible, a $4,000 maximum out-of-pocket, and either you or your employer has contributed $2,000 to your HSA account. If your medical costs incurred exceed $4,000 for the year, then you are financially obligated to pay the difference between your total maximum out-of-pocket ($4,000) and your HSA balance ($2,000)—$4,000 - $2,000 = $2,000.*

What happens when my HSA funds run out?
You may be financially responsible for any eligible medical expenses that fall within the coverage gap.