




HDHP/HSA
Are They Working?

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Overview

- Capture the HSA Concept Capabilities & Impacts
- Examine DGB Case Data, National Studies & Surveys
- Some of the Challenges
- Illustrate the Potential Future for HDHP/HSA



From Our Point of View: Why Are Employers Are Moving To HSAs?

- Lower health plan costs
- Stabilize health plan costs
- Move away from HMO entitlement mentality
- Help employees understand what health care really costs
- Motivate employees to take more control of their health & health care
- Help employees save for the future

DGB Block— HDHP/HSA Statistics

	Majority of DGB Plans	Average of DGB Plans	Henry J. Kaiser Family Foundation & HRET 2008 Survey*
Deductibles	Single: \$2,000	Single: \$1,904	Single**: \$1,866
	Family: \$4,000	Family: \$3,808	Family: \$3,911
Coinsurance	100% after deductible has been satisfied		
Employer Contributions to HSA	Single: \$1,000	Single: \$900	Single**: \$838
	Family: \$2,000	Family: \$1,800	Family: \$1,522

*Source: Henry J. Kaiser Family Foundation & Health Research and Educational Trust--Employer Health Benefits 2008 Annual Survey (Released September 2008)

**Single deductible varied considerably; for example 33% of workers had single deductibles between \$1,100 & \$1,499 while 11% have a deductible of \$3,000 or more.

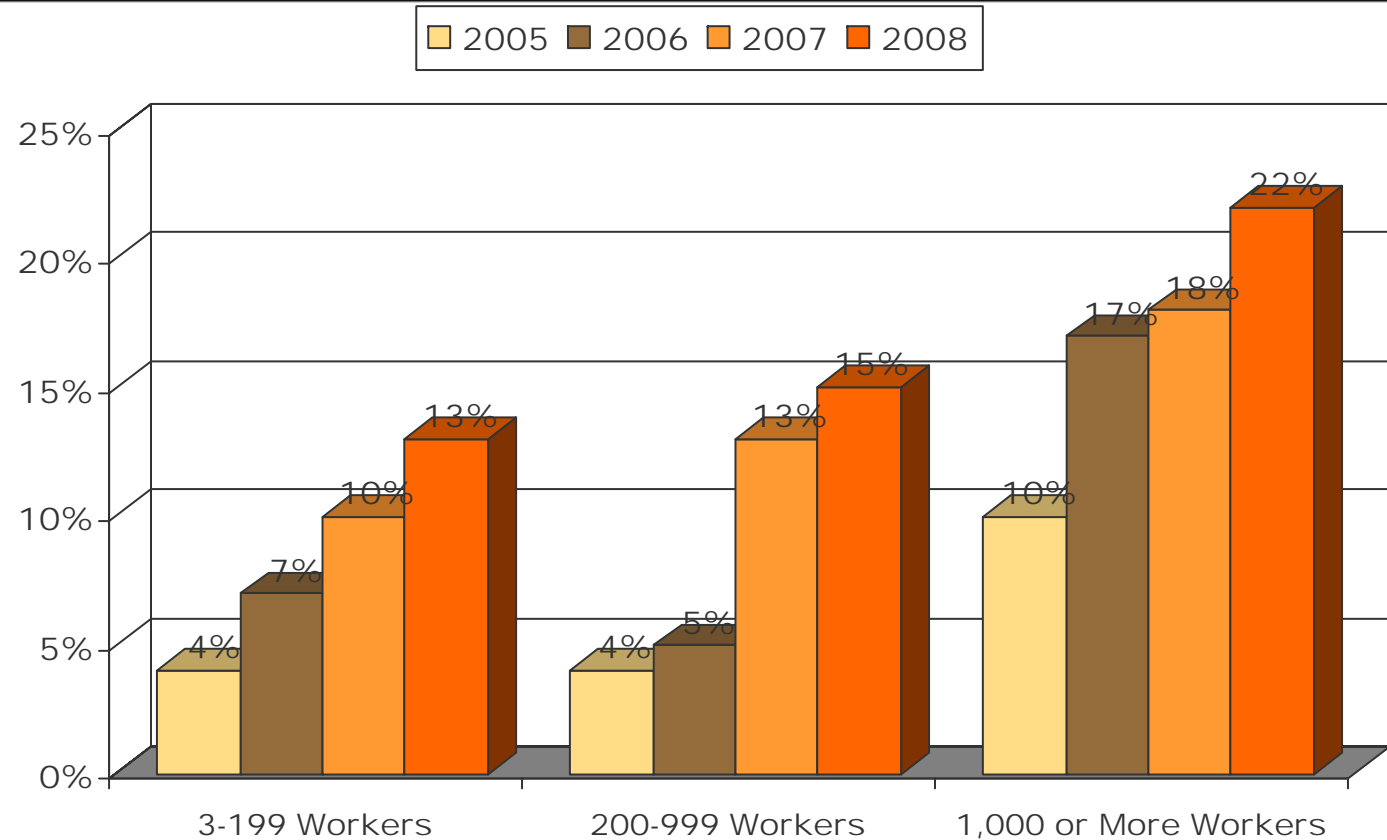
DGB Block— HDHP/HSA Statistics

Group Size (# employees)	
16	Smallest
360	Largest
135	Average

Frequency of Employer HSA Deposits	
67%	Fund the accounts in 1/12 th installments
25%	Seed the accounts with between 3 to 6 months of deposits up front and then the balance over the rest of the year
8%	Do not fund the HSA at all.

Types of Companies: Automotive, Aviation, Food Service, Manufacturing, Distribution & Technology

Among Firms Offering Health Benefits, Percentage That Offer an HDHP/SO, by Firm Size, 2005-2008



Note: The 2008 estimate includes 0.3% of all firms offering health benefits that offer both an HDHP/HRA and an HSA-qualified HDHP. The comparable percentages for 2005, 2006, and 2007 are 0.3%, 0.4%, and 0.2%, respectively.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005-2008.



From Our Point Of View: Do HSAs Work?

- Depends on the goals & objectives and the definition of success
- They appear to lower or stabilize costs over time in most cases.
- They do get people actively engaged in their health and health care. They hit the consumerism “Sweet Spot”.

DGB HDHP/HSA— Claims Impact

Medical Plan Cost Per Individual	% of total population that submitted claims
\$0	9.61%
\$1-\$500	42.12%
\$501-\$1,000	14.30%
\$1,001-\$2,000	11.23%
\$2,001-\$5,000	11.31%
\$5,001-\$10,000	5.64%
\$10,001-\$25,000	3.96%
\$25,001-\$50,000	1.14%
\$50,001-\$100,000	0.42%
Over \$100,00	0.26%

**HSA &
Consumerism
“Sweet Spot”
\$1 - \$30,000**

**89.7% of
claims**

Are HSAs Changing Spending Behavior?

HSA Account Trends (based on HSA Bank's customer base of 130,000+ HSA accounts)

- 95.9% of all open accounts rolled over funds from 2005 to 2006
- On average, accounts rolled over \$1,582 into 2006
- Average contribution per month: \$156.78
- Average distribution per month: \$98.61
- Net average per month: \$58.17 or 38% of deposits saved.
- 32% save all contributed HSA funds
- 51% save at least half of the contributed HSA funds

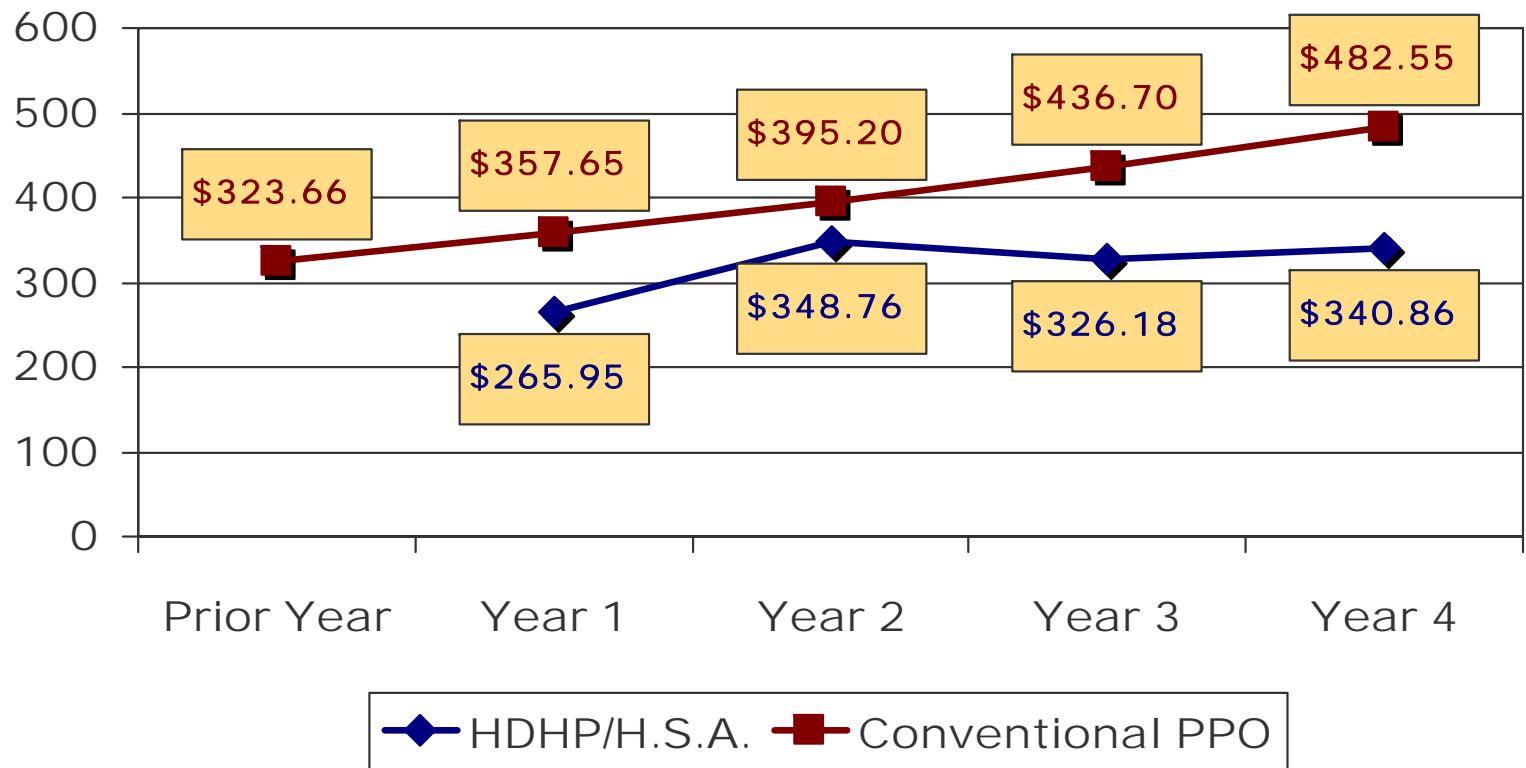


DGB Block— HDHP/HSA Statistics

- **HDHP/HSA Average Working Rates vs. Average Working Rates of Conventional PPO Copay Plan**
 - Notes regarding the following charts:
 - HDHP/HSA Working rates include the employers HSA contributions (+/-50% of deductible).
 - HDHP/HSA Working rates do not include employee HSA contributions.
 - Prior year Plans all had a PPO Copay Plan. Working rates adjusted 10.5% trend each year.
 - HDHP/HSA Working rates reflect an average of actual plan expenses.

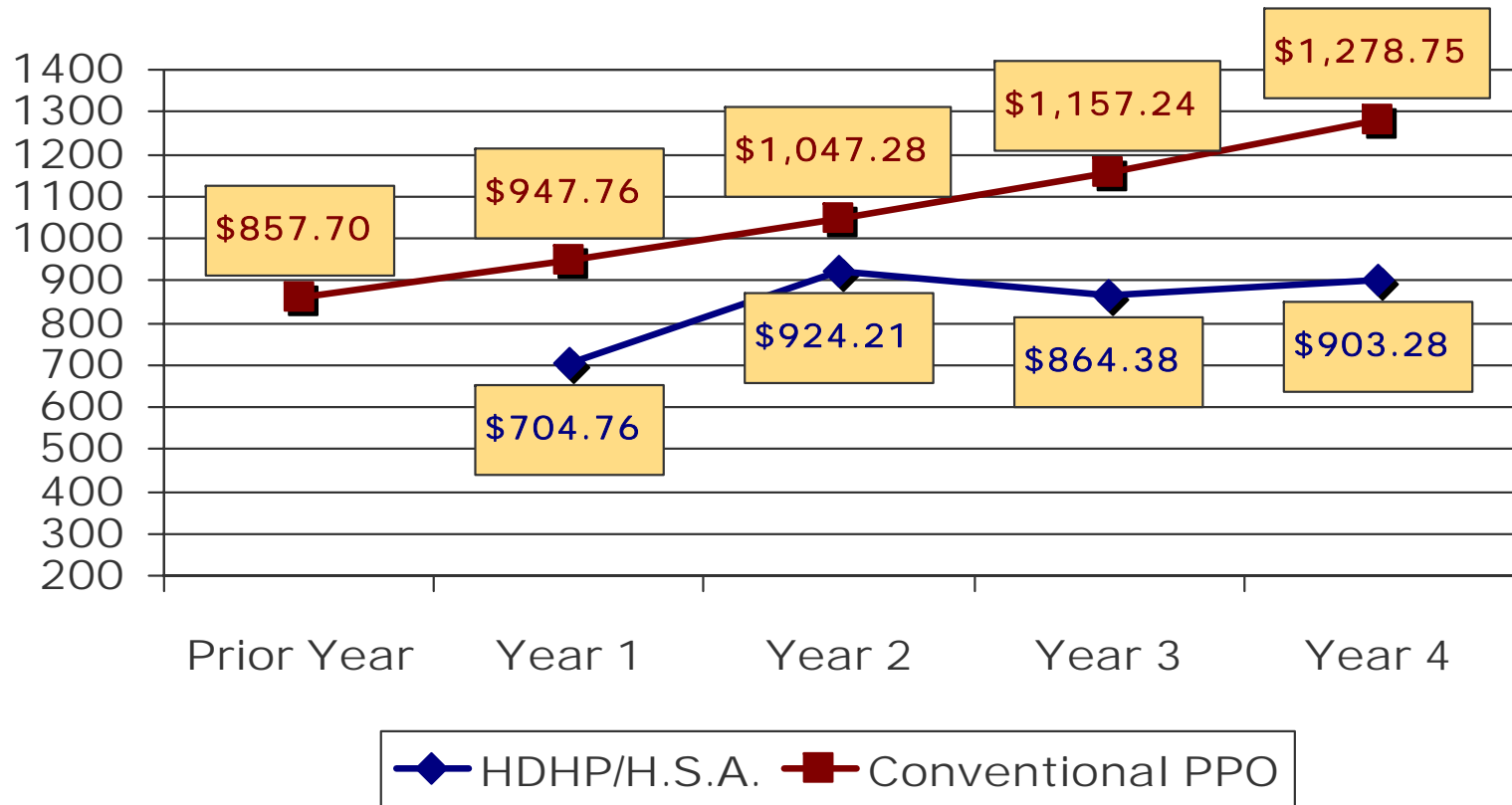
HDHP/HSA Average Working Rates vs. Average Working Rates of Conventional PPO Copay Plan

Single Monthly Working Rates



HDHP/HSA Average Working Rates vs. Average Working Rates of Conventional PPO Copay Plan

Family Monthly Working Rates





What Are The Challenges?

- Helping employees manage once they have the control—HealthX, Subimo & Health Grades – Other Web Tools
- Helping people understand how the HDHP/HSA plan works—education
- Promoting and accepting personal responsibility
- Upfront pharmacy & medical costs in the first year



HDHP/HSA 2009 Updates

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HSA's: What's New?

- New Deductible, Out-of-Pocket Maximums and Contribution Limits for 2009
- New HSA Guidance
- FSA Rollover Rules
- Medicare

2009 HSA Limits

- Minimum HDHP Deductible:
 - \$1,150 Self-Only Coverage
 - \$2,300 Family Coverage
- Out-of-Pocket (OOP) Maximum:
 - \$5,800 Self-Only Coverage
 - \$11,600 Family Coverage

2009 HSA Limits:

- Maximum HSA Contribution:
 - \$3,000 for Self-Only Coverage
 - \$5,950 for Family Coverage
- 2009 Catch-Up Contribution (*limited to individuals age 55+*)
 - \$1,000 (for 2009 & all future years)

Comparison of 2008 and 2009 Limits

Minimum Deductible	2009	2008	Differential
▪Self-only	\$1,150	\$1,100	+ \$50
▪Family	\$2,300	\$2,200	+ \$100
Maximum Out-of-Pocket	2009	2008	Differential
▪Self-only	\$5,800	\$5,600	+ \$200
▪Family	\$11,600	\$11,200	+ \$400
Maximum Contribution	2009	2008	Differential
▪Self-only Coverage	\$3,000	\$2,900	+ \$100
▪Family Coverage	\$5,950	\$5,800	+ \$150
Catch-Up Contribution (Age 55 +)	2009 (and beyond)	2008	Differential
	\$1,000	\$900	\$100



New HSA Guidance

IRS Notice 2008-59 addresses some HDHP issues:

- HDHP must cover significant benefits
 - Example: coverage for Hospitalization only is not HDHP coverage.
 - Separate or higher deductible for specific benefits are OK.



New HSA Guidance

- **Contribution Issues:**
 - **Employer contributions (*including pre-tax salary reductions*) made between January 1 and April 15 of Year 2 may be allocated to Year 1.**
 - Employer must notify employee & HSA Trustee.
 - Contributions are reported on W-2 for Year 2, but employee must reconcile on Form 8889.

New HSA Guidance

- Contribution Issues *cont'd*:
 - **Limited recoupment of mistaken employer contributions.**
 - If made for employee who was never HSA eligible.
 - If mistakenly made in excess of statutory maximum limit.
 - No recoupment of employer contributions made after employee loses HSA eligibility.



New HSA Guidance

- Contribution Issues *cont'd*:
 - Under Cafeteria Plan, employee must be allowed to change pre-tax HSA salary reduction amounts during the Plan Year.
 - At least monthly.
 - Must be prospective election change.



New HSA Guidance

- Distribution Issues:
 - Health premiums that can be paid on a tax-free basis for:
 - COBRA/USERRA premiums for spouse & children
 - Health coverage for spouse & children while HSA holder is receiving unemployment benefits.

New HSA Guidance

- Distribution Issues *cont'd*:
 - In addition, if HSA holder is age 65+, can pay for Medicare (*including Part D*), retiree medical coverage & other employer coverage (*but not Medicare Supplement*).
 - However, if HSA holder is under age 65, Medicare premiums for spouse who is age 65+ cannot be paid on a tax-free basis.
 - Medical expenses of HSA holder's child may be paid tax-free even if child is claimed by former spouse.

Other HSA Issues

- Full-Contribution Rule for Mid-Year HDHP Enrollees:
 - Annual HSA contribution limits generally determined on a monthly basis (i.e., prorated by number of months covered by HDHP)
 - However, anyone who is covered on December 1 of a given year may contribute the entire statutory amount based on the type of HDHP coverage they have (self-only or family).
 - HSA account holder must satisfy “testing period” to avoid adverse tax implications



Other HSA Issues

- FSA/HRA Rollover
Contributions to HSA:
 - *Limited time period: December 20, 2006 to December 31, 2011*
 - Only one qualified HSA distribution per account holder



Other HSA Issues

- FSA/HSA Rollover Contributions
cont'd:
 - Max distribution = lesser of
 1. balance in FSA or HRA account on September 21, 2006; or
 2. balance on date distribution is made.

Too complicated for most employers!



Other HSA Issues

- Can individuals Age 65+ contribute to an HSA?
 - No, if they are covered by Medicare
 - Yes, if they are covered under an HDHP and are not eligible for Medicare.

CAUTION: Anyone who applies for and is receiving Social Security Retirement Income benefits automatically receives Medicare Part A.