

**Introducing**

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**HSA**s

**Health Savings Accounts**

*Allchoice, Inc.*  
*1-800-889-2659*

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Today's Health Insurance Market is in an

# **Affordability Crisis**

For Individuals, Self-employed and  
Businesses

# Affordability Crisis for Small Groups

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- **Over 40% of businesses with 10 employees or less do not offer health insurance.**

Sources: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2002, Statistics of U.S. Business, 2000; Joint Committee on Taxation.

# Many Consumers Agree On The Problems With Health Insurance

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Health insurance is too expensive.

Health insurance is complicated.

People spend a significant amount on health insurance and feel they get nothing back.

# A Better Solution: Health Savings Accounts

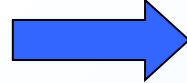
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Health insurance is too expensive.



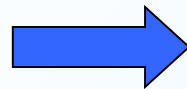
HSAs typically cost less.

Health insurance is complicated.



HSAs make quality coverage simple.

People spend a significant amount on health insurance and feel they get nothing back.



HSAs help you save tax-free.

# Affordability Crisis for Small Groups

## Current Expensive Insurance Plan Designs

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- Sole proprietors & employees without employer sponsored health care know the true cost of healthcare with low deductibles and co-pays is very expensive when they are paying the cost.
- Employees are usually insulated from the high cost of healthcare by low deductibles and co-pays & do not know the true cost of health care. HSA's put some of the responsibility with the employees. It's their money.

# Affordability Crisis for Small Groups

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New Affordable Insurance Plan Designs are called  
“Consumer Driven Health Care”.

- The consumer & employee must have greater financial responsibility for healthcare purchases to serve as an incentive to make prudent decisions.
- Greater financial responsibility includes:
  - Higher deductibles
  - No expensive copays
  - Reducing first-dollar benefits

# The Purpose of Insurance

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**To protect people  
from financial hardship  
due to unforeseen  
illness and injury.**



# Reverse the Trend to Over Insure

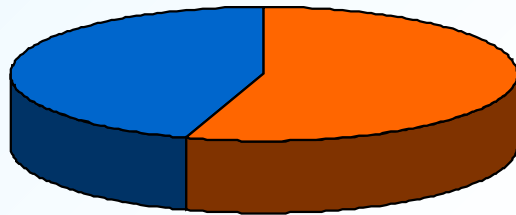
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**Buy only  
the insurance  
you need.**

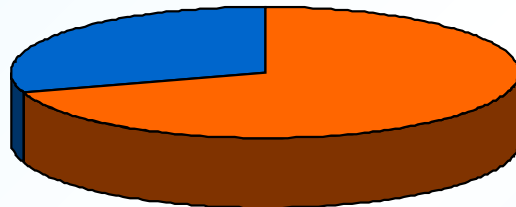
# Affordability Crisis for Small Groups

## Insured Claims Experience

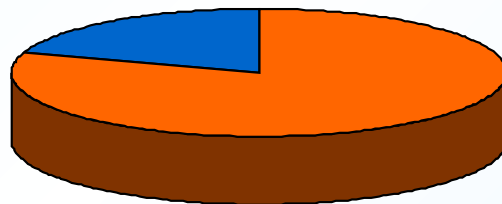
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**55%** of insureds have claims less than \$1,000



**70%** of insureds have claims less than \$2,000



**80%** of insureds have claims less than \$3,000

Milliman USA (2002)

# Affordability Crisis for Small Groups

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## **Consumer Driven Health Care**

- Address affordability and over insuring by providing significant premium savings on high-deductible plans versus low-deductible plans.
- Include a funding program to help employees pay for their medical expenses.

# Opportunity

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## **CDHC Plans are now available in several options;**

- Health Savings Accounts (HSAs)
- Health Reimbursement Arrangements (HRAs)
- Flexible Spending Accounts (FSAs)
- Premium Only Plans (POPs)

# Opportunity

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Health Savings Accounts (HSAs) – the newest CDHC plan option is:

- Tax free
- Flexible
- Permanent
- Portable

# Opportunity

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- HSAs are part of a permanent, federally approved program effective January 1, 2004.
- An HSA is a tax-favored account that allows funds to be accumulated to pay current and future qualified healthcare expenses.

# What Is An HSA?

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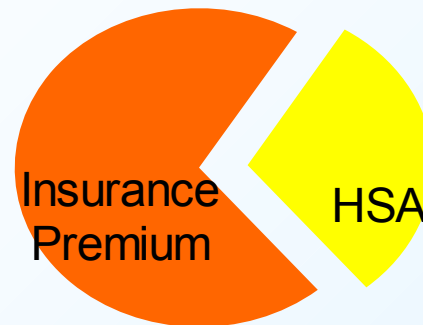
An HSA combines quality health insurance with a tax-favored savings account.

*Take the money currently spent on existing insurance and put a portion towards a qualified plan, with the remainder going into a tax-favored savings account.*

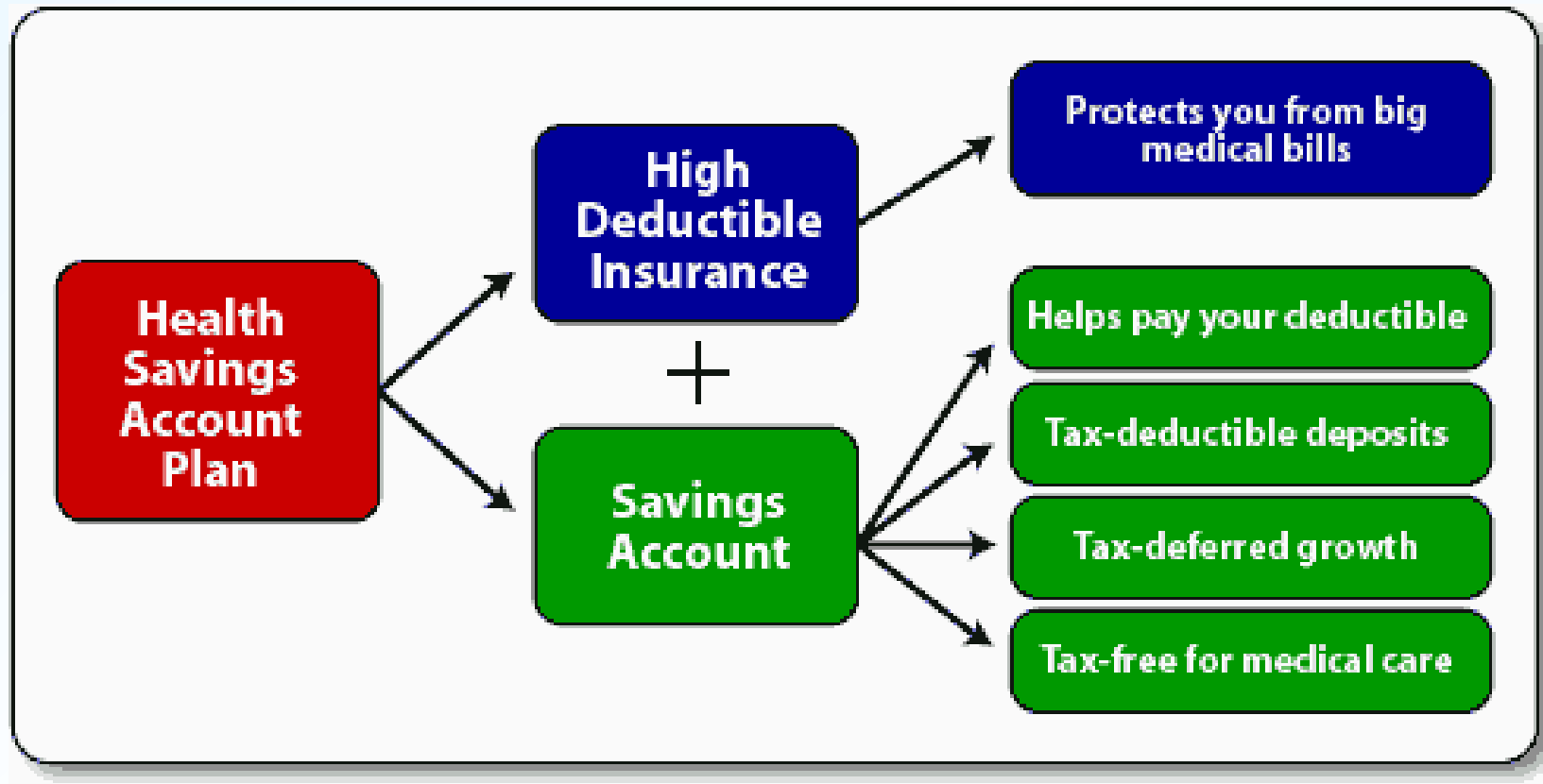
## The Traditional Plan

Insurance  
Premium

## High Deductible Plan with HSA



# How does an HSA work?





# HSAs Make Quality Coverage Simple

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## Simple coverage for big medical expenses

An HSA requires only one deductible be met per family, per calendar year, after which 100% of covered expenses will be reimbursed.\*

## Easy to pay smaller expenses under the deductible

Simply write a check from your savings account or use the debit card.

\* For costs, benefits, exclusions, limitations, and renewal terms contact us at Allchoice Insurance 1-800-889-2659. Complete information is contained in the product brochures.

# Opportunity

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HSAs are available to everyone with a qualified high-deductible health plan.

Together they provide:

- Premium Savings
- Tax Advantages
- Investment Opportunities

# Premium Savings

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High-deductible HSA Plans  
offer significant premium savings.

**up to**

**45%**

**Premium Savings**

*based on deductible*

Annual contributions for 2007 are capped at \$2,850 for an individual and \$5,650 for a family. Minimum deductible for an individual is \$1,100 with a max. OOP of \$5,500, and a family Minimum deductible is \$2,200 with a max. OOP of \$11,000.

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- The annual maximum HSA contribution will change each January 1st based on the Consumer Price Index (CPI). There are no maximum limits on the account accumulation.
- The legislation provides for an additional contribution (and tax deduction) for those who turn age 55 before the end of the tax year. The additional contribution amount is \$800 for 2007 and increases annually to an additional \$1,000 in 2010. If you had HDHP coverage for the full year, you can make the full catch-up contribution regardless of when your 55th birthday falls during the year. If you did not have HDHP coverage for the full year, you must pro-rate your "catch-up" contribution for the number of full months you were "eligible", i.e., had HDHP coverage. A month is "counted" if your are 55 or older on the first day of that month.
- If both spouses are eligible individuals and both spouses have established an HSA in their name and turn 55, then both can make catch-up contributions. If only one spouse has an HSA in their name, only that spouse can make a "catch-up" contribution. Contributions may be made by anyone on behalf of the account beneficiary.

## Premium Savings

The amount of the premium savings depends on the plan deductible.

*Current plan: Copay plan with \$500 deductible and coinsurance of 80/60 to \$1,000 is approximately \$200.00*

	100% HSA Insurance Plan Maximum OOP	Approximate Premium Savings from Plan Above
Individual	\$1,500	11%
	\$2,700	21%
Family	\$3,600	33%
	\$5,450	45%

Based on average rates. Actual amounts will vary.

# Tax Advantages

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“Contributions, investment growth and withdrawals for health-related expenses **are all free from taxation.**”

“That makes HSA **tax benefits superior even to IRAs.** With IRAs, the money is taxed either before it goes into the account, or as it is taken out.”

*USA Today*  
December 29, 2003

# Tax Advantages

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- Contributions are either tax deductible or can be paid with pre-tax dollars through a cafeteria plan or Sec. 125:
  - Cafeteria plan & Section 125: employee contributes pre-tax dollars and employer saves on FICA & match.
  - Tax deductible: Employee gets above-the-line deduction – whether itemizing or not
- Income earned on investments is tax free
- Qualified withdrawals are tax free

# Tax Advantages

## Qualified Withdrawals:

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As defined under Section 213(d) of the IRS Code

- Doctor Office Visit Fees
- Outpatient X ray & Labs
- Mammography, Pap Smear, PSA Testing
- Outpatient Prescription Drugs
- Deductibles and Coinsurance
- Inpatient Hospital & Surgical Fees
- Glasses
- Dental
- COBRA Continuation Premiums
- Long-Term Care Premiums
- Medicare Premiums



# HSAs Help You Save Tax-free

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**Tax savings** – Money deposited into the account, within legal limits, is 100% tax deductible.

**Asset Accumulation** – HSA savings accumulate year after year – you never lose the money. It's always your money and it's always tax-free if used for qualified medical expenses.

# Tax Advantages

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## Non-Qualified Withdrawals:

- Under age 65
  - Ordinary income tax and 10% penalty on withdrawals for non-qualified expenses
- 65 or older
  - No penalty
  - Subject to income tax but likely at a lower rate – just like a 401(k)

# Investment Opportunities

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An employee or self-insured person who wants to build savings has options;

- Keep the money in the savings account
- Invest funds in money market funds, mutual funds, stocks, bonds, etc.

# Investment Opportunities

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- **Unused funds accumulate from year to year so the employee has several good choices:**
  - Use the money to pay for qualified expenses *tax free* as they occur
  - Save money *tax free* for future medical expenses
  - Build savings and establish a *tax-sheltered* nest egg for retirement

# Investment Opportunities

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## Ownership

- The funds in the HSA belong to the employee – whether contributed by the employer, the employee or both.
- The funds are also portable, so if an employee leaves, he/she takes the funds along.

# HSA Plans

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HSA Plans are:

- **Affordable** – premium savings of up to 45% depending on deductible
- **Secure** – The companies we represent have years of experience and high national ratings.
- **Easy to choose and use** – specially designed plans and expert services

# HSA Plans

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Realize the maximum benefits that HSAs offer:

**Selection** – choose from several premium-saving high-deductible plans

**Simplicity** – 100% or 80% coverage after deductible depending on plan chosen.

**Flexibility** – Choice of many Insurance Companies.

# HSA Plans

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## Family Deductible Accumulation

- **Common Family Deductible** – the entire family deductible must be satisfied before benefits are paid for any family member.



# HSA Contributions

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- Anyone can contribute – employers, employees or both
- Maximum contributions for 2007 are limited to the lesser of:
  - The deductible, or
  - \$2,850 for singles or \$5,650 for families
- Amount limits are indexed for inflation so they will change annually on January 1<sup>st</sup>

# HSA Asset Accumulation Detailed

## HSA Contribution Maximums:

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*Singles and families can contribute the maximum as set by the federal government for the present calendar year.*

### Deductibles available<sup>\*</sup>

#### Single Plans:

\$1,100  
to  
\$2,850

#### Family Plans:

(True Family Deductible)

\$2,200  
to  
\$5,650

*(\$25 minimum contribution per month for most HSA plans)*

\*For 2006. Deductibles are subject to annual adjustment in accordance with Consumer Price Index

# HSA Contributions

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## Catch-Up Contributions

**People age 55 and older can make additional annual contributions**

<u>Year</u>	<u>Additional Amount</u>
<b>2004</b>	<b>\$ 500</b>
<b>2005</b>	<b>\$ 600</b>
<b>2006</b>	<b>\$ 700</b>
<b>2007</b>	<b>\$ 800</b>
<b>2008</b>	<b>\$ 900</b>
<b>2009 &amp; thereafter</b>	<b>\$1,000</b>

# HSA Contributions

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First-year contributions are determined by the amount set by the government for that year:

If a high-deductible health plan is in force as of January 1<sup>st</sup>, 2007 or any time thereafter up to April 15<sup>th</sup> of the following year, the maximum HSA contribution equals \$2850 for singles & \$5650 families.

# HSA Contributions

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## Account Contributions

- Lump sum or smaller deposits
- Employer contributions must be comparable — equal dollar or equal percentage
- Can contribute up to April 15<sup>th</sup> of the following year

# HSA usage is available in a variety of ways;

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Convenient ways to pay for expenses with HSA funds

- **Checkbook**
- **Debit Card**

Easy ways to save and build HSA funds

- **Earn interest tax free**
- **Keep money in the savings account**
- **Move money into an investment account**

# HSA's

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## Offer an array of investment choices

- Money market funds
- Stocks and bonds
- Over 8,000 mutual funds

# Consumer-Choice Health Plans: HRAs

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A Health Reimbursement Arrangement (HRA) Plan may be best if you want:

- Greater control over cash flow and fund ownership
- A prescription drug copay program
- The ability to save up to 45% in premium (depending on deductible)



# Consumer-Choice Health Plans: The Best of Both

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An employer can offer both an HSA and an HRA. This combination is best for employers who:

- Are not eligible for an HRA based on company ownership type
- Want to offer an enhanced benefit for themselves and/or other highly compensated staff, and a more basic plan for others

# HSA Plans

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- The ease and flexibility HSAs bring to the health insurance market has broad appeal.
- HSAs are especially appealing to any employer who wants to provide employees with the opportunity to save and accumulate funds for future medical expenses or supplement their retirement.
- There are several types of small groups for which an HSA will be particularly advantageous.

# HSA Plans

## Small Groups who may benefit

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- Smaller, family-owned-and-operated businesses
- Highly compensated individuals
- Employers who want different plans for themselves than for employees
- Employers only able to provide limited benefits
- Employers not eligible for an HRA
  - Sole Proprietor
  - LLC

# HSA Employer Savings: Example #1 – First Year

Traditional low deductible, copay plan		\$73,732	
HSA Plan		\$56,172	
Savings – Before Employer HSA Contribution (24%)		\$17,560	a
Maximum allowed HSA contribution – single		\$2,600	
Employer HSA contribution percentage	25%		
Number of employees with single coverage <small>(2600 x .25 X 9)</small>		9	\$ 5,850 b
Maximum allowed HSA contribution – family		\$4,800	
Employer HSA contribution percentage	25%		
Number of employees with family coverage <small>(5450 x .25 X 3)</small>		<u>3</u>	<u>\$ 4,087 c</u>
Savings – After Employer HSA Contribution (12%) <small>(a - b - c)</small>		\$ 7,623	d

## HSA Employer Savings: Example #2 – First Year

Traditional low deductible, copay plan		\$73,732	
HSA Plan	\$56,172		
Savings – Before Employer HSA Contribution (24%)		\$17,560	a
Maximum allowed HSA contribution – single	\$2,700		
Employer HSA contribution	\$500		
Number of employees with single coverage <small>(500 x 9)</small>	9	\$ 4,500	b
Maximum allowed HSA contribution – family	\$5,450		
Employer HSA contribution	\$500		
Number of employees with family coverage <small>(500 x 3)</small>	3	\$ 1,500	c
Savings – After Employer HSA Contribution (16%) <small>(a - b - c)</small>		\$ 11,560	d

# HSA Employer Savings: Example #3 –

(Current premium shown is non-BCBS)

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Year	Current Premium	HSA Premium	HSA Contribution	Cumulative Savings
Year 1	\$ 78,732	\$56,172	\$6,000	\$11,560
Year 2	\$ 84,792	\$64,698	\$6,000	\$25,754
Year 3	\$ 97,511	\$74,287	\$6,000	\$42,977
Year 4	\$112,137	\$85,431	\$6,000	\$63,684

# Simple and Smart Benefit Design Strategy

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## Example 1

- Employer pays all of the health insurance premiums
  - Funded by the premium savings
  - Employer maximizes the tax deduction
- Employee funds the HSA
  - Controls amount going into the HSA
  - Controls amount spent from HSA
  - Employee gets tax deduction
  - Pays self — not the insurance company
  - Saves for the future

# Simple and Smart Benefit Design Strategy

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## Example 2

- Employer already pays all of the health insurance premium
- Employer shares contributions to the HAS with employees
  - Employer provides a generous benefit and still earns tax deductions
  - Employee has a financial commitment that encourages consumerism and allows for long-term savings



# Seize the Opportunity!

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- Potential Premium Savings – up to 45%
- Tax Advantages
  - Tax-free contributions
  - Tax-free earnings
  - Tax-free withdrawals
- Investment Opportunities

# What Happens When I Go To The Doctor With My HSA?\*

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1. Client goes in for service and asks the provider to submit the claim to Insurer using their insurance card information.
2. Doctor sends the bill to Network or Insurer.
3. Insurer reprices the bill (up to 32% discount depending on location and provider) for PPO network providers.
4. Insurer sends the client a simple explanation of benefits.
5. If the calendar-year deductible has not been met, client writes a check using his/her HSA checkbook or using a debit card for the discounted doctor bill.

\*Expenses incurred at health care providers outside of the PPO network require a different process.

# Paying is easy

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- HSA checkbook makes it easy to pay claims from the account.
- Set interest (4 to 6% on most unless in a variable account) interest on the first dollar in HSA account.\*
- Quarterly statements.

# Presentation Disclaimer

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This presentation includes information regarding HSAs. Information is provided with the understanding that Allchoice, Inc. and its subsidiaries are not engaged in rendering tax or legal advice. Allchoice disclaims any and all liability for creation or administration of an HSA.

If tax or legal advice is required for an HSA, seek the services of your professional advisor.