

"A Guide to Consumer Driven Health Care"

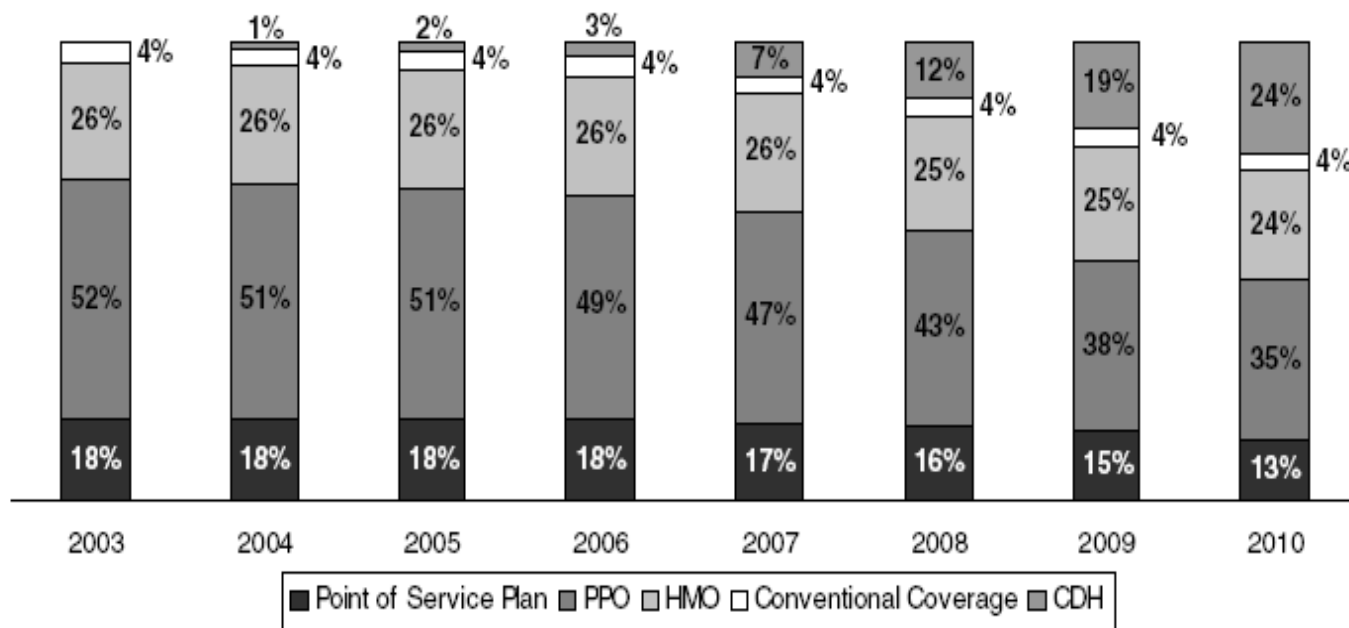
*Health Savings Accounts (HSAs)
&
Health Reimbursement Accounts (HRAs)*

July 2008

Adoption of CDHPs

CDH Enrollment Could Account for 24% of Market by 2010

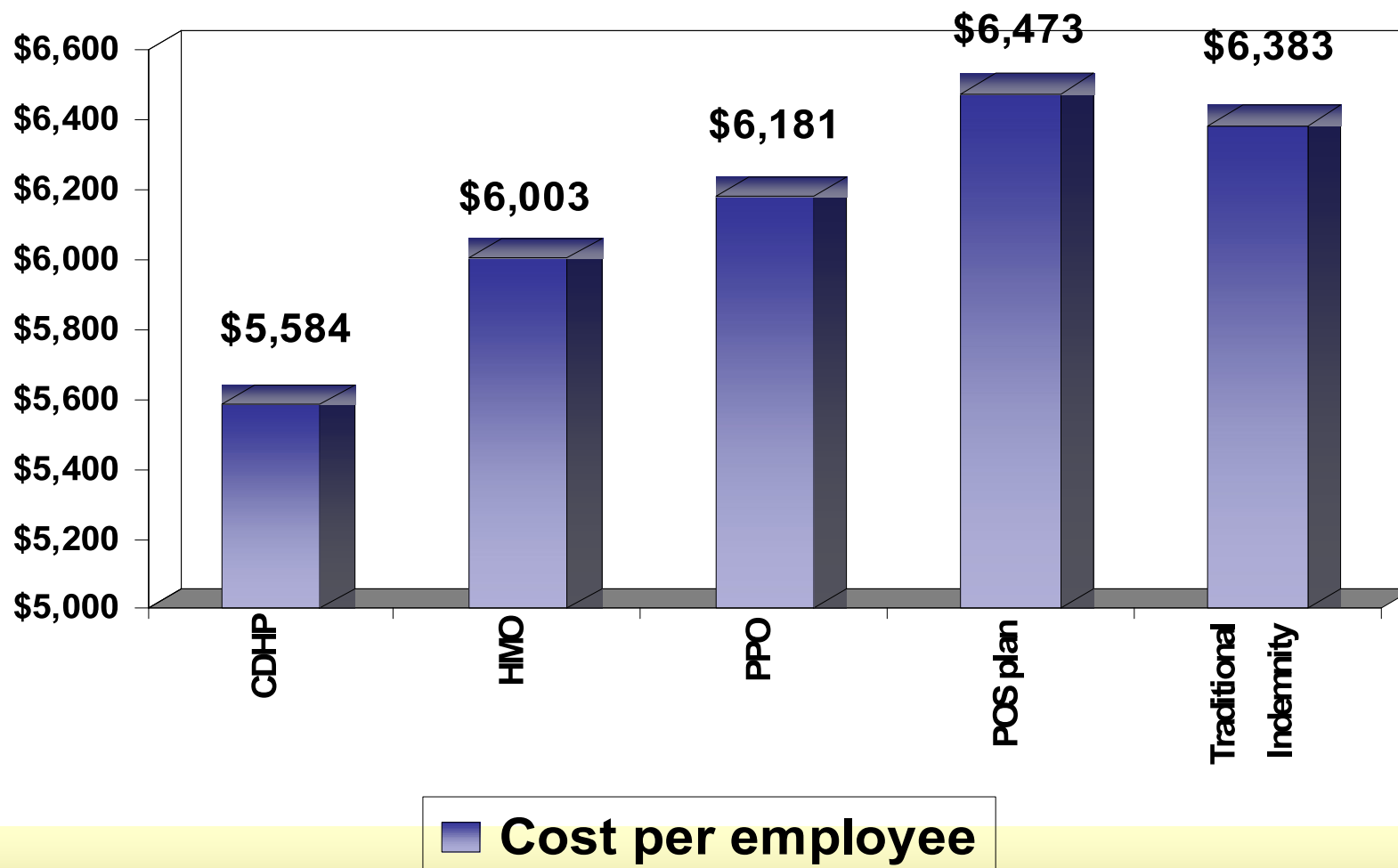
Enrollment in account-based CDH plans, which now makes up just 2% of the commercially insured market (about 3.5 million lives), could jump to 24% of the market (about 40 million lives) by 2010, according to Katy Henrickson, a senior analyst with Cambridge, Mass.-based Forrester Research, Inc. Henrickson discussed the potential growth of CDH plans at a Sept. 29 audioconference sponsored by America's Health Insurance Plans.



SOURCE: Forrester Research, Inc.

Source: Inside Consumer-Directed Care, Nov. 4, 2005

CDHP cost per employee is lowest of all medical plans



Source: Mercer National Survey of Employer-Sponsored Health Plans, 2005

Efficacy — highlights of emerging health plan studies

- In 2006 CDHPs saw an average increase of 2.6% compared to 7.3% increase for traditional health plans.*
- Annual premiums in high-deductible plans average \$3,280 a year for single coverage and \$9,001 for family coverage.**
- By comparison, the premiums for health insurance plans overall are higher: \$4,024 for single coverage and \$10,880 for families.**

*Deloitte Survey 2006

**Kaiser Family Foundation 2005 Employer Health Benefits Survey

What is an HSA?

- An HSA is a tax-exempt account established specifically for the purposes of paying qualified medical expenses (both current and future) for the account holder, their spouse, and their dependents.
- The HSA is paired with a specific High Deductible Health Plan (HDHP) to cover eligible expenses not covered by the insurance policy.

Health Savings Account

There are two components of an HSA

1)

**Health Savings
Account (HSA)**

Account, contributions and withdrawals administered by a bank or other trustee

2)

Preventive Care

**High Deductible
Health Plan (HDHP)**

High-deductible health plan administered by an insurer or third-party administrator

HSA Eligibility

- Any person who has an IRS-qualified High Deductible Health Plan (HDHP) is eligible to open an HSA.

- You are not eligible to participate if:
 - You are enrolled in another (non-HDHP) medical plan
 - Enrolled in Medicare
 - Claimed as a dependent on another person's tax return
 - Receiving Veteran's Benefits
 - You are covered by Tricare

Why should I enroll in an HDHP with an HSA?

- To save for current and future health care expenses on a tax-free basis.
- To become an informed health care consumer and understand actual health care costs.
- To open a tax-free account that is yours, completely portable and can grow tax-free through investment earnings.

HSA Contributions

- Contributions can be made by:
 - Qualified individual
 - Employer
 - Any other party on behalf of a qualified individual
- Maximum allowable annual contribution for 2008 is:
 - \$2,900 for self-only contracts
 - \$5,800 for family contracts
 - Additional “catch-up” contributions are permitted between the ages of 55 and 65.
 - The money contributed to an HSA can rollover from year to year.
 - The money remains in your HSA and earns interest until it is needed, allowing you to save money for future medical expenses.

HSA Distributions

- HSAs should be used to pay qualified medical expenses for an individual, their spouse, and dependents.
- Individual account holders are responsible for ensuring that HSA funds are used for qualified medical expenses.
- HSA funds used for non-qualified medical expenses must be reported as income and will be taxed as income, and are subject to a 10% tax penalty.
- At age 65, HSA funds can be used for any purpose without having to pay an IRS penalty, but will be taxed as ordinary income.

Qualified Medical Expenses

- Health insurance deductibles, co-payments, and co-insurance
- Prescription and over-the-counter drugs
- Dental services, including braces, bridges and crowns
- Vision care, including glasses and lasik eye surgery
- Psychiatric and certain psychological treatments
- Long-term care services
- Medically-related transportation and lodging
- “Qualified Medical Expenses” are defined in Section 213(d) of the IRS code. A complete list may be obtained by visiting <http://www.irs.gov>

NEW

Additional HSA details...

- Additional NEW HSA guidance:
- 2 ½ month Health FSA (HFSA) grace period impact on HSA eligibility lessened
 - An otherwise HSA eligible employee is not disqualified from HSA contribution during the general purpose HFSA plan's grace period in limited circumstances including:
 - Cash balance in FSA is zero at the end of the plan year OR
 - Qualified distribution of the entire remaining HFSA as of the end of the plan year
- Allowable one-time irrevocable rollover of existing IRA funds into HSA
 - Rollover amount counts toward the annual HSA contribution limit
 - Specific rules & limitations exist
- Allows for higher employer contribution to HSA of non-highly compensated employees
 - Applies only to employers making contributions under comparability guidelines (outside a Section 125 cafeteria plan)

NEW

Additional HSA details...

- HSA funds can only be used to pay for medical expenses that occur AFTER an account has been established (opened with money available)
- Deadline for contributions is April 15th of the following year
- Employee, not employer is responsible for claims substantiation
- Guidance from Treasury Department (IRS Notice 2004-23) gives some direction as what is considered “preventive care” and therefore eligible for first dollar coverage.

Examples include:

- Routine prenatal and well-child care
- Smoking cessation, including prescription drugs
- Obesity weight-loss programs, including prescription drugs
- Child and adult immunizations
- A variety of screening services

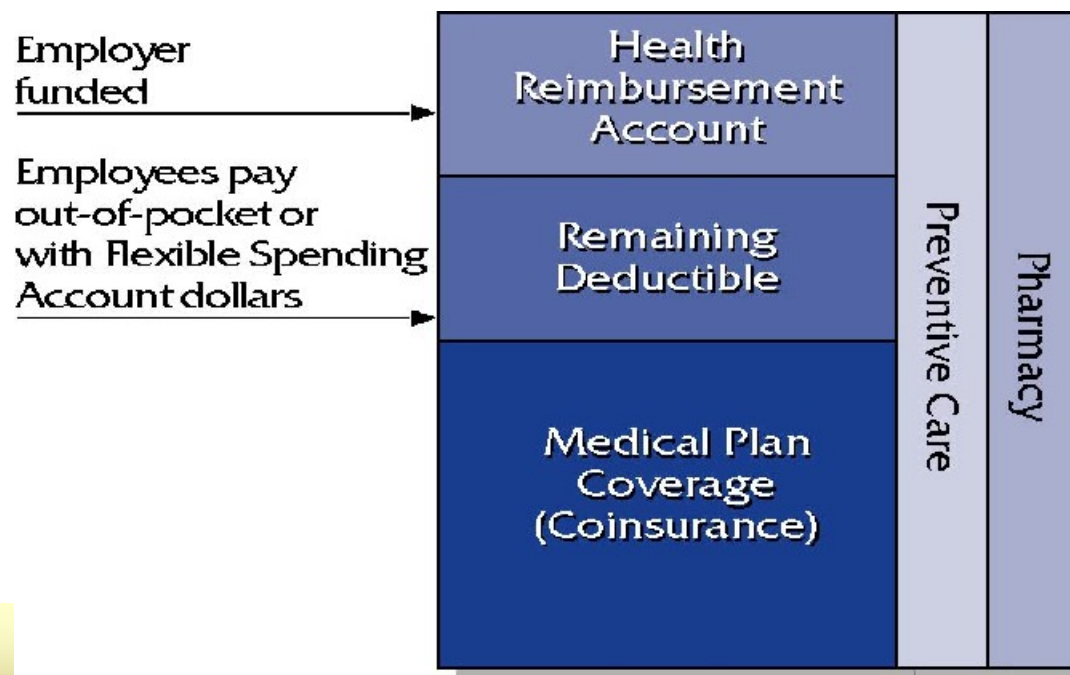
What is an HRA?

Health Reimbursement Account

- "Arrangement" paid for solely by the employer.
- Does not have actual money in the account.
- Dollars allocated to "arrangement" available to reimburse an employee or dependents for a portion of his/her deductible.

Health Reimbursement Account

HRA dollars are typically tapped first, then members must meet the remaining deductible before medical plan coverage takes effect. Preventive care and pharmacy costs are covered separately.



HRA vs. HSA

Product Attributes	HRA	HSA
Who contributes to the account?	Employer only	Employer and/or employee
How does the funding work?	No pre-funding required. Funds do not have to be made available until after the claim is filed.	Pre-funded before reimbursements can be made.
Does the employee retain the funds upon termination?	No	Yes
How much can be contributed?	Determined by employer	Up to the IRS Max, \$2900 Single and \$5800 Family in 2008
Do unused funds roll over into next year's account?	Optional. The employer decides if and how much of the balance rolls over.	Yes, mandatory roll over.
What can you spend it on?	Eligible medical expenses only.	IRS qualified medical expenses
Who owns the account?	Employer	Employee
Is a financial partner required?	No	Yes
Are there investment options?	No	Yes



AFFINITY

Employers' perspective: Pros and cons of HRA vs. HSA

	HRA	HSA
Pros	<ul style="list-style-type: none">■ Employer has greater flexibility in plan design and may limit use of funds■ Account is not pre-funded (paid as claims are incurred); therefore, employer can better manage cash flow	<ul style="list-style-type: none">■ Portability may provide greater incentive to modify member behavior■ Cost of administration may be less since claim substantiation is not required■ Employer receives tax advantage on total amount contributed by employer■ Employees may save up funds (pre-tax) for years when medical expenses are higher and/or for retirement
Cons	<ul style="list-style-type: none">■ Depending on plan design, members may have incentive to "use up" HRA funds if they plan to leave the company■ Cost of administration can be greater since claim substantiation is required■ Tax advantage is only realized on claims paid from the HRA■ Employees only reap benefits while employed with employer	<ul style="list-style-type: none">■ Employer has less flexibility in plan design (due to IRS requirements on the high-deductible plan) and are not allowed to limit use of funds■ Employer has greater cash flow burden since account is pre-funded and is portable

Implementation: 7 ways to succeed

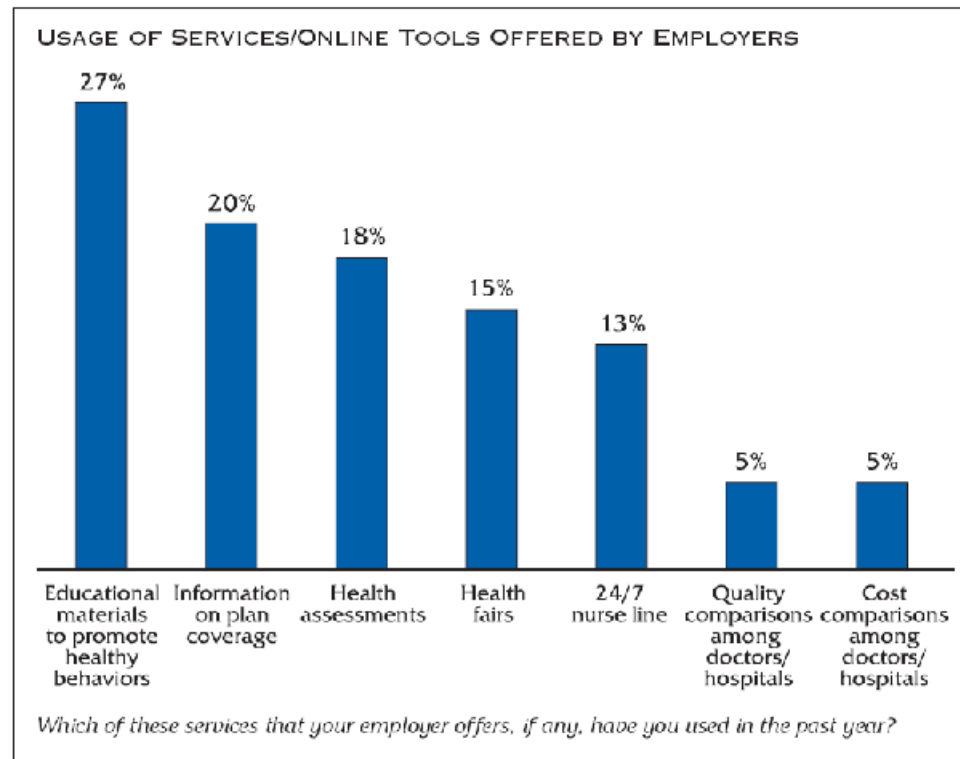
1. Employees value choice - but make certain you eliminate one or more other choices
2. Require mandatory re-enrollment - inertia is a powerful force!
3. Approach consumerism as a family affair - otherwise you're missing two-thirds of the population whose costs you're subsidizing
4. Attract the entire population - If you only attract low-users to CDHP, trend rate won't improve
5. Make strategic contributions - condition employer HSA deposits on employee HSA deposits
6. Partner the plan design with wellness offering
7. Communicate, communicate, communicate - multi-audience, multi-media, multi-times

Implementation: 7 ways to fail

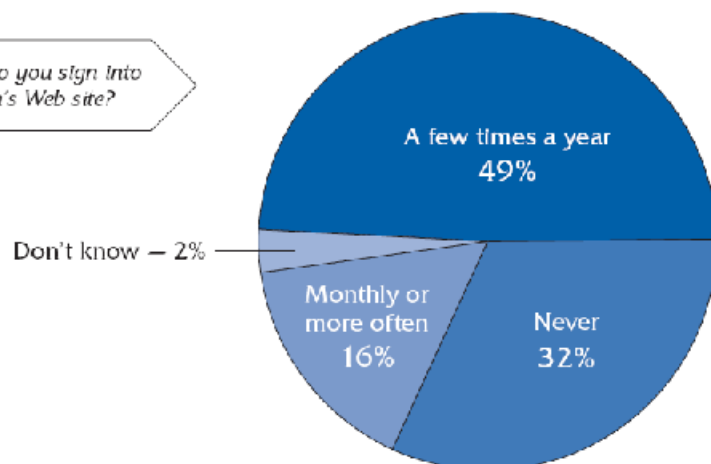
1. Tack it on - add it along side current options that are only changing minimally
2. Offer low HSA contributions - focus on conservative cost calculations when setting plan design and few will be takers
3. Bury it - give it equal educational weight to other options
4. Ignore the deductible hurdle - and fear will prevent serious consideration; disbelief in ability to handle the costs
5. Stay “low touch” - rely on mass communication
6. Be ambivalent - avoid endorsing the option
7. Leave it up to your vendors - your story will be incomplete

Will members become more engaged in decisions?

Members infrequently use health plan sites for decision support. Most don't use resources available from employers.



About how often do you sign into your health plan's Web site?



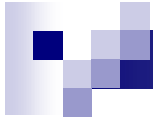


Employee Benefit Specialists

Brian McLaughlin
800-265-2876, ext. 11386
Brian.mclaughlin@usi.biz

Ray Keough
800-265-2876, ext. 11393
Ray.keough@usi.biz

www.usiaffinity.com/benefits



Thank you!

