

# *Health Savings Accounts*

Employee Benefit Planning Association Meeting

November 1, 2007

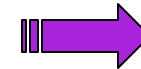
*Hsa*—

# Basic HSA Plan Concept

**HSA  
Concept**

## Part 1: High Deductible Health Plan

For 2007	Single	Family
Min. Deductible	\$1,100	\$2,200
Max. Out of Pocket	\$5,500	\$11,000
For 2008	Single	Family
Min. Deductible	\$1,100	\$2,200
Max. Out of Pocket	\$5,600	\$11,200



**Intended to  
cover serious  
illness or injury**

## Part 2: Health Savings Account

For 2007	Single	Family
Max. Contribution	\$2,850	\$5,650
For 2008	Single	Family
Max. Contribution	\$2,900	\$5,800



**Pays for  
expenses until  
deductible is  
met**

Made by: Employer, Employee, and/or other party

# Why choose a high deductible health plan (HDHP)?

HSA

- ◆ Potential savings on premiums
- ◆ Potentially lower premium increases
- ◆ Increased control of healthcare spending
  - ◆ Motivation to shop on price and service
- ◆ Qualifying individuals can open a tax-favored HSA

# Advantages of an HSA

HSA

- ◆ Funds roll over from year to year
  - ◆ Eliminates the “use it or lose it” philosophy
- ◆ Tax benefits on contributions, earnings, and distributions
- ◆ Portability
  - ◆ Funds go with you if you leave an employer or health plan
  - ◆ Funds are always tax-free when used for qualifying medical expenses even if qualifying HDHP coverage ends
- ◆ Long-term investment opportunity
- ◆ Increased motivation for utilizing health-related consumer choice options

# HSA Eligibility



- ❖ Covered by qualified high-deductible health plan (HDHP)
- ❖ Not covered by any other non-HDHP
- ❖ Not claimed as a dependent on another person's tax return.
- ❖ Not enrolled in Medicare A or B

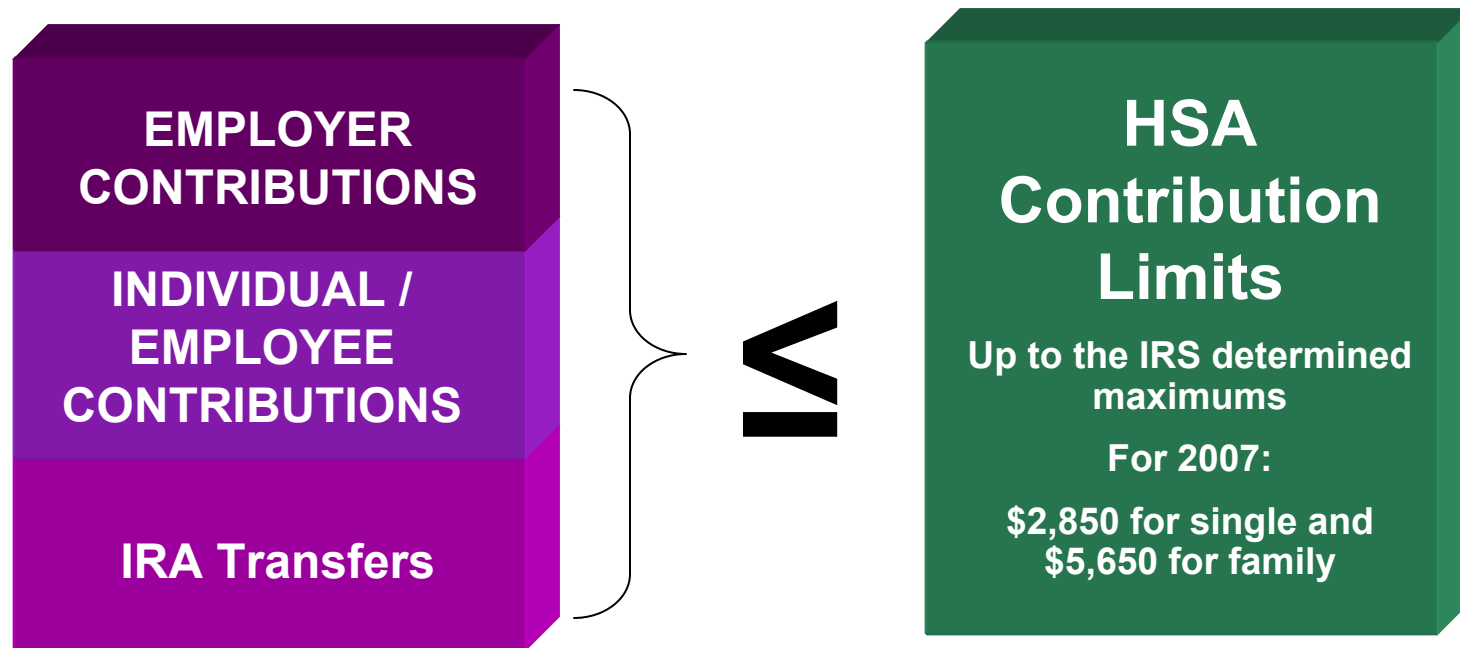
# Who can contribute to an HSA?

- ◆ Accountholder
  - ◆ Individual
  - ◆ Self-Employed
  - ◆ Employee
- ◆ Employer

- ◆ Third-party
  - ◆ Family Member
  - ◆ Beneficiary
  - ◆ Friend
  - ◆ State Government

## Coordinating HSA Contributions

Since both employees and employers can make contributions, it is important to coordinate in order to avoid excess contributions and tax penalties. The maximum can be contributed through a combination of sources or a single source as long as the annual limit is not exceeded.



**\*If an individual has HSA accounts with different administrators, all contributions count toward the annual contribution maximum.**

# What is the catch-up contribution?

Individuals who have an HSA, are age 55 or older and are not enrolled in Medicare A or B are qualified to make catch-up contributions.

Year	Catch-up Amount
2007	\$800
2008	\$900
2009+	\$1,000

- If a husband and wife are both qualified to make catch-up contributions, they can both do so if they *each* have an HSA.
- Contributions need not be prorated based on when in the year a person turns 55.
- Catch-up contributions must be prorated if you are not covered by a qualifying HDHP on December 1<sup>st</sup> or you do not maintain coverage through December 31<sup>st</sup> of the following year.



# Additional HSA Funding Options...

- ◆ IRA funds may be rolled to an HSA on a one-time basis
  - ◆ Subject to the annual HSA contribution maximum
  - ◆ Only traditional IRAs qualify at this time
  - ◆ Individuals must remain covered by a qualifying HDHP until the last day of the 12th month following the month of rollover to avoid tax penalties
  
- ◆ HRA and Health FSA may be rolled to an HSA
  - ◆ Employers must amend their plan documents to allow this
  - ◆ Rollovers must be made directly from the employer to the custodian/trustee

**\*Always consult your tax advisor, and/or the IRS for details and reporting requirements in regard to taxation, fund rollovers and other stipulations.**

# HRA and Health FSA Rollover: Employer Role



- ◆ Rollovers are optional for employers
  - ◆ If rollovers are offered, employers must offer them to all employees with qualifying HDHPs
- ◆ Employers must amend the plan documents to allow rollovers by the end of the plan year
  - ◆ They must contact the health FSA or HRA plan administrator to amend the plan documents
- ◆ Employers must limit the rollover to one time per HRA or FSA

# Tax Treatment and Advantages for Employees/Accountholders



- ◆ Contributions are either pre-tax through a cafeteria plan (via your paycheck) or tax-deductible
- ◆ Earnings
  - ◆ HSAs grow in the same tax-deferred manner as IRAs
  - ◆ Interest and investment income are also tax-free
    - ◆ Even greater potential for 2007 and beyond due to recent contribution legislation
- ◆ Distributions
  - ◆ Withdrawals for qualified medical expenses are always tax-free. After age 65, funds may be withdrawn for any reason without penalty, subject to regular income tax.

# Trends

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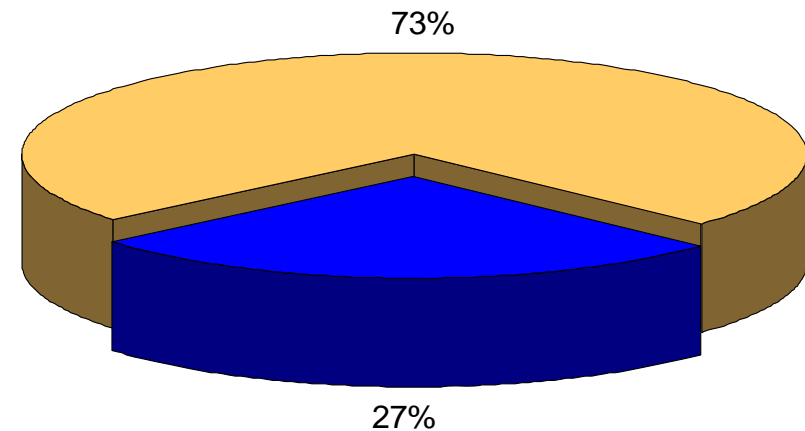
# HSA Market Growth

- o 4.5 million people were covered by HSA/HDHPs as of January 2007, up from 3.2 million people as of January 2006 (*Center for Policy and Research, AHIP (April 2007)*)
- o Expected future growth:
  - The number of HSA enrollees has been estimated to increase to 30 million by the end of 2009 (*Mintel, May 2007*)
  - The number of employers offering HSAs may increase by 15 percent next year (*Of Sickness and of Wealth, Susan Straight, June 11, 2007*)

# Who is buying HSA-compatible health plans?

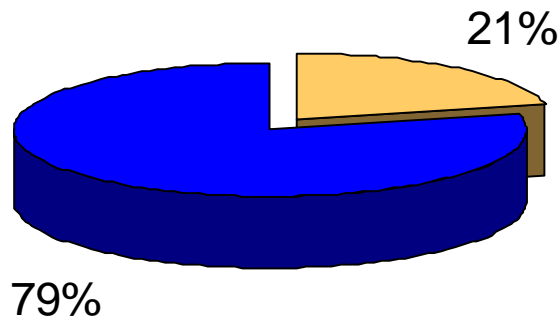
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- o Individuals and groups of all sizes
  - Individual Market - 25% of new policies are HSA/HDHP products
  - Small Group Market - 17% of new policies are HSA/HDHP products
  - Large Group Market - 8% of new policies are HSA/HDHP products
- o Previously uninsured people
  - Individual Market:  
27% Previously Uninsured



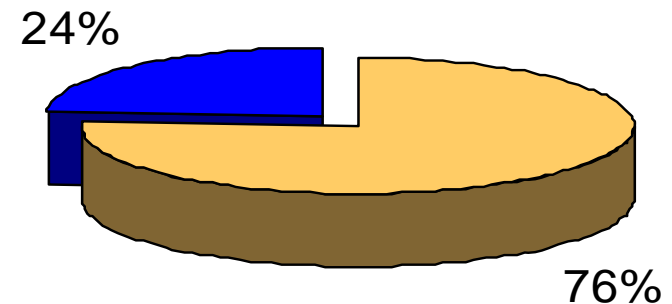
Source: Center for Policy and Research,  
*America's Health Insurance Plans (April 2007)*

## Rapid Group Market Growth



In September 2004, the group market made up 21 percent of HSA/HDHP enrollments

In January 2007, the group market increased to make up 76 percent of HSA/HDHP enrollments



Source: Center for Policy and Research, America's Health Insurance Plans (April 2007)

# Who really owns HSAs?

- o **Myth:** HSAs are only for the young
- o **Fact:** 46% of HSA accountholders are 40 years old or older within the individual market

*(Center for Policy and Research, AHIP (April 2007))*

- o **Myth:** HSAs are only for the wealthy
- o **Fact:** 42% of HSA accountholders have incomes of less than \$50,000

*(U.S. Department of the Treasury: Dramatic Growth of HSAs)*

	CDHC	Non-CDHC
Average Age	39	40
Average Income	\$42,200	\$43,912

*Source: HR Solutions Today, April 2006 Issue*

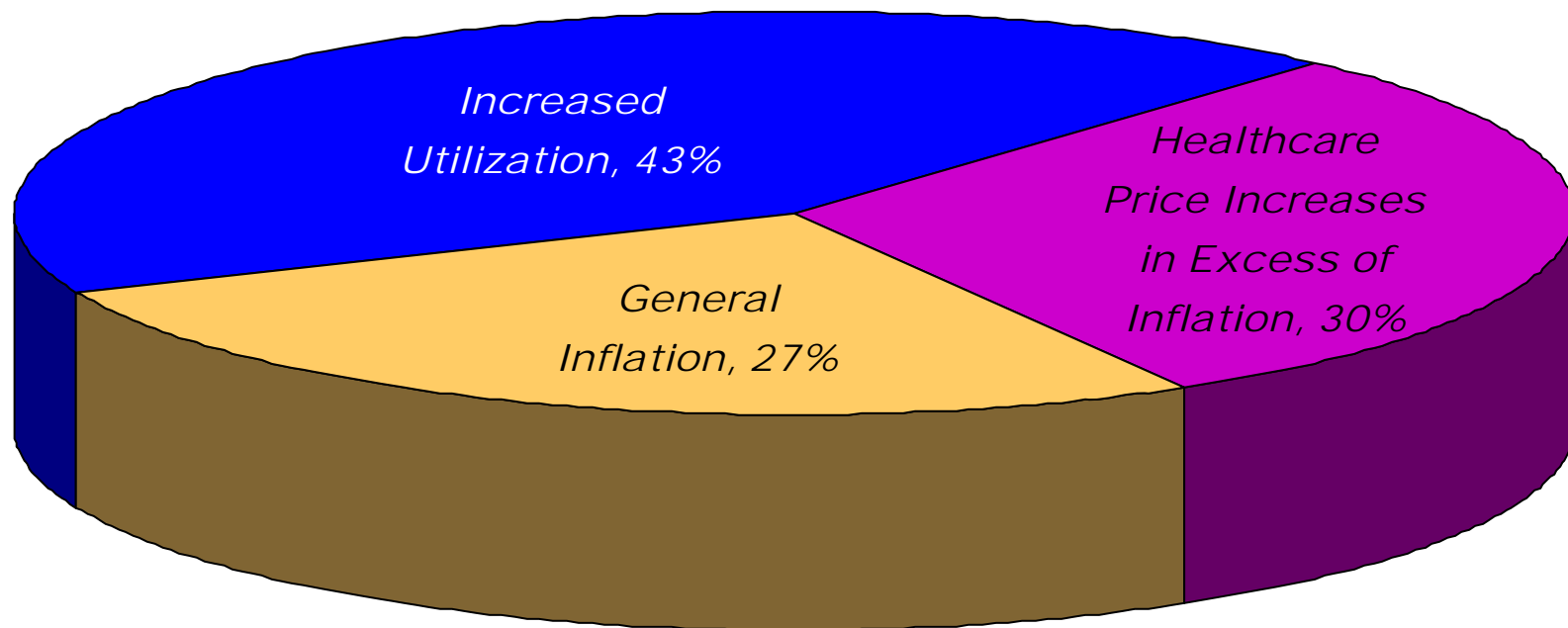


# HSA Owner Types

- o By 2010, over \$94 billion will be deposited in HSAs ([hsafinder.com/predictions](http://hsafinder.com/predictions), accessed: Sept. 2007), made up of three types of HSA owner
  - Saver - Utilizes HSA as an additional retirement fund (20% of HSA Bank accountholders)
  - Moderate Savers – Save at least half of the funds they contribute to their HSA (34% of HSA Bank accountholders)
  - Spenders – Use more than half of the funds they contribute to their HSA (46% of HSA Bank accountholders)

## Factors Affecting Premiums

The graphic below displays the percentage of the insurance premium increase attributed to increased utilization, general inflation and healthcare prices



Source: PriceWaterhouseCoopers: *The Factors Fueling Rising Healthcare Costs* (January 2006)

# Cost of Healthcare

- Healthcare premiums show a strong correlation to healthcare costs
  - From 1993-2003, premiums increased 7.3% while cost of healthcare increased 7.2% (*PriceWaterhouseCoopers, January 2006*)
- 28% of plan participants account for 89% of the healthcare cost in 2004
  - 72% of plan participants have health care costs less than \$1,500 annually as compared to 4% that have costs over \$10,000 (*Watson Wyatt, April 24, 2006 Press Release*)

# Increasing Healthcare Costs

- o Since 2000:
  - Health insurance premiums increased 73%
    - o In comparison, inflation was 14% and cumulative wage growth was 15%
  - Average employee contributions to health insurance increased 143%
  - Average out-of-pocket costs increased 115%

*Source: National Coalition on Health Care: Facts on Health Care Costs*

- o In 2007, the average annual premium for a family of four rose to \$12,106
- o Employer-sponsored health insurance premiums increased 6.1%, the smallest annual rise since 1999

*Source: Kaiser Family Foundation, September 2007*

# CDHP / Non-CDHP Comparison

- o Average premium cost
  - Consumer directed plans: \$5,211
  - Non-consumer directed plans: \$7,861
  - CDHPs cost an average of **\$2,650** less
- o Average deductible amounts
  - Consumer directed plans: \$1,899
  - Non-consumer directed plans: \$467
  - Non-CDHPs deductible averages **\$1,432** less
- o Do the math
  - $\$2,650 - \$1,432 = \text{save } \underline{\$1,218}$  with a CDHP

Source: HR Solutions Today, April 2006

# Are HSAs changing spending behavior?

## *Account Trends*

*(Based on HSA Bank's customer base of over 153,000 accounts as of January 2007)*

- ◆ 96.9% of all open accounts rolled over funds from 2006 to 2007
- ◆ On average, accounts rolled over \$1734 into 2007
- ◆ Average contribution per month = \$232
- ◆ Average distribution per month = \$135
- ◆ Net average per month = \$97 or 42% saved
- ◆ Nearly 20% save all contributed HSA funds
- ◆ Nearly 54% save at least half of the contributed HSA funds

# Increased Healthcare Consumerism



- People are more aware of cost and quality differences in healthcare when they have greater cost responsibility
- People with HDHP/CDHP are more likely to ask about health products and services
  - 15% more ask about price for prescription drugs
  - 10% more ask about price for seeing a specialist
  - 7% more ask about price for their primary care doctor
- 25% more people with a CDHP are planning for future healthcare costs
- People with CDHP are more willing to spend on healthcare services now to avoid future healthcare complications

*Source: Consumer and Physician Readiness for a Retail Healthcare Market, Booz Allen Hamilton, 2007*

# Review of Key Facts

- HSA market is growing rapidly and provides exceptional potential
- HSAs are not only for the wealthy and young
- HSAs are succeeding in doing what they were created to do
  - Increasing consumerism in health care
  - Lowering cost of health care premiums