

Considering a Health Savings Account?

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HSA (Health Savings Account) Eligibility



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

***Section 152 of the Internal Revenue Code excludes spouses from the definition of dependent.**

What is a qualified high-deductible health plan (HDHP)?



For 2008	Single	Family
Minimum Deductible*	\$1,100	\$2,200
Max. Out of Pocket**	\$5,600	\$11,200
For 2009	Single	Family
Minimum Deductible*	\$1,150	\$2,300
Max. Out of Pocket**	\$5,800	\$11,600

*Check with your insurance provider to determine if your plan meets the High Deductible Health Plan requirements.

**Qualifying deductible ranges are limited by the Maximum Out-Of-Pocket expenses allowed.

Basic HSA Plan Concept



**HSA
Concept**

Part 1: High Deductible Health Plan

For 2008	Single	Family
Min. Deductible	\$1,100	\$2,200
Max. Out of Pocket	\$5,600	\$11,200
For 2009	Single	Family
Min. Deductible	\$1,150	\$2,300
Max. Out of Pocket	\$5,800	\$11,600



**Intended to
cover serious
illness or injury**

Part 2: Health Savings Account

For 2008	Single	Family
Max. Contribution	\$2,900	\$5,800
For 2009	Single	Family
Max. Contribution	\$3,000	\$5,950



**Can pay for
eligible expenses
not covered by
the health plan**

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

What is included in Out-of-Pocket Maximum?



Included

- Deductible
- Co-insurance
- Co-pays

Not Included

- Payment of or penalties for a service not pre-certified
- Payment to or penalties for non-network providers
- Amounts over the usual, customary, & reasonable amounts
- Amounts for ineligible expenses

Advantages of an HSA

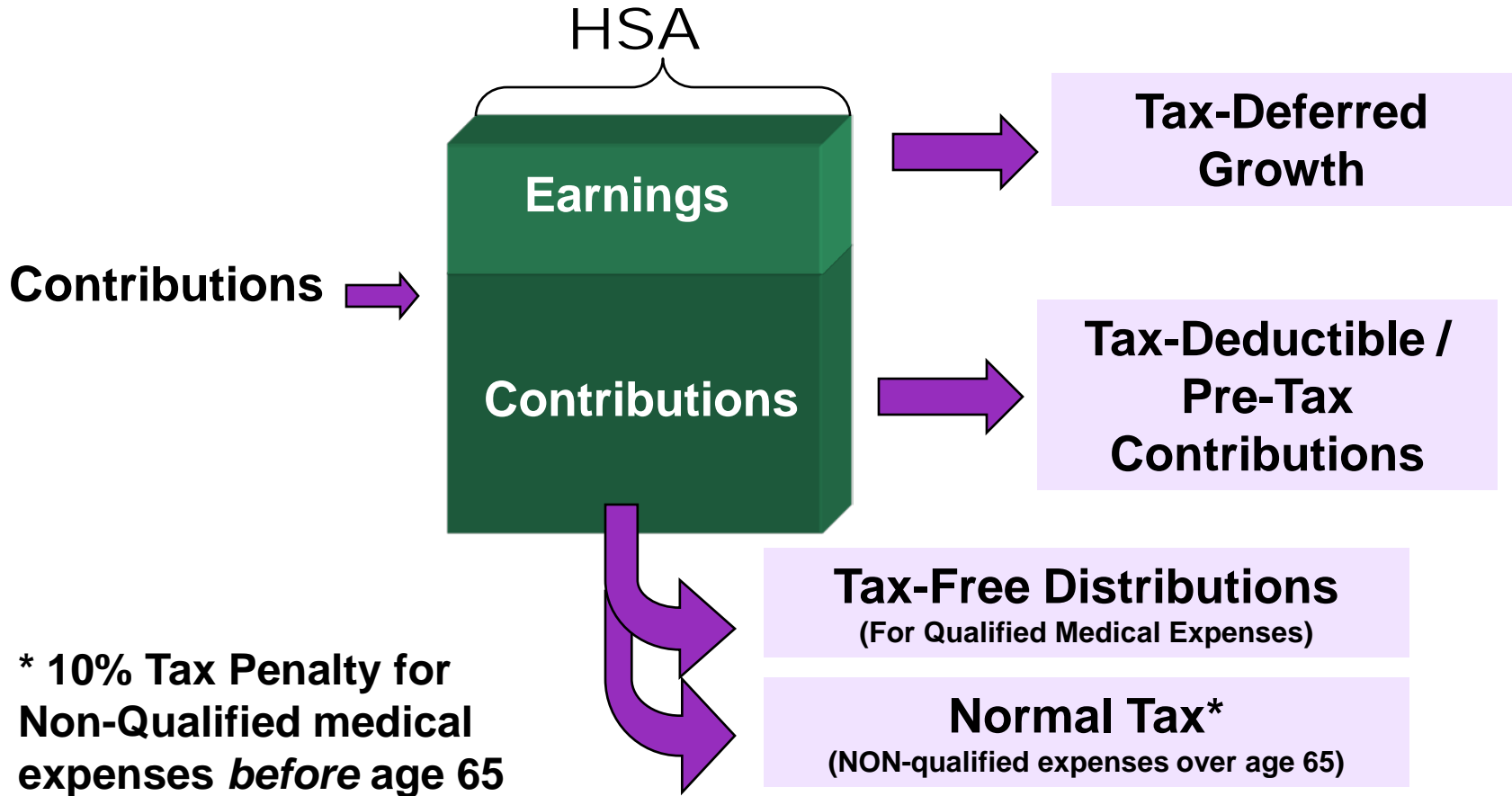
For an Employee/Accountholder

- Funds roll over year to year
 - No need to “use it or lose it”
- Tax benefits on the contributions, earnings, and distributions
 - Increases take home pay
 - Even greater potential for 2007 and beyond
- Long-term investment opportunity
 - Investment products are *not* FDIC insured, are not a deposit or other obligation of or guaranteed by the bank, and are subject to investment risks including possible loss of the principal amount invested.
- Portability

Basic HSA Concept

Compare to IRA

Hsa



Maximum Annual Contributions

- Are determined by the IRS
 - \$2,900 with individual or \$5,800 with family coverage for 2008
 - \$3,000 for individual or \$5,950 for family coverage for 2009
 - You can contribute the maximum amount regardless of deductible
- Can be made during the calendar year and until the tax return due date of April 15th the following year.
- Do not need to be prorated based on the date coverage began
 - Some restrictions apply (examples provided on the next 2 slides)

Prorating Provision

- If HDHP coverage begins after January 1st in a given year, contributions no longer need to be prorated as long as qualifying HDHP coverage continues through December 31st of the following year.
 - Exception--Those who change from family to single plans will need to prorate based on the number of months under each type of coverage

Excess contributions will be subject to income tax and a tax penalty.

Prorating Examples

Type of Coverage	Coverage Begins	Coverage Ends	Allowed Contribution 2008	Allowed Contribution 2009
Individual	1/1/2008	12/31/2008	\$2,900 (2008 Max)	\$0
Individual	7/1/2008	12/31/2009	\$2,900 (2008 Max)	\$3,000 (2009 Max)
* Individual	7/1/2008	4/1/2009	\$1,450 (6/12 of 2008 Max)	\$750 (3/12 of 2009 Max)
* Individual	11/1/2008	11/1/2009	\$483 (2/12 of 2008 Max)	\$2,500 (10/12 of 2009 Max)

***Prorating is required to avoid tax penalties when an individual does not maintain qualifying HDHP coverage through December 31st of the following year.**

(Follow the same rules for family coverage, but use \$5,800 for the 2008 maximum and \$5,950 for the 2009 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
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 1st or you do not maintain coverage through December 31st of the following year.

How contributions can be made

Contributions to an HSA must be made in "cash".

(contributions may not be made in the form of stock or other property)

- Online Contributions (through Internet Banking)
 - Recurring or one-time, as needed
- Check
 - With Contribution Form tear-off (on each statement or download from website)
 - With Deposit Ticket
- One-time rollovers to HSAs from IRAs
 - Some restrictions apply as previously noted
- Rollovers permitted once every 12 months
 - MSA to HSA
 - HSA to HSA
- Transfers are not limited

Who can contribute to an HSA?

➤ Accountholder

- Individual
- Self-Employed
- Employee

➤ Third-party

- Family Member
- Beneficiary
- Friend
- State Government

When can distributions be taken from an HSA?



- HSA dollars can always be used to pay for qualified expenses on a tax-free basis, regardless of age or healthcare coverage
 - If HDHP coverage ends, contributions cannot be made to an HSA, but distributions to pay for qualified expenses are always allowed.
 - If reimbursing expenses from previous years, sufficient records must be maintained to prove the expense was not previously reimbursed.
- HSA dollars can be withdrawn for any non-qualified expense prior to age 65, subject to a 10% penalty and regular income tax.
- After age 65, withdrawals can be made to pay for any non-qualified expense, subject to regular income tax.

What are Qualified Expenses?

A Qualified Expense is generally any expense incurred to maintain an individual's health or the health of their family, including:

- **Doctor and hospital visits**
- **Medical equipment**
- **Dental care, braces, dentures**
- **Vision care, glasses & contacts**
- **Medications, including certain over-the-counter versions**
- **Transportation costs associated with healthcare**

*A definition of Qualified Medical Expense is provided in Section 213(d) of Internal Revenue Code. A list of eligible medical expenses can be found in IRS Publication 502. Check with your tax advisor about expenses not on the list. For more information, visit www.hsabank.com.

Negotiating Payments

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Negotiate Payments With Healthcare Provider

Insurance Provider
ABC 123

Explanation of Benefits
06/00/00

Amount Paid \$ _____
a Check _____
a Credit Card / Debit Card _____
a Visa _____ a MasterCard _____
a Discover _____ a Other _____
Account ID: _____

James Morrison
123 Street
Any City, State 00000

Description	Amount Billed	Insurance Coverage	Participant Responsibility
Doctor Visit	\$300	\$100	\$200
			\$200

Negotiate Payments



Pay Monthly



Other eligible medical expenses

- Premiums for long-term care insurance
 - Limited to amount listed in 213(d)(10)
- Premiums for "COBRA"
- Premiums for coverage while receiving unemployment compensation
- Premiums for individuals over age 65
 - Retirement Health Benefits
 - Medicare Premiums

Additional Health Plan Guidelines



- Plans cannot provide benefits before the deductible is met, except for preventive care, permitted insurance, or permitted coverage

***Contact your health plan representative to determine if a plan is a qualifying HDHP.**

What preventive care benefits can a plan offer?



- Periodic health evaluations
- Routine prenatal and well-child care
- Immunizations
- Tobacco cessation programs
- Obesity weight-loss programs
- Screening services

What benefits are not considered Preventive Care?



- Generally, preventive care does not include any service or benefit intended to treat an existing illness, injury, or condition.
 - “Preventive care” for purposes of establishing an HSA are determined by the IRS, rather than state law.

What other kinds of coverage may an individual have with an HSA?



Insurance Coverage

- Accidents
- Disability
- Dental care
- Vision care
- Long-term care
- Specified disease or illness
- Insurance that pays a fixed amount/day of hospitalization

Other Coverage (Non-Insurance)

- Employee Assistance Plan
 - If it does not provide significant benefits
- Self-funded worker's compensation
- Discount or pre-negotiated pricing cards
- Cafeteria Plan
 - FSAs must be designed for only specified coverage such as dental + vision

HSAs, HRAs, FSAs



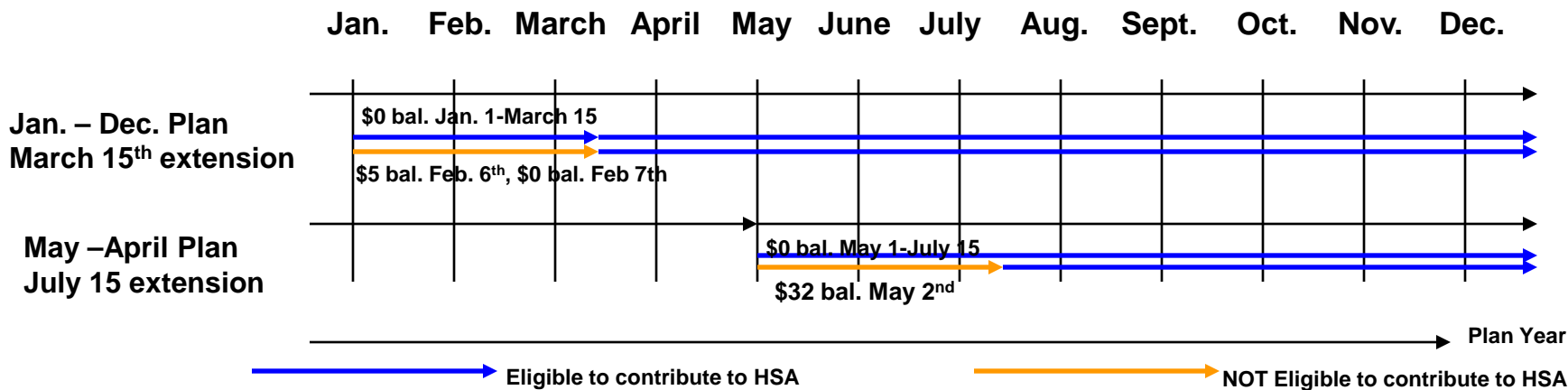
	HSA	HRA	FSA
Account owner	Employee	Employer	Employee
Funding	Employee, Other	Employer	Employee, Possible Employer
Roll over year-to-year	Yes	Generally No	No
Portable	Yes	Generally No	No

How HSAs & FSAs Can Work Together



- Limited Purpose FSA (can have with an HSA)
 - Pay for dental and vision expenses without having to use HSA funds
- Health FSA (cannot normally have at the same time as an HSA)
 - Extension provides 2.5 months beyond the end of the plan year to use FSA funds
 - Recent legislation allows employees to contribute to HSAs during the extension if their FSA balance is zero during that time or the total FSA balance is transferred to an HSA.

Example of when HSA contributions can be made if an individual still has a Health FSA. This assumes that the FSA plan is not renewed after the extension.



How HSAs & HRAs Can Work Together



- Three types of HRAs you can have with an HSA
 - Post deductible HRA—pays for out-of-pocket expenses after the HDHP deductible has been met
 - Retirement HRA—Designated for medical expenses after retirement
 - Suspended HRA—Cannot make contributions or take distributions from the HRA while contributing to the HSA

Tax Treatment and Advantages for Employees/Account Holders



- Contributions are either pre-tax through a cafeteria plan (via paycheck) or tax-deductible
- Earnings
 - HSAs grow in the same tax-deferred manner as IRAs
 - Interest and investment income are tax-free or tax deferred
- 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.

Tax Savings Example

Contribution	\$3,000 per year for 25 yrs
Annual Medical Expenses	\$500 per year
Tax Bracket	28% (Federal) 5% (State)
Average Interest Rate	4%
<p>TAX SAVINGS ON CONTRIBUTIONS = \$20,625.00</p> <p>TAX SAVINGS ON DEFERRED GROWTH = \$13,732.87</p> <p>ACCOUNT BALANCE AT THE END OF 25 YEARS = \$104,114.77</p>	

Are HSAs changing spending behavior?



Increased Consumerism in Healthcare

(Research results from McKinsey & Co., June 2005)

Consumer-directed health plan holders were more value conscious and attentive to wellness & prevention and therefore:

- 50% more likely to ask about costs
- 30% more likely to get an annual exam
- 25% more likely to engage in healthy behaviors
- 20% more likely to comply with treatment regimens
- 3 times more likely to choose less expensive options

Are HSAs changing spending behavior?

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Based on HSA Bank's customer base of over 186,000 accounts as of December 31, 2007

- 96.5% of all open accounts rolled over funds from 2007 to 2008
- On average, accounts rolled \$2,163 into 2008
- Average contribution per month = \$214
- Average distribution per month = \$173
- Average monthly savings = \$41
- Nearly 18% of accountholders saved all contributed funds and rolled over an average balance of \$4,013 into 2008.
- More than a third of accountholders saved at least 50% of their 2007 contributions.

Thank you for considering...

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