

# HSA: THE NEXT GENERATION OF HEALTH COVERAGE

*Health Net's HSA-Compatible Plans*



**Health Net®**  
A BETTER DECISION



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## AN HSA PROGRAM YOU CAN TRUST

Curious about all the recent talk about Health Savings Accounts (HSAs)? Take some time to review the information detailed here to answer any questions you might have about the increasingly popular consumer-directed market. With an HSA program, you can provide the tools your employees need to become fully engaged in a convenient and advantageous form of health care coverage.

## HOW DOES AN HSA PROGRAM WORK?

The Health Savings Account (HSA) program strategy is simple: Transfer control to the consumer and get them

involved. An HSA is an individually owned account – similar to an IRA or 401(k) retirement plan – and it must be used in conjunction with an “HSA-compatible,” high-deductible health plan.

### HSA Program Key Features

- You and/or your employee can make the contributions.
- Employee contributions are made on a pre-tax basis.<sup>1</sup> Employer contributions are generally not subject to FICA or FUTA taxes.
- Maximum contributions for 2010 as designated by the federal government are \$3,050 for an individual enrollee or \$6,150 for a family.

- Those over the age of 55 are eligible to make catch-up contributions of up to \$1,000 per year.
- Withdrawals are non-taxable when used for qualified medical expenses (QMEs), which include services typically covered under a traditional health plan.<sup>2</sup>
- The funds can be invested; earnings are non-taxable.
- The funds are not “use it or lose it,” but can roll over to the following benefit year.
- HSAs are portable – they belong to your employees.

### High-Deductible Health Plan Key Requirements

- Current minimum deductibles as designated by the federal government are \$1,200 (individual) and \$2,400 (family). These are combined medical and pharmacy benefit deductibles.<sup>3</sup>
- Maximum out-of-pocket expenses may not exceed \$5,950 (individual) and \$11,900 (family).
- Plan requirements apply to in-network benefits; out-of-network benefits can be less generous.
- Most preventive benefits are covered at 100% and are not subject to the deductible.<sup>4</sup>



## Solid Support

As Health Net members, your employees will receive the support they need to make confident health care decisions:

- Resources to help manage their plans including programs like *Decision Power*<sup>®</sup> and tools like a treatment cost estimator, hospital comparison report, Health Risk Questionnaire and medication center.
- In-network access to more than 4,200 primary care physicians, 3,400 specialists and more than 63 hospitals in Arizona.
- Comprehensive customer support.
- Traditional medical and case management.
- Broad communication support including welcome kits, ID cards and explanations of benefits.

## EXAMPLES FOR IN-NETWORK SERVICES<sup>5</sup>

When your employees make their decisions about how much to contribute to their HSA account, it is recommended that they review the previous year's medical expenses. This will help to project medical expenses for the coming year so they are able to plan accordingly. The examples below provide an idea about what factors to take into consideration when setting aside health care dollars.

### EXAMPLE 1: SARA

During the previous year, Sara had routine preventive services and also experienced several mild illnesses. So based on her medical expenses from a year earlier, she chose to contribute a total of \$350 to her HSA for the coming year. In addition, she will also pay her appropriate monthly plan premium.

SERVICE	COST	DEDUCTIBLE	HEALTH NET PAYS	MEMBER PAYS
Preventive services are covered at 100%				
Routine OB/GYN visit (covered at 100%)	\$122	First \$500 not subject to deductible for preventive care. Health Net pays first \$500. After \$500, subject to deductible.	Health Net pays entire \$122	\$0
Two office visits for illness	\$132 (\$66 each)	Must first meet deductible	\$0	\$132
Two drug prescriptions	\$150	Must first meet deductible	\$0	\$150
<b>Total medical expenses</b>				<b>\$282</b>
<b>Balance left in account</b>				<b>\$68</b>



### EXAMPLE 2: DAVID

David had a few medical situations the previous year. Even though his medical expenses were around \$1,500 last year, he chose to contribute \$2,000 to his HSA for the coming year. He padded it just a bit because of a big ski trip he has planned – you never know when you might need extra medical assistance. David will also pay his appropriate monthly plan premium and has a \$2,500 deductible.

SERVICE	COST	DEDUCTIBLE	HEALTH NET PAYS	MEMBER PAYS
Preventive services are covered at 100%				
Visit for routine physical (covered at 100%)	\$139	First \$500 not subject to deductible for preventive care. Health Net pays first \$500. After \$500, subject to deductible.	Health Net pays entire \$139	\$0
One office visit for illness	\$66	Must first meet deductible	\$0	\$66
One drug prescription	\$40	Must first meet deductible	\$0	\$40
One outpatient surgery	\$933	Must first meet deductible	\$0	\$933
Six physical therapy visits	\$553	Must first meet deductible	\$0	\$553
<b>Total medical expenses</b>				\$1,592
<b>Balance left in account</b>				\$408

## Q&A: HEALTH SAVINGS ACCOUNT

### Q: What is a Health Savings Account (HSA)?

A: An HSA is an individually owned savings account, similar to an IRA or 401(k) retirement plan, except that funds are used to pay for health care costs. An HSA provides consumers with a tax-efficient method of saving and paying for qualified medical expenses.

### Q: What are “qualified medical expenses”?

A: Qualified medical expenses (QMEs) include those services typically covered under a traditional medical plan, along with other health-related services and therapies.<sup>6</sup> Examples include:

- Medical and dental deductibles and copayments
- Eye exams, eyeglasses, contact lenses, corrective LASIK eye surgery
- Hearing aids
- Orthodontia
- Expenses in excess of medical, dental and vision plan limits
- Prescription drugs (including insulin)

**Q: What is an HSA-compatible, high-deductible health plan?**

A: An HSA-compatible, high-deductible health plan is Federally Qualified and has combined medical and pharmacy deductibles of at least \$1,200 (individual) and \$2,400 (family). Maximum out-of-pocket expenses are \$5,950 (individual) and \$11,900 (family).<sup>7</sup> Most preventive benefits are covered at 100% and are not subject to the deductible. Plan requirements apply to in-network benefits; out-of-network benefits can be less generous.

**Q: Can I contribute to my employees' HSAs?**

A: Yes. Contributions must be comparable among all employees participating in an HSA program, in either dollar amount or percentage of HSA-compatible plan deductible. Tax-free contributions are subject to an annual cap.

**Q: What are the tax efficiencies of an HSA for employers?**

A: Employer contributions are generally not subject to FICA or FUTA taxes.

**Q: What other features does an HSA offer?**

A: HSA belongs to the individual and is portable. The funds are not "use it or lose it," but can roll over to the following benefit year.

The individual keeps and can use existing funds if they leave or terminate employment. HSA funds can be transferred tax-free to a spouse upon death, or as taxable transfers to an estate or other beneficiary.

**Q: Who is eligible for an HSA?**

A: An individual can enroll in and contribute to an HSA only if he or she is enrolled in an HSA-Compatible, high-deductible health plan. Also, the account owner must not be enrolled in Medicare, claimed as a dependent on another's tax return or enrolled in another health plan that is not a high-deductible health plan.<sup>8</sup>

**Q: How much can be contributed to an HSA?**

A: The federal government has established maximum annual HSA contributions for 2010 as \$3,050 for individual coverage or \$6,150 for family coverage. If an individual is age 55 or older, he or she may be able to make an additional "catch-up" contribution of up to \$1,000.

*The above is for general informational purposes only. For more information about the tax implications of an HSA program or HSA-compatible plan, consult a professional tax advisor.*

## **Some Decisions Just Come Naturally**

In most industries, buyers compare products based on their research and advertised prices, then choose the products that best suit their needs, preferences and budgets. This drives the development of better, more affordable options. And consumers ultimately are more satisfied because *they* get to choose.

This dynamic occurs in everything from cars to airlines, homes to home computers. At Health Net, we firmly believe that consumers' interests are in everyone's interest. If individuals were fully immersed in decisions about their health care, and if the relative costs and evidence-based outcomes of care were more transparent, everyone would benefit. Patients would ask more questions of their physicians, which would open up a whole new level of dialog. People would make value-driven choices, and be happier with the care they receive. The rise in health care costs would decrease.

Consumer-directed health plans are next-generation coverage options designed to help members become aware of the value, be in control of their finances and able to make more confident decisions.



## FOOTNOTES:

- <sup>1</sup> Tax-free contributions are subject to an annual cap.
- <sup>2</sup> Qualified medical expenses also include services such as vision, dental and certain over-the-counter medications.
- <sup>3</sup> Unlike many traditional health plans, HSA-compatible plans require that the enrollee meet the combined medical and pharmacy deductible before they are eligible for benefits. Members pay the full cost of services and drugs at a price pre-negotiated by Health Net when in-network until the deductible is met. The family deductible is calculated by adding all covered family members' medical and pharmacy expenses together. Out-of-pocket eligible expenses, including copays after deductibles are met, are eligible for HSA reimbursement.
- <sup>4</sup> Please refer to the Evidence of Coverage for a complete list of preventive benefits.
- <sup>5</sup> Dollar amounts are for illustrative purposes only. Benefit amount may vary based on plan selection.
- <sup>6</sup> A full list of "qualified medical expenses" is outlined in IRS Publication 502 – Qualified Medical and Dental Expenses, which you can find at [www.irs.gov](http://www.irs.gov). Qualified medical expenses generally do not include premiums paid for health coverage except for:
  - COBRA insurance;
  - Qualified long-term care insurance and expenses;
  - Health insurance premiums for individuals receiving unemployment compensation; and
  - Medicare and retiree health insurance premiums, but not Medicare Supplement premiums.
- <sup>7</sup> Figures are for 2010 and are based upon federal government guidelines.
- <sup>8</sup> Exceptions include EAP plans, disease management programs, wellness programs and "limited purpose" HRAs and FSAs, AD&D, disability, vision, long-term care, workers' compensation or limited coverages, such as those for a specific disease or illness or a fixed amount per day of hospitalization.

## EXCLUSIONS AND LIMITATIONS:

- This document is an overview summary of the Health Net HSA program. For plan details, see Evidence of Coverage. To the extent this document is inconsistent or conflicts with the Evidence of Coverage, the Evidence of Coverage controls.
- Covered expenses for services provided by a non-contracted provider will be the lesser of the billed charge or the Maximum Allowable Amount for the Covered Service.
- Precertification is required for certain services. If precertification is not obtained, it will result in a reduction of benefits and increased enrollee liability.
- In-network benefits are subject to deductible, then a percentage of covered expenses. Out-of-network benefits are subject to deductible, then a percentage of covered expenses.
- Preventive health care services are generally defined as routine physical, Pap smear, mammography and PSA screenings. For a complete description, see the Evidence of Coverage.
- All drugs covered on your outpatient prescription benefit are placed in one of the four tiers on the Preferred Drug List (PDL). The Health Net PDL is a listing of covered medications. Members can access the PDL at [www.healthnet.com](http://www.healthnet.com) > [View Prescription Coverage > Drug List](#).
- Pre-existing condition limitation.



You have access to Decision Power through your current enrollment with any of the following Health Net companies: Health Net of Arizona, Inc.; Health Net of California, Inc.; Health Net Health Plan of Oregon, Inc.; Health Net Life Insurance Company.

Investments in HSAs are not FDIC insured, may lose value and are not bank guaranteed. The health benefits portion of the HSA program is underwritten by Health Net Life Insurance Company and administered by Health Net of Arizona, Inc.

In Arizona, benefits are insured and administered by Health Net of Arizona, Inc. for HMO plans and Health Net Life Insurance Company for indemnity plans and life coverage. The Health Net of Arizona, Inc. service area includes all Arizona counties. Health Net, Inc. is the parent company of both Health Net of Arizona, Inc. and Health Net Life Insurance Company. Health Net, A Better Decision and Decision Power are registered service marks of Health Net, Inc. All rights reserved.