

Important Information for Employers



**Health Savings
Account (HSA)
Program**



Heard the news about HSAs...

These products are part of Coventry FlexChoice, a consumer driven health care strategy from the health plans of Coventry Health Care, that aims to help you control health care costs while still providing a rich and flexible benefit to your employees.

With the Coventry FlexChoice HSA, your employees receive:

- A **Qualified High Deductible Health Plan (QHDHP)**, a major medical plan designed to provide preventive care and protection against catastrophic loss.
- A **Health Savings Account (HSA)**, a triple tax advantaged savings vehicle that can be used to help pay for qualified health care expenses.
- **Decision Support Tools**, which help them become better health care consumers by allowing them to forecast health care costs and research average costs for specific medical procedures. They can also access clinical tools which provide the resources and information they need to choose the health care professionals, services and products best suited for them.

A QHDHP

Specific rules from the Medicare Modernization Act govern the design of these plans. A QHDHP has an in-network deductible of at least \$1,050 individual (\$2,100 family) that applies to medical, hospital and pharmaceutical expenses. Preventive care is not subject to the deductible and usually has a nominal copay. The most an individual can pay out-of-pocket for in-network care is \$5,250 per year (Family \$10,500)*.

An HSA

A Health Savings Account (HSA) is a consumer-owned, tax advantaged savings vehicle. It is designed to help pay for qualified medical expenses of the account beneficiary who is covered under a QHDHP. HSAs can assist in paying for medical care now and provide a good way to save for future medical expenses.

HSAs are “triple tax-advantaged” accounts.

In most cases, HSAs allow (1) tax-free contributions, (2) tax-free growth of interest or investment earnings, and (3) tax-free disbursements of money to pay for qualified medical expenses.

Using HSA Money:

Your employees can use HSA funds to pay for any qualified medical expense, including the health insurance deductible, any coinsurance and copayments for medical services or prescriptions. In addition, HSA funds can be used to purchase dental services, vision care services, over-the-counter drugs and/or long-term care insurance. Funds may also be used to pay health insurance premiums during any period of unemployment. No matter what employees use their HSA funds for, they are still responsible for meeting the health insurance deductible and any other out-of-pocket expenses they may incur.

Banking Partner:

Coventry has chosen **Wells Fargo Bank, N.A.** (“Wells Fargo”) as the fiduciary (custodian) for our HSA offerings. This means your employees’ HSA accounts will be held and managed by Wells Fargo. They will issue the HSA VISA® debit card that can be used for medical expenses like pharmacy costs. To help grow HSA balances, Wells Fargo offers and manages multiple investment (fund) options for HSA enrollees. For more information on Wells Fargo funds, visit www.wellsfargofunds.com.

* Limits are for 2006 and will be indexed for inflation.

What Employers Need to Know about Coventry FlexChoice HSA

Benefits

No Additional Administrative or PEPM Costs – For no additional cost, Coventry will include the Wells Fargo debit card and access to a series of Wells Fargo mutual funds. In addition, all FlexChoice administration programs offer a single point of eligibility and integration between the medical claim and member financial responsibility.

Payroll Tax Savings - The pre-tax dollars your employees contribute to their HSAs will decrease your payroll amount for tax purposes.

Lower Premiums - With the Coventry FlexChoice HSA you may receive lower QHDHP premiums. You can use these premium savings to fund HSA accounts for your employees or to offer other types of benefits that will increase employee satisfaction and retention.

Healthier Employees – Because the Coventry FlexChoice HSA encourages the use of preventive care through low cost sharing, employees are motivated to receive necessary screenings and use their wellness benefits. They will also see their money grow if they stay healthy and don't have to withdraw it to pay high medical bills. For employers, this translates into less sick time, a more productive workforce and long term health care cost savings.



Considerations

Comparability and Non-Discrimination – You don't have to contribute to employee HSA accounts, but if you do, you must contribute the same dollar amount or percentage of the deductible to each employee in the same "class" (e.g., full-time or part-time). Under a cafeteria plan, comparability does not apply, but contributions are subject to the Section 125 nondiscrimination rules.

Portability - Like an individual retirement account (IRA), the HSA is owned and controlled by the account holder. Any contributions you (the employer) make immediately belong to the individual. If the employee leaves employment, any money in the HSA goes with him. It does not revert to the employer like some other account types.

To get the Coventry FlexChoice HSA for your employees

Visit the website www.cvty.com for more information or contact your Account Manager, Account Executive or Broker.

Start thinking about the key decisions:

- What is your target premium amount?
- Do you want to contribute to employee accounts?
- Do you want to take advantage of the auto crossover feature? - Member responsible eligible medical expenses aligned with the medical plan -- deductibles, coinsurance, and co pays -- will be automatically transmitted and reimbursed.
- Do you want to provide other permitted coverage (e.g., Limited FSA)?

Work with your Account Manager, Account Executive or Broker to select a benefit design, calculate a rate and then complete the enrollment forms and Group Discovery Document, which outlines your selections. Start communicating with your employees about the new plan and how it works. Member materials are available to help you with this.



Frequently Asked Questions

What is a Qualified High Deductible Health Plan (QHDHP)?

Generally, a QHDHP is a health plan that follows design guidelines laid out by the IRS. Specifically, for individual coverage, a QHDHP has an annual deductible of at least \$1,050 for an individual (\$2,100 family) and an annual limit on out-of-pocket expenses (deductibles, copayments, and other amounts, but not premiums) up to \$5,250 for a single (\$10,500 family).*

Who is eligible to establish an HSA?

Any individual who: (1) is covered under a QHDHP on the first day of the month; (2) is not also covered by any other health plan, including a spouse's plan that is not an HDHP (except for plans providing certain limited types of coverage); (3) is not enrolled in Medicare; and (4) may not be claimed as a dependent on another person's tax return.

What is a qualified medical expense?

"Qualified medical expenses" are expenses paid by the account beneficiary, his or her spouse, or dependents for medical care as determined by Section 213(d) of the Internal Revenue Service Code, but only to the extent the expenses are not covered by insurance or otherwise. The qualified medical expenses must be incurred only after the HSA has been established. For a complete listing of qualified medical expenses view Publication 502 at the IRS website - www.irs.gov.

How much money can be contributed to an HSA?

You, your employees, or both can (but don't have to) contribute tax-deductible funds each year up to the lesser amount of the policy's annual deductible or \$2,700 for individual coverage and \$5,450 for family coverage. Both employer and employee contributions count toward this limit.*

How are funds contributed to the HSA?

Contributions can be made once a year or via installments. If you chose to set it up, employee contributions can be deducted directly from their paychecks. The employee may make additional contributions, up to the annual limit, by completing an HSA Manual Contribution Form.

Is there a deadline for contributions to an HSA for a taxable year?

Contributions for the taxable year can be at any time prior to the due date for filing your federal income tax return for that year, but not before the beginning of that year. For calendar year taxpayers, the deadline for contributions to an HSA is generally April 15 following the year for which the contributions are made. The maximum contribution may be made on the first day of the year.

What are "catch-up contributions"?

For individuals (and their spouses covered under the HDHP) who are age 55 and are not enrolled in Medicare, the HSA contribution limit is increased by \$700 in calendar year 2006. Once an individual enrolls in Medicare, no more contributions or catch-up contributions can be made to an individual's HSA.

How is money withdrawn from an HSA?

Money can be withdrawn by using the Wells Fargo HSA VISA® Debit Card for immediate access to funds. Money will also be withdrawn and sent to the employee when there is a qualifying medical expense submitted via the auto-crossover function or a manual claim form.

What happens if there are insufficient funds to satisfy a distribution request?

If insufficient funds exist when a distribution request is received, the money in the HSA will be distributed and any remaining amounts will be pended and released when the HSA is funded. Employees will not have to submit a new request.

What is a Limited FSA and can I offer it to my employees with the HSA?

The Limited FSA is a Flexible Spending Account designed to work alongside a Health Savings Account (HSA), without disqualifying employees from participating in the HSA. When paired with an HSA, the covered services under an FSA are limited to only those expenses not covered under the High Deductible Health Plan (HDHP). These expenses include all of 213(d) expenses including dental, vision, orthodontia, post-deductible coinsurance/copays or member responsibility of first dollar benefits (e.g., preventive care copays), dependent childcare (optional benefit).

* These are 2006 limits and will be indexed for inflation.

