

The GHI Health Savings Account Program

Employer Frequently Asked Questions

HSA BASICS

1. *What is a Health Savings Account?*

A health savings account (HSA) is an account that employees may put money into to save for future medical expenses. HSAs are often described as a “medical” 401(k), because these savings accounts are owned by the individual employee, roll over from year to year, and move with the employee when he or she switches jobs or retires.

What’s different is that money in a health savings account carries “triple tax benefits”—contributions, earnings, and distributions are exempt from federal (sometimes state) income and Social Security taxes when used for qualified medical expenses.

2. *Who can open an HSA?*

“Eligible individuals” are defined in the Medicare Prescription Drug Improvement and Modernization Act (Medicare Act of 2003) in which Congress authorized tax-advantaged health savings accounts. Eligible individuals:

- Must be covered by a high deductible health plan (HDHP);
- Cannot be covered by any medical plan that is not a high deductible health plan (dental and vision plans are not included in this restriction);
- Cannot be enrolled in Medicare; and
- Cannot be claimed as dependent on another individual’s tax return.

3. *What is a High Deductible Health Plan (HDHP)?*

Employees must have coverage under an HSA-qualified “high deductible health plan” (HDHP) to open and contribute to an HSA. Generally, this is insurance that does not cover first dollar medical expenses.

To be HSA-qualified, a high deductible health plan must have:

- Minimum annual deductibles (in-network), in 2006, of \$1,050 for individuals and \$2,100 for families.
- Maximum out-of-pocket expenses (in-network), in 2006, of \$5,250 for individuals and \$10,500 for families (including deductibles and copayments, but not including premiums).

4. *How are HSAs different from other health accounts?*

Other types of “consumer directed health plans” include Medical Savings Accounts (MSAs), Health Reimbursement Accounts (HRAs) and Flexible Spending Accounts (FSAs).

- *Medical Savings Accounts* (now referred to as Archer MSAs) — precursors to HSAs were made available in 1996 to self-employed individuals and employees of small businesses.

An Archer MSA is a tax-exempt trust or custodial account that you set up with a U.S. financial institution in which you can save money exclusively for future medical expenses.

- *Health Reimbursement Accounts*—accounts established, maintained, and funded on a pay-as-you-go-basis by employers on behalf of each covered employee for the purpose of paying for unreimbursed medical expenses. HRAs are not portable like HSAs, but the money left in an HRA at the end of the year rolls over to the next.
- *Flexible Spending Accounts*—special accounts in which employees set aside money on a pre-tax basis for specific health care expenses that are not reimbursed by a group health plan. Employers must receive substantiation of medical claims and any contributions remaining at the end of the plan year are forfeited under an IRS ‘use it or lose it’ rule.

CONTRIBUTIONS

5. *How are HSAs funded?*

HSAs are funded by employee and/or employer contributions to a savings account administered by a bank, insurance company, or financial institution that is approved to hold these assets.

6. *How do employer contributions work?*

Employer contributions are voluntary, and the dollar amounts contributed are optional up to the limits set by federal regulations. The limits for combined employer and employee contributions, in 2006, are up to the amount of the HDHP deductible, but no more than \$2,700 for an individual and \$5,450 for a family. These amounts are adjusted annually for inflation.

The dollar amount or the percentage contribution an employer makes must be the same for all employees in the same class. Variations are permitted for different classes of employees, like part-time vs. full-time.

7. *How are contributions made?*

HSA employer contributions are flexible. They may be made in a lump sum, or spread out over the year, and they don't have to be consistent from one year to the next. Your employees' contributions may be made by payroll deduction as part of the benefit plan, or made on a lump sum basis at any time during the plan year. Contributions can be made as late as April 15 of the following year.

8. *What happens when an employee is only in the HDHP plan for part of the year?*

All contributions are pro-rated based on the amount of time an employee is in the HDHP plan. Only the months where the employee has HDHP coverage on the first day of the month may be counted.

9. Who can contribute to an HSA?

Any eligible individual may contribute to an HSA. For an HSA established by an employee, the employee, the employee's employer or both may contribute to the HSA of the employee in a given year. Family members may also make contributions to an HSA on behalf of another family member.

10. How are contributions from the employer made?

- a. The Employer will fill out the Group Set-Up form and send it back to GHI with the GHI Group Application.
- b. GHI will then send the form onto Mellon Bank.
- c. Mellon will contact the Employer as to how they would like to fund the Employees' accounts.
- d. The Employer sends contribution directions and funding back to Mellon Bank.

11. How does the Employer fund the Employees' accounts?

- a. Small groups will pay via Payroll on the Web (POW!)
- b. Large groups can fund the accounts in the following ways:
 1. Excel Spreadsheet
 2. Payroll Distribution Sheet
 3. Individual Automated Clearing House (ACH) Direct Deposit
 4. Payroll on the Web (POW!)

Please refer to the applicable Small or Large Group Employer Guides for more information.

BENEFITS FOR EMPLOYEES

12. What are the benefits for employees?

Portability: Employees own their own accounts, just like a 401(k). If they change jobs or health plans, they still keep their HSA account. Upon his or her death, the spouse becomes the owner of the account.

Triple tax advantages: HSAs are considered triple tax advantaged because:

- 1) Employee contributions are tax-deductible.
- 2) Interest and investment earnings on the account are tax-free.
- 3) Withdrawals are tax-free, as long as funds are used for qualified medical expenses.

Savings mechanism for future health needs: Unused contributions accumulate for future medical expenses.

BENEFITS FOR EMPLOYERS

13. Why should an employer offer an HSA?

HSAs increase the likelihood that employees will choose high deductible health plans—which cost less for employers to provide—because they offer a vehicle to contribute, save, and pay for health care on a tax-free basis.

HSAs allow employers to offer employees a valuable tax-sheltered form of compensation at a low cost.

14. How does the HSA plan promote healthier choices by employees?

The HSA program gives a strong financial incentive to make healthier lifestyle choices because by staying healthy, employees keep more money in their health savings accounts. GHI's HSA Programs support employees by providing quality information and education on health care options.

HOW THE HSA ACCOUNT WORKS

15. What are “qualified medical expenses” that are eligible for tax-free distribution to employees?

“Qualified medical expenses” are defined by IRS code 213(d). Qualified expenses include, but are not limited to, doctors visits, hospital expenses, lab, x-ray and other diagnostic services, prescription drugs, over the counter drugs, hearing aids, braces, wheelchairs, organ transplants. Please see link on www.ghi.com/hsa, labeled “Qualified Medical Expenses,” (IRS Publication 502) for a full listing.

16. Are health insurance premiums considered qualified medical expenses?

In general, HSA money cannot be used to pay for insurance premiums, but there are certain circumstances when it is permitted:

- Any health plan coverage while receiving federal or state unemployment.
- COBRA continuation coverage after leaving employment with a company that offers health insurance coverage.
- Qualified long-term care insurance.
- Medicare premiums and out-of-pocket expenses, including deductible, copays and coinsurance Medicare Part A, B, C, D.

17. Are there restrictions on how much of an HSA account may be invested in mutual funds or other kinds of investment options?

A balance of \$2,000 will be maintained as cash or equivalents for medical payment transactions. Any amount above that is available for investments.

18. Will employees have to look for their own banking services if they enroll?

No. GHI has partnered with Mellon Trust of New England N.A. to provide HSA banking services.

SUPPORT FROM GHI

19. Who can we contact for questions before or after enrollment?

The employer may contact their Broker or GHI Sales Representative if they have any questions concerning the HDHP/HSA product. In your Employer Guide that should have been given to you, you will also find various phone numbers for the HSA Solution Employer Support Team.

*****Please refer to the applicable Small or Large Group Employer Guides for more information.**

20. What kind of online administrative support is available from GHI?

GHI provides powerful web-based tools that provide sophisticated reporting capabilities to employers. When you log on to GHI's secure web site, you'll have access to valuable information on program performance and utilization. You'll be able to track your year-to-date contributions, monthly employee deposits, and more.

21. What support is available to employees?

Once an employee gets a PIN, he or she can log onto GHI's secure member site at www.ghi.com/hsa, and then click either "You've Got the Power!" or "Manage the HSA" on the right-hand side to:

- Pay claims and track claims activity.
- Order new debit cards.
- Monitor HSA activity and conduct transactions.
- Access valuable health information.

HSA DECISION POINTS

22. How does the HDHP/HSA compare with other GHI programs?

Premium rates average 20-25% less than the standard GHI PPO and EPO programs.

23. Are there any factors that indicate that offering an HSA would be a good choice for my business and for my employees?

If you answer yes to the following questions, you should seriously consider offering an HSA:

- Do you have a fairly low turnover among your workforce?
- Do you have a large number of highly compensated employees?
- Are you looking for less expensive health care plan options?

- Are you interested in motivating your employees to take a more active role in health care and decision-making and funding?
- Are you willing to help educate employees about HSAs and consumer-directed health care in general?
- Are you looking for ways to help fund retiree medical coverage?
- Do you already offer MSAs?

24. Are there any factors that would indicate that an HSA might not be a good match for my business?

If you answer yes to the following questions, it may be more difficult to implement an HSA, or you may not get maximum value from an HSA:

- Do you have high employee turnover?
- Do you have a large number of lower-paid workers?
- Do you pay for all or most employee health care costs and plan to continue doing so?
- If you already offer HRAs, do you have a sizeable number of employees with large unused account balances?
- Do your employees expect your company to fund their health care—even in retirement—and to make most benefit decisions for them?



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