Consumer-Driven Healthcare

Thinking about, or already enrolled in an HSA-qualified health plan? Learn everything you need to know…starting with some basic definitions:

**Consumer Directed Healthcare (CDH)** plans are typically high deductible health plans (HDHPs) that are paired with accounts and encourage participants to be better consumers of care by providing better transparency to total costs. These plans are also typically created with wellness benefits paid before deductible at little or no cost. This encourages healthier behaviors without inhibiting members from getting their regularly schedule preventative exams.

**Health Savings Account (HSA)** is a tax-advantaged savings account for medical purposes which is available to taxpayers who are enrolled in a high deductible health plan (HDHP). The funds contributed to the account are not subject to federal income tax at the time of deposit or withdrawal. Earnings are also not taxable. Funds roll over and accumulate year over year if not spent. HSAs are portable and owned and managed by the individual account holder.
How Does a Health Savings Account Work?

High Deductible Health Plan Component (HDHP)

- Health Insurance used to cover expenses for illness or injury after meeting a minimum deductible amount
- Lower premiums
  - Protection from big medical bills
  - Covers same eligible expenses
  - Same provider network

Health Savings Account Component (HSA)

- Tax-Advantaged account which can be used to cover medical expenses before the insurance deductible is met. Funds may also be saved for future medical expenses
- Helps pay deductible
  - Pre-tax contributions
  - Tax-deferred growth
  - Tax-free withdrawals for medical

HDHP + HSA Solution

- Control Healthcare Expenses!
- Increase Tax Savings!
- Lower Insurance Premiums!
- Flexibility & Portability!
- Savings for Retirement!
How HSA Plans Help Members Save Money

- **Lower premiums**
  HSA plans have premiums that are typically 40% or more lower than conventional co-pay plans

- **Lower taxes**
  An HSA allows you to put aside pre-tax dollars each year to cover current or future medical expenses, reducing your federal and (often) state income taxes!

- **Tax deductible medical expenses**
  Having an HSA allows your medical expenses to be tax-deductible. This includes regular medical services provider fees, dental, eyeglasses, and even *alternative* treatments like chiropractic or acupuncture

- **A tax-deferred medical retirement account**
  You can keep your funds in the FDIC-insured interest-bearing HSA, or opt to invest HSA funds however you wish. Either way, you have the opportunity to grow an additional retirement account. The difference between an IRA or 401k, is that you never pay taxes on money withdrawn to cover medical expenses!
Tax Benefits
Tax savings can be significant.
Contribute up to the maximum IRS annual limit to get the most out of your HSA!

<table>
<thead>
<tr>
<th>Insurance Coverage</th>
<th>Tax Bracket</th>
<th>Annual Tax Savings by Contribution</th>
<th>Max Contrib Plus Catchup</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15%</td>
<td>$1200 $2000 $3050</td>
<td>$4050 $608</td>
</tr>
<tr>
<td>Single Coverage</td>
<td>25%</td>
<td>$180 $300 $458</td>
<td>$1013 $1134</td>
</tr>
<tr>
<td></td>
<td>28%</td>
<td>$300 $500 $763</td>
<td>$1409 $1536</td>
</tr>
<tr>
<td></td>
<td>33%</td>
<td>$336 $560 $854</td>
<td>$1903 $2037</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>$2000 $4000 $6150</td>
<td>$7150 $1073</td>
</tr>
<tr>
<td>Family Coverage</td>
<td>25%</td>
<td>$300 $600 $923</td>
<td>$1788 $2002</td>
</tr>
<tr>
<td></td>
<td>28%</td>
<td>$550 $1,120 $1,722</td>
<td>$2360 $2584</td>
</tr>
<tr>
<td></td>
<td>33%</td>
<td>$660 $1,320 $2,030</td>
<td>$2940 $3164</td>
</tr>
</tbody>
</table>

Salary Range
<table>
<thead>
<tr>
<th>Tax Bracket</th>
<th>Single Filing</th>
<th>Married</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>$8,026 - 32,550</td>
<td>$16,051 - 65,100</td>
</tr>
<tr>
<td>25%</td>
<td>$32,551 - 78,850</td>
<td>$65,101 - 131,450</td>
</tr>
<tr>
<td>28%</td>
<td>$78,851 - 164,550</td>
<td>$131,451 - 200,300</td>
</tr>
<tr>
<td>33%</td>
<td>$164,551 - 357,700</td>
<td>$200,301 - 357,700</td>
</tr>
</tbody>
</table>
HSA Key Features

- Funds deposited into an HSA are tax-advantaged and owned by the account holder

- Funds may be rolled over year to year; no “use-it or lose-it” rule

- Accounts can accumulate significant assets that can be used for healthcare tax-free

- Funds are portable and available through job changes

- Funds in the HSA can be invested
HSA Eligibility

- Participants must be enrolled in an HSA-qualified High Deductible Health Plan (HDHP) to open and continue contributing to a Health Savings Account.

**Note:** You can only contribute funds to your HSA while you are covered under an HDHP. If you end your HDHP coverage, you can still draw down and pay for any qualified medical expenses out of your HSA balance.

- Cannot be covered by any other insurance that reimburses for health expenses (unless another HSA-qualified plan).

- Cannot be enrolled in Medicare or Medicaid.

- Cannot be eligible to be claimed as a dependent on another person’s tax return and must be over 18 years of age.
Medicare

Once enrolled in Medicare, an individual can continue to use their HSA funds, but may not contribute into their account any longer.

Contributions After Medicare:

When someone turns 65 yrs old and goes on Medicare, IRS rules state they can only contribute until the month before they began Medicare.

Example: If an individual on a single plan that falls from January 1st through December 31st were to go on Medicare in August, they can contribute for 7 months within that calendar year. They would need to calculate the maximum allowable contribution as 7/12’s.

(If they wish to contribute a catch-up contribution, that can be added to the total and pro-rated as well).
## HSA Comparison Overview

<table>
<thead>
<tr>
<th>Question</th>
<th>HSA</th>
<th>HRA</th>
<th>FSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do the funds belong to the employee?</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Can the money be invested and the employees earn interest?</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Can the employees use the funds for things other than medical expenses?</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>If an employee has committed to direct deposit a portion of each paycheck, can they access the full amount of funds right away (before they are actually deposited into the account)</td>
<td>NO</td>
<td>N/A reimbursement made by the Employer</td>
<td>YES</td>
</tr>
<tr>
<td>Can the employee take the money with them if they switch employers?</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Do the funds rollover year-to-year?</td>
<td>YES</td>
<td>Generally, NO</td>
<td>Generally, NO</td>
</tr>
<tr>
<td>Who can contribute to the account?</td>
<td>Employers and/or Individuals (anyone)</td>
<td>Employers</td>
<td>Employee</td>
</tr>
</tbody>
</table>
Contributions

- Contributions are not subject to income tax

- Contributions can be made by:
  - Account holders
  - Employers
  - Any Third Party

- Contributions in excess of the allowable limits must be withdrawn or incur a 6% excise tax

- Individuals 55 or older may contribute additional “catch-up” contributions of $1000.00 per year until they enroll in Medicare

<table>
<thead>
<tr>
<th>2011 Maximum Contribution Limits</th>
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</thead>
<tbody>
<tr>
<td>Individual</td>
</tr>
<tr>
<td>Family</td>
</tr>
<tr>
<td>Annual Catch-up*</td>
</tr>
</tbody>
</table>

*For individuals 55 and older before they enroll in Medicare
Distributions

What can I pay for with my HSA?

- Money withdrawn from an HSA may be used to pay for eligible medical expenses for the account holder, spouse, or any dependents.

- Distributions are allowed at any time without restriction. Reimbursements can be taken for expenses from prior years, if the HSA was in place when those expenses were incurred.

- Withdrawals for non-medical expenses are possible, but not advisable:
  - Before retirement age =
    - Distribution is taxed as income plus a 20% penalty
    (This penalty increased from 10% beginning 1/1/11)
  - After retirement age =
    - Only taxed as income, which may provide tax advantages

- Save those receipts! Individuals are responsible for ensuring HSA funds are used for qualified expenses & to maintain records if ever audited by the IRS.
Qualified Medical Expenses

According to the Internal Revenue Service (IRS), HSA funds can be used to pay for:

- Most medical care & services, dental services and vision care
- “Alternative” care often not covered by traditional insurance
- Over-the-counter (OTC) drugs
  
  *Doctor’s prescription needed – see next slide*

- Health insurance premiums under COBRA continuation coverage or premiums while receiving unemployment compensation
- Premiums for Medicare Part A/B or qualified long term care insurance

Some examples of Eligible Expenses:
- Rx Drugs
- Physician’s Fees
- Hospitalization
- Orthodontia
- Chiropractic care
- Acupuncture
- Reading Glasses
- Contact Lens Solution
- Maternity Costs
- Laser Eye Surgery
- Oxygen Equipment
- Band-Aids
- Dental services
Over-the-Counter Medical Purchases

As of January 1, 2011, Healthcare reform requires account holders to obtain a physician’s prescription if purchasing over-the-counter (OTC) drugs, medicines, and biological (products in medicine) to be considered an eligible reimbursement expense against an HSA.

The prescription is not necessary at the time of purchase, but account holders should retain with their receipts in case they are ever audited by the IRS.

Though the specific list of items affected has not been completely assessed, items in need of a prescription would include: Allergy & Sinus, Cold & Flu, Pain Relief, Respiratory Treatments, Sleep Aids, and Stomach remedies. This change affects only OTC drugs.
Over-the-Counter Purchases (continued)

Home health-aids and other OTC items are still eligible, and may be purchased using HSA funds without a prescription. These items include:

- Artificial Teeth & Denture Adhesives
- Band Aids, Bandages & Wraps
- Birth Control
- First Aid Supplies
- Braces & Supports
- Hearing Aids and Batteries
- Braille Books and Magazines
- Insulin & Diabetic Supplies
- Catheters
- Oxygen and Oxygen-Equipment
- Contact Lens Supplies & Reading Glasses
- Pregnancy Test Kits
- Diagnostic Tests & Monitors
- Wheelchairs, Walkers, Canes

Paying for Medical Expenses

Payment to a Medical Service Provider (Doctor, Hospital, etc):
Show your insurance card and explain that you have a high deductible health plan. Most Doctors will request that you wait and pay for their service after the bill is processed through insurance. It is best to pay after the insurance EOB (explanation of benefits) has been processed and you receive the correct bill from your provider. Always be sure to check provider bills carefully against your EOB so you receive the negotiated carrier rate if applicable.

Payment at the Pharmacy:
Pharmacies have a system in place which enables them to immediately access an insurance carrier's negotiated rate for prescriptions. For that reason, payment will be necessary at the time of purchase. You can use your HSA debit card or a check for those items. If you pay for something HSA-qualified through another payment method, you can always reimburse yourself from your HSA at a later time. Keep in mind that it is wise to comparison-shop, as costs can vary widely for the very same prescriptions!

Payment Arrangements:
Most larger medical bills can easily be negotiated into smaller payments. If you do not have available funds in your HSA to cover an expense, it never hurts to ask your provider’s billing office about the possibility of arranging a simple payment plan. Once those arrangements are made, you may consider using our online bill payment service. It is free, and easy to arrange automatic monthly payments directly to any medical provider from your HSA!
Employers do not review HSA expenses, so your records are private and you will not need to substantiate medical purchases unless you are asked to provide proof for a financial audit.

You can take distributions however you wish – paying for medical services directly with online bill payment, a check or your debit card.

You can opt to pay for eligible medical expenses out of other funds, and simply reimburse yourself from the HSA. There is no timeframe in which you must reimburse yourself, as long as you have proof of the medical expense.

Recordkeeping is important. Keep receipts & records of your expenses, in case you are ever audited by the IRS.

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**HSAs are Individually Owned**
The Bancorp Bank’s HSA

- FDIC Insured
- Publicly traded (NASDAQ: TBBK)
- Competitive rates and no hidden charges (see website for further details)
- 24/7 customer service - HSA experts who are dedicated to your needs
- A user-friendly website and banking portal with 24/7 access to account information
- A simple online bill payment service available at no cost
- Free online process for depositing funds from other bank accounts
- Numerous methods to deposit and withdraw funds from your HSA
- An online, print-able snapshot of activity including summary totals of deposits/withdrawals
Maximizing HSA Savings

Most of us are accustomed to a traditional co-pay system where we are unaware of the real cost of healthcare. The following suggestions can be helpful in developing a more “consumer-driven” mindset to save more money with a Health Savings Account:

- Contribute whatever is possible (up to IRS limit) to increase tax savings
- Try local clinics vs. ERs for minor emergencies; Explore alternatives to physician office visits when it makes sense
- Buy generic vs. brand-name prescriptions if they are available
- Compare different locations’ costs for medical procedures/testing in advance. It is often possible to find a lower-cost alternatives for the same procedures
- “Bargain shop” for medicines…Wal-Mart, Sam’s Club, Costco, etc. (Check out Wal-Mart’s website for their $4.00 prescription list!)
Additional Resources

For detailed information on HSAs or Qualified Medical Expenses:

- View “Contact Us” on the top right corner of our website for your group’s 24/7 Customer Service information