



CONSUMER DRIVEN HEALTH PLANS

BY ED GAELICK, CLU, CHFC

We all recognize that the cost of medical insurance is constantly rising. Do you review your health coverage each year to see if your current insurance carrier and/or benefits are still your best option?

The goal of consumer driven health plans is to save premium dollars and give a covered individual greater control over how their health care dollars are spent. These types of programs shift out of pocket exposure from premium dollars to the payment of claims once they have actually been incurred. Ideally, the savings associated with purchasing a consumer driven health plan would be used to fund an HSA or HRA.

This concept originated in 1996 with the introduction of Medical Savings Accounts (MSA) which soon became obsolete.

MSAs have since been superseded by Health Savings Accounts (HSA) which are available to almost everyone who participates in a qualifying High Deductible Health Plan (HDHP). Money going into an HSA is tax deductible, money coming out is tax free provided you use that money to reimburse yourself for qualified medical expenses. Stay healthy and/or manage care wisely (such as using a Tier 1 drug versus a Tier 2 or 3 drug) and you accumulate more of your money in the HSA.

A plan that has a high deductible isn't necessarily an HDHP. It must meet certain criteria defined by the IRS for it to be "qualified".

An HDHP applies a deductible to all eligible expenses first, including prescriptions. So in essence, you are self-insuring up to your deductible. Only "preventive care" may be covered on a first-dollar basis. In addition, for anyone with dependents, there is a family aggregate deductible (typically double the individual amount) which can be met by

one family member or any combination of those covered. The same family aggregate rule would apply to the MOOP or max out of pocket, as well. These two aspects of an HDHP would make the premium less compared to a conventional plan.

For company sponsored plans, contributions to an HSA can be made by an employee, their employer or a combination of both. However, total contributions have limits which are set annually by the IRS. All parties should consult with their accountant/tax advisor regarding the deductibility criteria of their contributions as well as contributions made on their behalf. In addition, employers must ensure that their contributions to employees comply with the IRS comparability rules.

Following are individuals who are **not** eligible to contribute to an HSA:

- Anyone enrolled in a second plan which covers first-dollar expenses;
- Anyone enrolled in Medicare;
- Anyone who can be claimed as a dependent on someone else's tax return.

Participation in a Flexible Spending Account (FSA) or a Health Reimbursement Arrangement (HRA) may also make an individual ineligible to contribute to an HSA.

Money may be withdrawn from an HSA to cover qualified medical expenses as well as certain health care premiums as defined by IRC 213d. Non-qualified use results in a taxable withdrawal plus a penalty. After you turn age 65, become disabled and/or enrolled in Medicare, the tax penalty no longer applies. Note that the account is wholly owned by the individual and completely portable. In addition, any unused funds remain in the account from year to year. Transactions are administered and recorded by the

individual. Contributions, distributions and interest must be listed on Form 8889 and included with an individual's annual tax return.

Health Reimbursement

Arrangements (HRA) would be another method of reimbursing employees for qualified medical expenses. HRAs are considered a "virtual account" since they do not require funding up front. Reimbursement would only need to be made available once a claim has been incurred. An employer has some flexibility in the design associated with an HRA, which unlike an HSA may be paired with any medical plan. It is highly recommended that reimbursement to employees for incurred claims be administered by a Third Party. Employers should consult with their accountant/tax advisor regarding deductibility criteria of contributions as well as if officers can receive reimbursements e.g., 2% owners, partners, sole proprietors, etc.

In 1985, Ed Gaelick established PSI Consultants, LLC where he specializes in company sponsored employee benefits, business planning and personal insurance. Throughout his career, Ed has received many of the highest professional honors awarded in the insurance industry. His dedication, integrity and fortitude have earned him great respect from his clients, staff and peers.

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