

CARES Benefits 101

VOLUME 1, ISSUE 1

FALL 2010

SPECIAL POINTS OF INTEREST:

- The High Deductible Health Plan (HDHP) covers preventive care at 100% even before the deductible is met
- HDHP allows you to see any provider you choose, but you may pay less if you see an in-network provider

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CARES IS ADDING A NEW CHOICE TO THE EXISTING MEDICAL BENEFIT OPTIONS AVAILABLE TO MEMBERS

High Deductible Health Plan (HDHP)

A High deductible Health Plan (HDHP) is a medical benefit design with coverage that starts after a relatively large deductible has been met. The plan will then pay a percentage of eligible expenses until the out-of-pocket maximum is reached. Thereafter, covered expenses are paid at 100% for the remainder of that year. The plan has a higher deductible paired with a lower monthly premium contribution which may be more economical for you.

Preventive Care, including physical exams, routine diagnostic tests, mammograms and immunizations are covered even before the deductible is met. Like all CARES plans, Preventive Care is paid at 100%.

Starting with this newsletter and the ones to follow, we hope to answer your questions, make you more comfortable with a High Deductible Health Plan, and get you ready to make your enrollment decisions.

“The Plan has a higher deductible paired with a lower monthly premium contribution”

How Does it Work?

Effective January 1, 2011, CARES is adding a high deductible Health Plan (HDHP) option.

With the HDHP, the employee will pay the first dollars of prescription, doctor, hospital, lab, and x-ray charges. All eligible charges will accumulate toward the deductible. The HDHP that CARES is offering can be paired with a health savings account (HSA) if you choose to fund your own HSA.

First, you will pay for all your prescriptions, doctor's visits, hospital and other eligible medical services until you reach the deductible. **Note: Preventive care will be paid at 100% for In Network Providers. Out-of-Network providers are limited to reasonable and customary charges.**

<u>Annual Deductible</u>	<u>In network *</u>	<u>Out-of-Network</u>
Individual	\$2,400	\$2,400
Family	\$4,800	\$4,800

Then, the Plan will pay:

Prescription Drugs	80%	60%
All other eligible medical services	80%	60%

After you reach the out of pocket the plan will pay 100% of eligible charges for the remainder of the plan year

Out of pocket Maximum:

Individual	\$5,950	No limit **
Family	\$11,900	No limit **

* You may use any provider you choose, but you may pay less if you see an in-network provider.

** If you choose out-of-network providers your out-of-pocket is not limited.

IMPORTANT NOTE: IRS regulations do not permit an HDHP to pay a prescription drug benefit before the Plan's deductible is met. Prescription charges will apply to the deductible and once the deductible is met, prescription benefits are payable at the Plan's coinsurance level of 80%.

CARES Benefits 101

VOLUME 1, ISSUE 2

FALL 2010

SPECIAL POINTS OF INTEREST:

- The High Deductible Health Plan (HDHP) offered by CARES can be paired with an HSA
- You may choose to open an HSA or select a FSA, but IRS regulations will not allow you to use both
- Once you reach age 65 or over and enroll in Medicare Part A or B, you cannot continue to make contributions to an HSA; however, you can still make withdrawals
- Each time you receive medical care and incur a charge for the HDHP deductible or coinsurance amount, you choose whether to pay from your HSA or out-of-pocket

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IS A HEALTH SAVINGS ACCOUNT RIGHT FOR YOU?

Health Savings Account (HSA)

A Health Savings Account (HSA) is a tax-advantaged health savings account for participants enrolled in a High Deductible Health Plan (HDHP). You can use funds in an HSA to help pay for qualified expenses, or save for the future. You may contribute funds to your HSA up to the annual IRS contribution limit and pay for qualified medical expenses with tax-free dollars. (There is an additional catch-up contribution option for participants age 55 and over.)

Any funds in your account at the end of the plan year accumulate and may earn non taxable interest or investment return over the life of the account. **The dollars in your HSA are your money.** You choose your own financial institution. Your account balance is portable upon retirement or termination from the company, but enrollment in a HDHP is required to make contributions to a HSA.

**IRS regulations govern all HSA accounts and transactions and are subject to change.

“The dollars in your HSA are your money.”

For 2011, the annual contribution limit is \$3,050 for single coverage / \$6,150 for family coverage. The “catch-up” contribution limit is \$1,000.

How Does it Work?

Effective January 1, 2011, CARES is adding a high deductible Health Plan (HDHP) that can be paired with a health savings account if the employee chooses to fund an HSA. Employees are not required to

have an HSA, but there may be tax advantages if you choose to contribute to one. Most banks offer Individual HSAs (fees are charged) and you make direct contributions to the HSA administrator. Your tax deduction is obtained when you file your Federal tax return (see tax reporting information below). You can make contributions to your HSA throughout the year or in a single lump sum; however, when you withdraw funds, you may only use up to the amount in your account.

After you have incurred a qualified expense there are several options available for accessing HSA funds. Your HSA administrator may: (1) provide you with a checkbook, (2) allow you to draw directly from your account with a debit card, (3) give you the option for automatic withdrawal, or (4) require you to submit a completed claim form. HSA money rolls over indefinitely so you do not need to make a withdrawal.

You may choose to open an HSA or select a FSA, but IRS regulations will not allow you to use both.

Once you reach age 65 or over and enroll in Medicare Part A or B, you cannot continue to make contributions to an HSA; however, you can still make withdrawals.

Tax Reporting

HSA contributions are tax deductible and may earn tax-free interest or investment returns. When you have a *qualified expense*: (1) you may make a tax-free withdrawal from your account to cover the costs, or (2) pay out of your pocket and save your HSA for future qualified expenses—even in retirement. Only qualified healthcare expenses, as allowed by the IRS are eligible for reimbursement from a Health Savings account on a tax-free basis. IRS Publication #502 is a good general guide to expenses considered as qualifying medical expenses for purposes of HSA reimbursement. Some examples of qualifying expense are medical, dental and vision deductibles and coinsurance amounts, hearing aids, smoking cessation programs, wheelchairs, and organ transplants.

HSA account owners must file form 8889 with their individual tax return. The form and instructions are posted on the IRS website at www.irs.gov. Employees should consult their own tax advisor to determine tax advantages and potential consequences for opening a health savings account and that eligibility requirements are met. Since the HSA funds are your money, it is important to keep accurate records and carefully track your account activity to show that your distributions were used to reimburse qualified medical expenses.

CARES Benefits 101

VOLUME 1, ISSUE 3

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SPECIAL POINTS OF INTEREST:

- The High Deductible Health Plan (HDHP) offered by CARES can be paired with an HSA
- Each time you receive medical care and incur a charge for the HDHP deductible or coinsurance amount, you choose whether to pay from your HSA or out-of-pocket
- Consider the HDHP if you are comfortable with and have the ability to pay for 100% of out-of-pocket expenses until you reach the deductible

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IS A HIGH DEDUCTIBLE HEALTH PLAN RIGHT FOR ME?

High Deductible Health Plan Highlights

As a High Deductible Health Plan, the HDHP has lower premiums and higher deductibles than traditional health plans. When you choose HDHP coverage, you can elect to open a Health Savings Account which may provide tax advantages in paying for eligible medical expense. **Only you can decide if an HDHP is right for you.** Here is a summary of the High Deductible Health Plan:

- The HDHP has an annual \$2,400 single and \$4,800 family deductible. After meeting the deductible, you pay 20% coinsurance until you reach the out-of-pocket maximum of \$5,950 for single coverage or \$11,900 for family coverage. Once you reach the out-of-pocket maximum, all of your medical costs are covered at 100% by the plan.
- HDHP provides prescription drug coverage at 20% coinsurance after you reach your deductible. Federal regulations do not permit an HDHP to pay a prescription drug benefit before the plan's deductible is met.
- The HDHP has the lowest premium of all CARES options.
- Like all CARES plans, the HDHP Provides 100% coverage for preventive care (Preventive care will be paid at 100% for In Network Providers. Out-of-Networks providers are limited to reasonable and customary charges.)
- The HDHP gives you the opportunity to open—on your own—a personal Health Savings Account (HSA) to make tax deductible contributions for eligible medical expenses.

“Federal regulations do not permit an HDHP to pay a prescription drug benefit before the Plan’s deductible is met.”

Health Savings Account Highlights

You can choose to open an HSA on your own to pay for your medical expense, or you can pay for expenses out-of-pocket. Current IRS regulations allow contributions up to \$3,050 for single coverage or \$6,150 for family coverage to an HSA in 2011. If you are over 55 years old, you can make an additional catch-up contribution of \$1,000. These contributions are tax deductible. *IRS Regulations govern all HSA accounts and transactions and are subject to change.*

- During the year, you can use the HSA or pay out-of-pocket for eligible medical expense (including dental and vision deductibles and coinsurance amounts).
- If you open an HSA and have unused funds at the end of the year, they will carry over from year to year.
- You can make contributions to your HSA throughout the year or in a single lump sum.
- When you withdraw funds from your HSA, you may only use up to the amount in your account.
- Each time you receive medical care and incur a charge for the HDHP deductible or coinsurance amount, you choose whether to pay from your HSA or out-of-pocket.

Resources

HSA calculator (example only) http://www.aarp.org/health/medicare-insurance/hsa_calculator/

IRS information: www.irs.gov

<http://www.irs.gov/pub/irs-pdf/f8889.pdf>

<http://www.irs.gov/pub/irs-pdf/p969.pdf>

Publication 502 (2009), Medical and Dental Expenses <http://www.irs.gov/pub/irs-pdf/p502.pdf>

CARES Benefits 101

VOLUME 1, ISSUE 4

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SPECIAL POINTS OF INTEREST:

- The HDHP coverage has higher annual deductibles, but you will pay lower employee contributions.
- If you elect HDHP medical coverage, participating in an HSA may enable you to receive tax free reimbursements for eligible medical expenses that apply against your HDHP deductible.
- Once you reach age 65 or over and enroll in Medicare Part A or B, you cannot continue to make contributions to an HSA; however, you can still make withdrawals.
- If you choose an HDHP this year, you may elect different coverage during any subsequent open enrollment or if you have a qualified work or family status change.
- You may choose to open an HSA or select a FSA, but IRS regulations will not allow you to use both.

HDHP AND HSA Q & A

Q. Is the High Deductible Health Plan (HDHP) right for me?

A. Only you can decide. However, it is important to understand— if you choose this coverage option— the plan will pay no benefits other than for preventive services until you meet the annual deductible of \$2400 for individual or \$4800 for family coverage.

Q. If I choose HDHP coverage, do I have to participate in a Health Savings Account (HSA)?

A. No. The decision to participate in an HSA is completely up to you.

Q. Why would I want to consider HDHP coverage?

A. Because this coverage has higher annual deductibles you will pay lower employee contributions. Also, by choosing HDHP coverage, you may participate in a Health Savings Account.

Q. If I choose the High Deductible Health Plan now, will I be able to elect coverage under a different medical option in the future?

A. Yes. You may change your election during any subsequent annual enrollment. If you experience a qualified work or family status change you will be able to elect, change or waive coverage as permitted by IRS and HIPAA regulations.

Q. Is a Health Savings Account (HSA) right for me?

A. That's something only you can decide. However, if you elect HDHP medical coverage, participating in an HSA may enable you to receive tax free reimbursement for eligible medical expenses that apply against your HDHP deductible.

Q. Can I participate in an HSA even if I don't elect HDHP coverage?

A. No. You can participate in an HSA only if you elect coverage under the HDHP.

Q. How much can I contribute to an HSA each year?

A. Each year you can contribute an amount equal to the annual IRS limit under the HDHP (\$3,050 for single coverage/\$6,150 for family coverage). If you are 55 years old or older, you can make an additional catch-up contribution of \$1,000. *IRS regulations govern all HSA accounts and transactions and are subject to change.*

Q. If I want to open an HSA, what should I do?

A. Employees should consult their own tax advisor to determine tax advantages and potential consequences for opening a health savings account and that eligibility requirements are met. You will need to find a bank, financial institution or investment firm that is registered to offer this type of arrangement. You might start by talking with a representative from your local bank. In any case, you should carefully evaluate the services and related fees of any bank, financial institution or investment firm you consider.

Q. Will the investment earnings in my account be tax free?

A. Any earnings on your account may be tax free as long as you use this money to pay qualified medical expenses. If you use them for another type of expense, this money will become taxable income.

Q. What will happen to the money in my HSA if I choose a different medical option in the future?

A. It will remain deferred in your account until you elect to receive it. It is your obligation to report this money to the IRS if you use it for purposes other than a high deductible health plan. *

Q. What will happen to the money in my HSA if I retire or terminate employment?

A. The money in your HSA belongs to you and is portable upon retirement or termination. It will remain deferred in your account until you elect to receive it. *

Q. My wife and I turn 65 this year and will sign up for Medicare. Will we still be able to use the money in our HSA?

A. Yes. Even though you can't contribute to an HSA after you sign up for Medicare, you can keep the account and use the money for medical expenses.

* Please note: Financial institutions may continue to access fees in dormant accounts

"It is important to understand, if you choose the HDHP, the plan will pay no benefits other than for preventive services until you meet the annual deductible of \$2400."