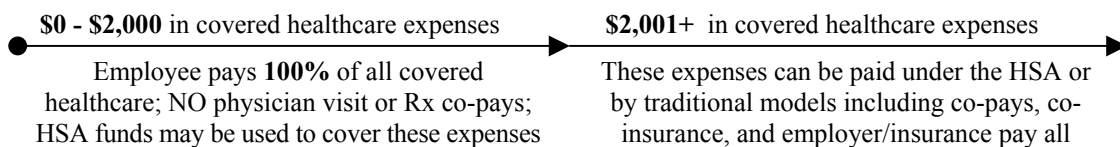


Health Savings Accounts Highlights

Signed by Pres. Bush on 12/18/03, the Medicare Prescription Drug legislation included another option for financing healthcare expenses, the §223 Health Savings Account (HSA). The HSA is based upon many of the components of the Archer Medical Savings Account (MSA). The three main points to know are:

- **An HSA must be coupled with a high deductible plan** — the underlying medical plan (individual or group) must contain a deductible of at least a \$1,000 for singles and \$2,000 for families
- **No co-pays or other coverage until employee’s entire minimum deductible is satisfied** — The IRS minimum deductible level may not be offset by any other insurance component/plan...no co-pays or other coverage that does not meet the qualifying high deductible. Eligibility under a spouse’s low-deductible plan also nullifies HSA eligibility. Only covered wellness expenses may stand alone from the IRS minimum deductible level.
- **All employer contributions are 100% vested/non-forfeitable to the employee** — Unlike employer flex credits that revert back to the employer if unspent, an employer-funded HSA contribution becomes a non-forfeitable employee asset. Accordingly, the effective utilization rate of employer-funded HSA contributions will be 100%, meaning the HSA will require either increased overall employer healthcare expenses or increased deductible exposure by the employees.

The following timeline reflects an employee’s plan design with qualifying family coverage under §223:



The following is a list of advantages and disadvantages from the employer’s and employee’s perspectives:

<p>§223 HSA — Employer Advantages:</p> <ul style="list-style-type: none"> • Allows for employee & employer funding (as does a Healthcare FSA) • May be funded through a §125 cafeteria POP plan • Provides effective tax shelter for closely-held firms <p>§223 HSA — Employer Disadvantages:</p> <ul style="list-style-type: none"> • Any employer contributions are immediately 100% vested/non-forfeitable • Lack of co-pays could be disruptive in the proper utilization of healthcare — employees may not get the care they need when sick and ultimately incur more severe claim experience • Liability of orchestrating funded trust arrangements(s) on behalf of HSA participants • Cannot offer any other underlying coverage to cover part/all of the employee’s deductible 	<p>§223 HSA — Employee Advantages:</p> <ul style="list-style-type: none"> • Unspent dollars rollover; no “use it or lose it” • Eligible expenses beyond traditional §213(d), i.e. LTC coverage and Medicare A & B premiums • No 3rd party claim adjudication/substantiation • Security of funded trust; allows for directed investment much like 401(k) <p>§223 HSA — Employee Disadvantages:</p> <ul style="list-style-type: none"> • Requires exposure to high deductible plan • No Rx or physician visit co-pays (flat dollar or co-insurance formula) except for wellness • High out-of-pocket exposure if employer does not contribute • Employee solely liable for maintenance of all claim records • Employee not eligible for HSA if coverage available under spouse’s low-deductible plan
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