

Consumer Driven Health Plans

Not Just for the Healthy and Wealthy, but the Wise

Presented by Pearce Weaver and Will Applegate

Fidelity Investments

Health Savings Account Discussion Agenda

- ▶ **Overview**
- ▶ **Driving Success**
- ▶ **Health Savings Account**
- ▶ **Case Studies**
- ▶ **HSA Administration**

HSA Overview



HSA - Legislative Background



Introduced in Medicare Prescription Drug Improvement and Modernization Act of 2003

- ▶ Accounts owned by the individual, not the employer
- ▶ Must be enrolled in an IRS approved High Deductible Health Plan (HDHP)
- ▶ Contributions can be made by an individual and/or employer
- ▶ All contributions become the sole property of the account owner at deposit
- ▶ Funds roll over and accumulate year to year if not spent
- ▶ Account owner determines when funds are withdrawn – penalties and taxes may apply
- ▶ As of 2011, over the counter (OTC) drugs cannot be reimbursed without a Rx

Triple federal tax advantage

- ▶ Contributions can be made on a pre- or post-tax basis
- ▶ Earnings in the HSA are not taxed – broad range of investment options similar to an IRA
- ▶ Distributions for qualified expenses are not taxed
 - At age 65, distributions for non-qualified expenses are taxed as income but not penalized – similar to an IRA or 401(k) plan
- ▶ Some state taxes apply – Alabama, California, and New Jersey - as of 2011

HSA Limits and HDHP Requirements



Design Requirements	2008	2009	2010	2011
HDHP Minimum Deductible – Single	\$1,100	\$1,150	\$1,200	\$1,200
HDHP Minimum Deductible – Family	\$2,200	\$2,300	\$2,400	\$2,400
HDHP Maximum OOP – Single	\$5,600	\$5,800	\$5,950	\$5,950
HDHP Maximum OOP – Family	\$11,200	\$11,600	\$11,900	\$11,900
HSA Contribution Maximum – Single	\$2,900	\$3,000	\$3,050	\$3,050
HSA Contribution Maximum – Family	\$5,800	\$5,950	\$6,150	\$6,150
HSA Catch-up Contribution	\$900	\$1,000	\$1,000	\$1,000

HSA

- ▶ Portable from job to job
- ▶ One time rollover from HRA and health FSA permitted – lesser of balance on 9/26/2006 or the amount to be rolled over – and made prior to 1/1/2012

HDHP

- ▶ Medical and prescription drug expenses must apply to the deductible
- ▶ Preventive care benefits may be covered at 100% - deductible does not apply
- ▶ Prescription drugs of certain classifications may also be covered at 100% - deductible does not apply
 - Includes most maintenance prescriptions

HDHP/HSA Plans - Overview

- ▶ Adoption rate of HDHP/HSA continues to increase
- ▶ These plans have appeal across demographics
- ▶ Strategic planning, thoughtful design and pricing, communication and employee modeling tools help drive success
- ▶ AE strategy and Plan Choice Menu are critical in driving enrollment rates
- ▶ Case studies show more than one approach can lead to successful results

HSA Statistics

- ▶ Assets in HRA and HSA accounts increased from \$835M in 2006 to \$7.7B in 2010
- ▶ Average account balance dropped slightly from \$1,419 in 2009 to \$1,355 in 2010
- ▶ Demographic
 - Men held higher average balances (\$1,525) than women (\$1,321)
 - Older individuals (ages 55–64) held higher average balances (\$1,791), than those younger (\$1,250–\$1,400)
- ▶ \$4.2 billion was rolled over in 2010, up from \$4.0 billion in 2009

Source: January 2011 Issue Brief by the Employee Benefit Research Institute (EBRI) and EBRI/MGA 2010 Consumer Engagement in Health Care Survey

Statistics



Household Income	Average Account Balance
< \$50,000	\$1,166
\$50,000 - \$99,999	\$1,303
> \$100,000	\$1,742

Source: January 2011 Issue Brief by the Employee Benefit Research Institute (EBRI) and EBRI/MGA 2010 Consumer Engagement in Health Care Survey

Market Prevalence and Employer Expectations



CDHPs are the fastest rising health plan offered

- ▶ Over half of large companies offer these plans in 2010¹
 - About 20% will offer as the only plan (full replacement) in 2011²
 - An increase of 10% from last year
- ▶ Enrollment increased to 13% from 8% in 2010³

Offerings vary mostly by employer size

- ▶ Large employers (200+) more likely to offer more than one plan
 - 44% vs. 15%³

Behaviors expected of those enrolled in consumer driven plans

- ▶ Members share directly in the cost up-front and will:
 - Seek preventive care
 - Buy generics instead of brands
 - Use emergency care less often – more appropriate use
 - Seek lower cost quality providers
- ▶ Some health plans have performed studies to demonstrate the cost impact of behavior changes
- ▶ Some employers are beginning to encourage healthy behaviors with HSA incentive dollars or matching contributions

¹ National Survey of Employer-Sponsored Health Plans by Mercer

² NBGH Survey of Large Employers' 2011 Health Plan Design Changes

³ Kaiser Family Foundation – Employer Health Benefits 2010 Annual Survey

HDHPs Under Health Reform and Changing Environment



- HDHPs / HSAs came through PPACA as a big winner:
 - ▶ No extra limits imposed on HSA contributions
 - Cap decreases FSA contributions to \$2,500 in 2013
 - ▶ Penalty on withdrawals for non-qualified expenses
 - ▶ Increased to 20% in 2011
 - ▶ Excise tax application in 2018 may drive market to the HDHP designs
 - Tax applies to total plan cost above a threshold
 - Single - \$10,200
 - Family - \$27,500

Driving Success



Helping Employees More Important than Ever



As employers shift the key benefits decisions to the employee, the success of these programs is increasingly dependent on employee decisions



From	Benefit	To
Defined Benefit Pension	Retirement Income	Defined Contribution 401K
Traditional / Mirror Active	Retiree Medical	Account-Based, if Anything
1 st Dollar “Pre-Paid” Coverage	Active Medical	HDHP or Value Based Design

The Classic Benefits Idyll

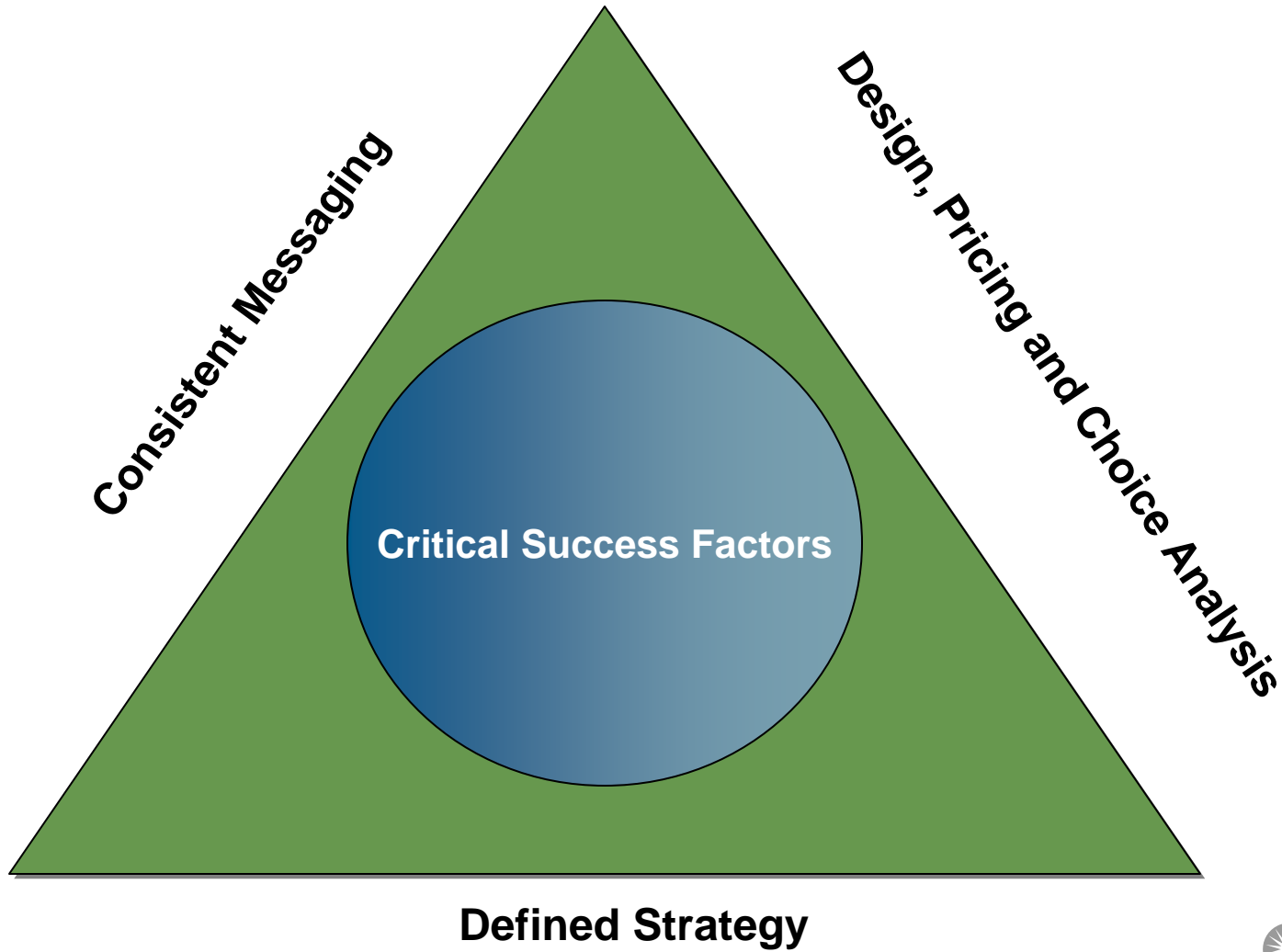


Benefits historically provided workers with significant risk protections:

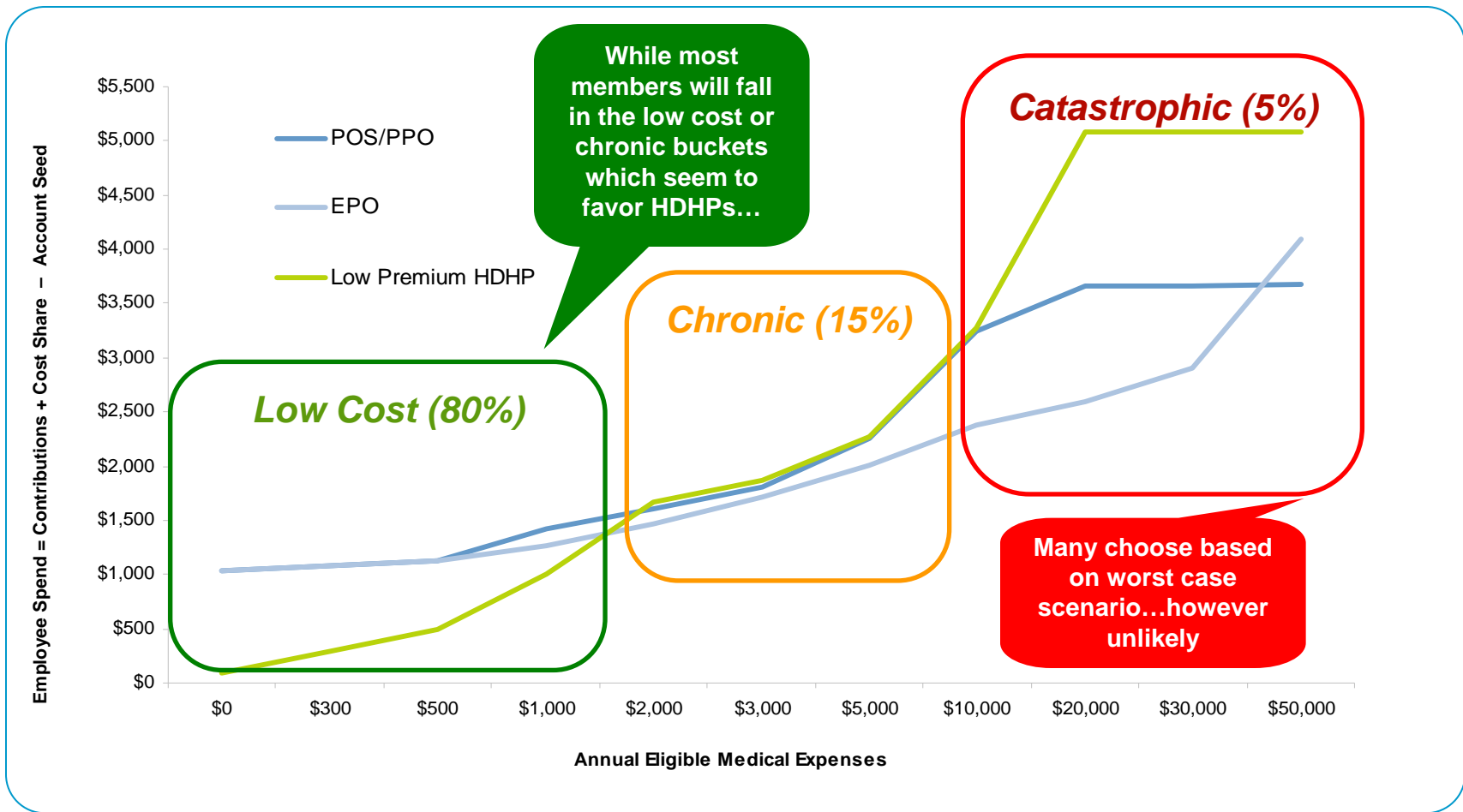
- Mortality
- Morbidity
- Longevity
- Investment
- Inflation
- Interest rate



Critical Success Factors



Plan Design Considerations



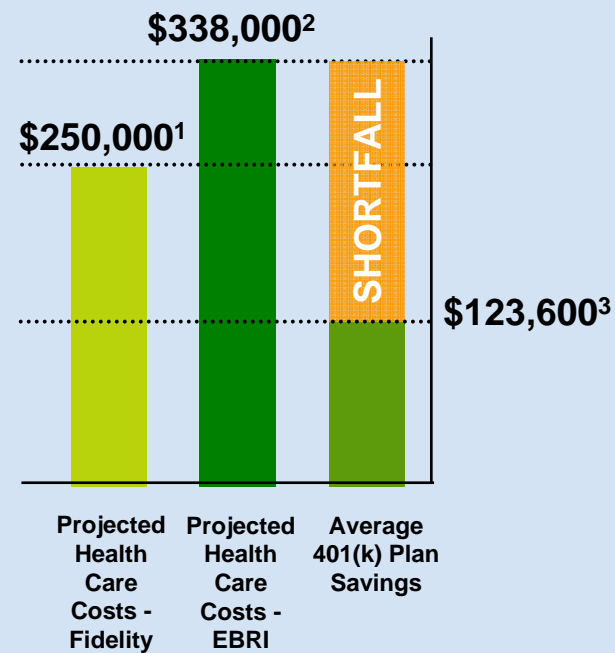
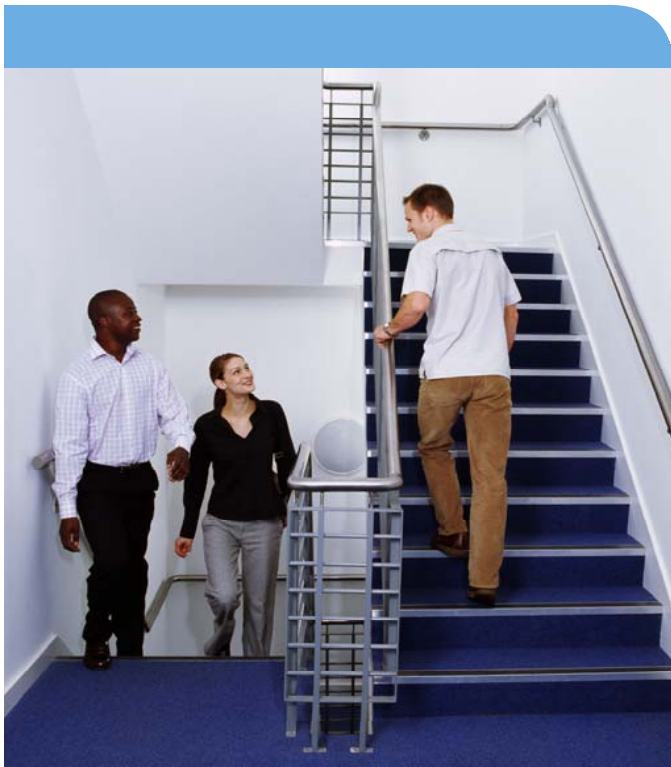
Health Savings Account



Health care has become a huge retirement hurdle



- ▶ Projected retirement savings fall far short of expected health care costs.



¹ Fidelity Consulting Services, 2010. Total is for a 65-year-old couple retiring in 2010.

² Employee Benefits Research Institute, 2009.

³ Fidelity recordkeeping data. Reflects 401(k) mean account balance for 65-69 year-old participants as of 3/31/10.

Most Participants Save – They Get It



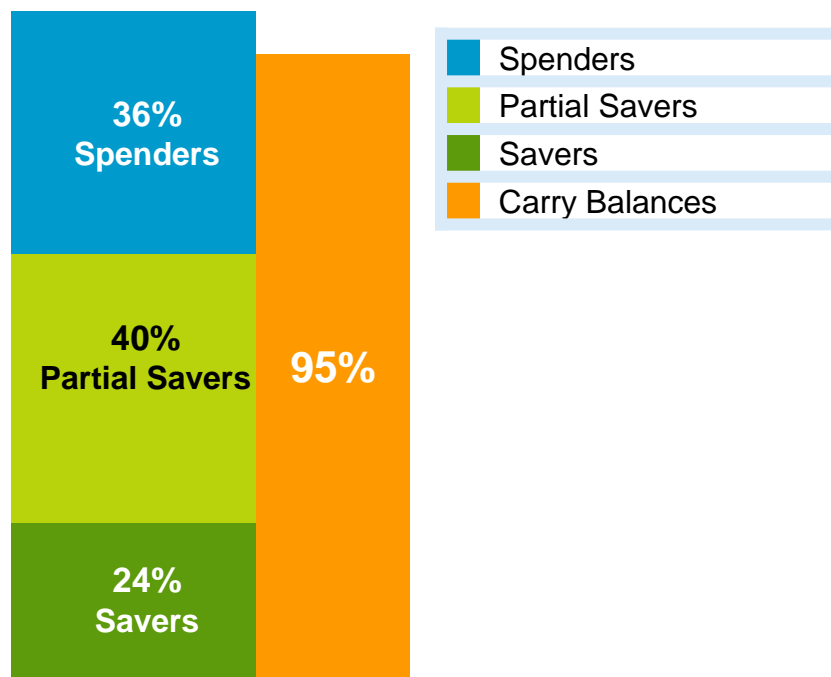
- ▶ 95% of Fidelity HSA[®] account holders carryover a balance.

Profile of Fidelity HSA[®] account holders

Spenders use more than 90% of their HSA contributions.

Partial Savers spend between 10% and 90% of their HSA contributions.

Savers spend less than 10% of their HSA contributions.



Case Studies



Case Studies



	Case Study 1	Case Study 2	Case Study 3
Company Description	<ul style="list-style-type: none"> • National employer • Diverse workforce and broad pay scale 	<ul style="list-style-type: none"> • Midwest Community hospital 	<ul style="list-style-type: none"> • High tech firm • Multiple locations
Design, Pricing, Plan Choice Considerations	<ul style="list-style-type: none"> • Two phases • Retain pricing philosophy and favor HDHP • Evaluate current enrollment • Seed HSA • Change current designs • Salary-based contributions 	<ul style="list-style-type: none"> • Introduce HDHP with current PPO and HMO • Keep OOP cost share consistent • Set contributions lower than other plans • Seed HSA • HDHP deductible won't apply to preventive Rx 	<ul style="list-style-type: none"> • Reset designs from Traditional PPO and FI HMO's • Introduce HDHP with one other option • Rational pricing • Seed HSA

Case Studies



	Case Study 1	Case Study 2	Case Study 3
Key Messages	<ul style="list-style-type: none"> • Long term savings • Ownership of health care management • Value of overall benefits • Total retirement focus • Longer term view- not just an annual election decision 	<ul style="list-style-type: none"> • Called HDHP Secure Choice PPO • Highlight 100% coverage at home hospital • Total OOP expenses are often lower 	<ul style="list-style-type: none"> • New strategy and approach • Encouraging and supporting employee savings- link to retirement • Shared accountability between employer and employee • Behavior change expectations
Roll Out	<ul style="list-style-type: none"> • Phase I: share changes, basic education, less guidance, less overt intro of HDHP • Phase II: Early and regular communication focused on HDHP, reinforcing long term approach, basic education, on-site meetings 	<ul style="list-style-type: none"> • Early communication • Regular and consistent communication on-site and to home 	<ul style="list-style-type: none"> • Early communication of changes with business rationale • Regular and consistent communications

Case Studies



	Case Study 1	Case Study 2	Case Study 3
Enrollment Strategy	<ul style="list-style-type: none"> • Passive • Default = no coverage 	<ul style="list-style-type: none"> • Active enrollment • Default = no coverage; reach out to waivers 	<ul style="list-style-type: none"> • Active enrollment • Default = HDHP
Results	<ul style="list-style-type: none"> • Phase I: 4% • Phase II: 22% 	<ul style="list-style-type: none"> • 25% enrollment in year one • 30% enrollment in year two 	<ul style="list-style-type: none"> • 40% enrollment in year one • 50% enrollment in year two
Learnings	<ul style="list-style-type: none"> • Inertia and fear are huge migration barriers • Most will do nothing if given option to do so • Small group and one-on-one interaction can drive action • Design, pricing and choice considerations are critical • Do some basic analysis to understand employee decision-making process • Have realistic expectations 	<ul style="list-style-type: none"> • Need to monitor budgets and migration risk annually • Default to HDHP and 1:1 with waivers was too time intensive • Focus groups and surveys to determine why HDHP was not chosen 	<ul style="list-style-type: none"> • Set strategy for anchor as process unfolds • Design, pricing, and choice considerations are fundamental requirements • Set realistic goals and success measures • Clear and consistent communication

HSA Administration

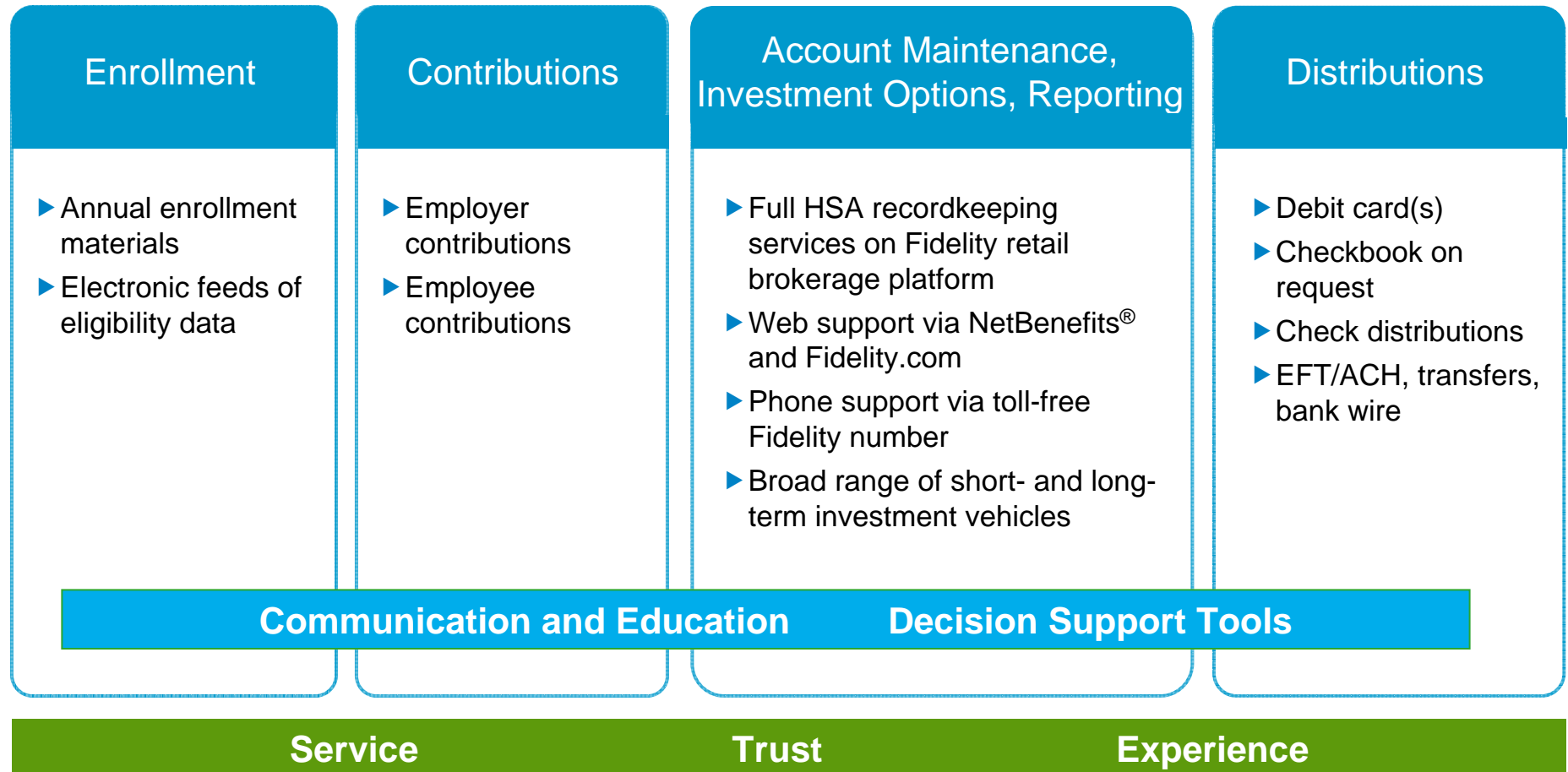


HSA Administration Considerations



- ▶ Alignment with health or retirement plan?
- ▶ Investment Options
- ▶ Payment mechanisms
- ▶ Communications


Fidelity HSA[®] Service Offering



Health savings accounts and other brokerage products and services are provided by Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

Fidelity HSA® Online Experience





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Health & Insurance

Your Profile

Monday, April 27, 2009

Welcome to NetBenefits® for Theta Corporation

Portfolio Total \$506,387.55* Hide \$

Savings Plans


THETA SAVINGS PLAN	Select Action ▼	\$140,943.46
401(k): Annette's 401k		
● Quick Links: View Year-to-Date Change View/Update your contribution Get online statement		
THETA NON QUALIFIED PLAN	Select Action ▼	\$89,346.09 †
Non-Qualified: Annette's NQP		

Other Accounts Hide

HEALTH SAVINGS ACCOUNT (HSA)	Select Action ▼	\$2538.39
Brokerage: 123456		
Prism Corporation 401(k)	Select Action ▼	\$112,020.00
Annette's Prism Plan: 987654-PP		
● Quick Links: View Year-to-Date Change Explore Rollover and other options Get online statement		
Traditional IRA	Select Action ▼	\$120,800.00
Annette's IRA: 15555-X		
Annette's Brokerage	Select Action ▼	\$43,278.00
Brokerage: Z3234567		

Total \$506,387.55*

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Your Profile

- Explore a tax-advantaged Health Savings Account
- Update your beneficiaries



A Healthy Dose of Knowledge

Tools and resources to help you make informed healthcare decisions

Employer News

- Benefit plan descriptions available online
- Theta Quarterly News
- Changes to the Theta Savings Plan

Market Update

- Current Market Volatility
- Quarterly Market Perspective

INDU	8,067.21	-9.08
SPX	863.20	-3.03
NASDAQ	1,690.16	-4.13
RUT	473.45	-5.29
DJT	3,006.36	-131.40
DJU	332.45	+5.50
TNX	29.74	-0.22

As of 12:59pm ET 04/27/2009

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Retirement Paradigm



- ▶ Fidelity encourages employees* to include the HSA in their larger plan for retirement.



They can see—and manage—their health savings as another retirement asset.

*The HSA is available only in combination with a high-deductible health plan.

Fidelity HSA[®] Experience



- ▶ Fidelity HSA[®] launched at annual enrollment in 2005 for Jan 2006 as a pilot
- ▶ Closely managed growth 2006 – 2010
- ▶ Today, we have 41 clients with over 70,000 accounts

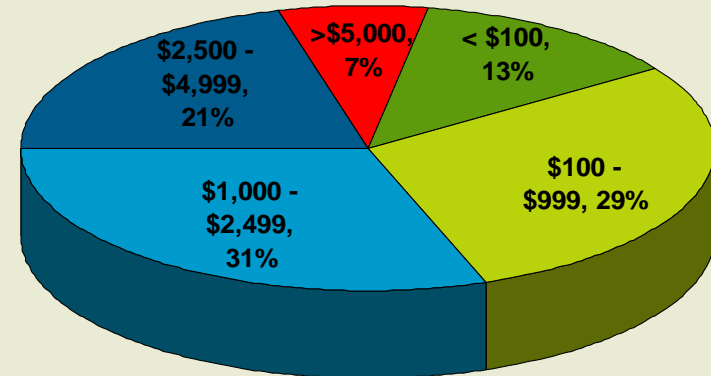
2008 Statistics

- ▶ 85% of HSA account holders opened up their account online
- ▶ 90% of HSA contributions came in via pre-tax (payroll deductions or employer contributions)
- ▶ Nearly 80% of distributions through Fidelity HSA[®] debit card
- ▶ Approximately 16% of customers have ordered an additional debit card (for a spouse or dependent)
- ▶ Only 13% of customers have ordered checkbooks, and 3% have ordered a second checkbook

Source: Fidelity HSA[®] data of 23,000 accounts, December, 2008

Fidelity HSA[®] Average Balances

Average balance after year 1 was approximately \$1,800; after year 2 was approximately \$2,400



Source: Fidelity HSA[®] data of 23,000 accounts, Q4 2007 and Q4 2008

Most Participants Save – They Get It



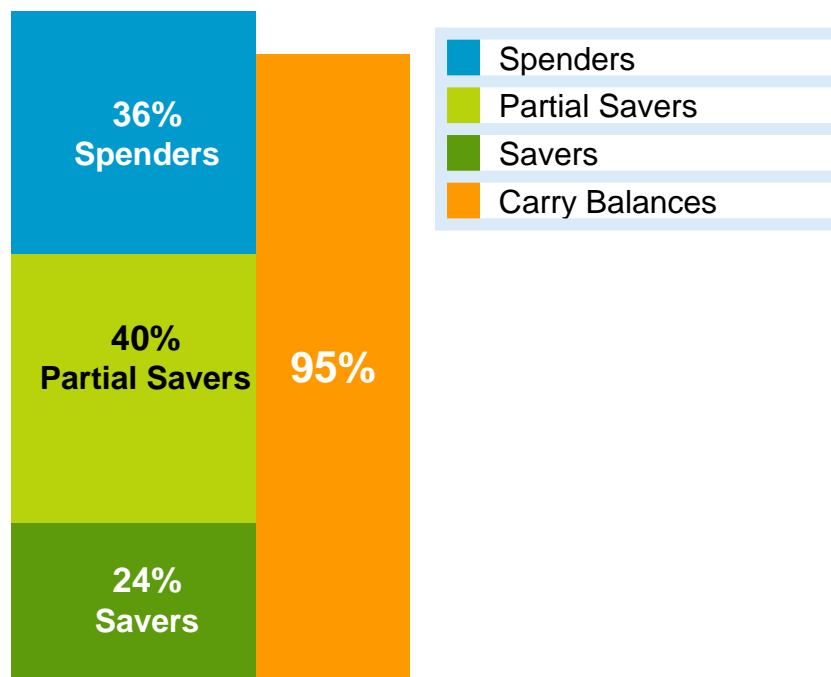
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Fidelity HSA® Communications

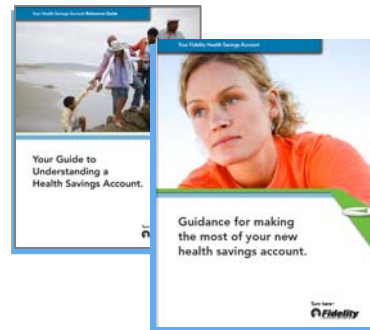


Announce



- ▶ **Announcement Email**
 - » Describes features & benefits of the Fidelity HSA
- ▶ **HSA Poster**
 - » Raises awareness of Fidelity HSA
- ▶ **Transition Communication**
 - » Announces change in HSA providers
 - » Informs employees of the benefits of consolidating assets

Educate



- ▶ **HSA Guide**
 - » Provides comprehensive education on the program, NetBenefits® and resources
- ▶ **Welcome Brochure**
 - » Features detail on how to manage HSA contributions and distributions
- ▶ **Employee Workshop**
 - » Online, self-paced or via live presenter

Administer



- ▶ **Reminder Email / Postcard**
 - » Reminds employees to consider opening an HSA account
- ▶ **Debit Card / Welcome Letter**
 - » Included in Welcome letter
 - » Educates on qualified medical expenses and how to obtain additional cards and other distribution methods available
- ▶ **Fidelity HSA Checkbook**



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