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Wisconsin Department of Employee Trust Funds
HDHP Design and Implementation Considerations

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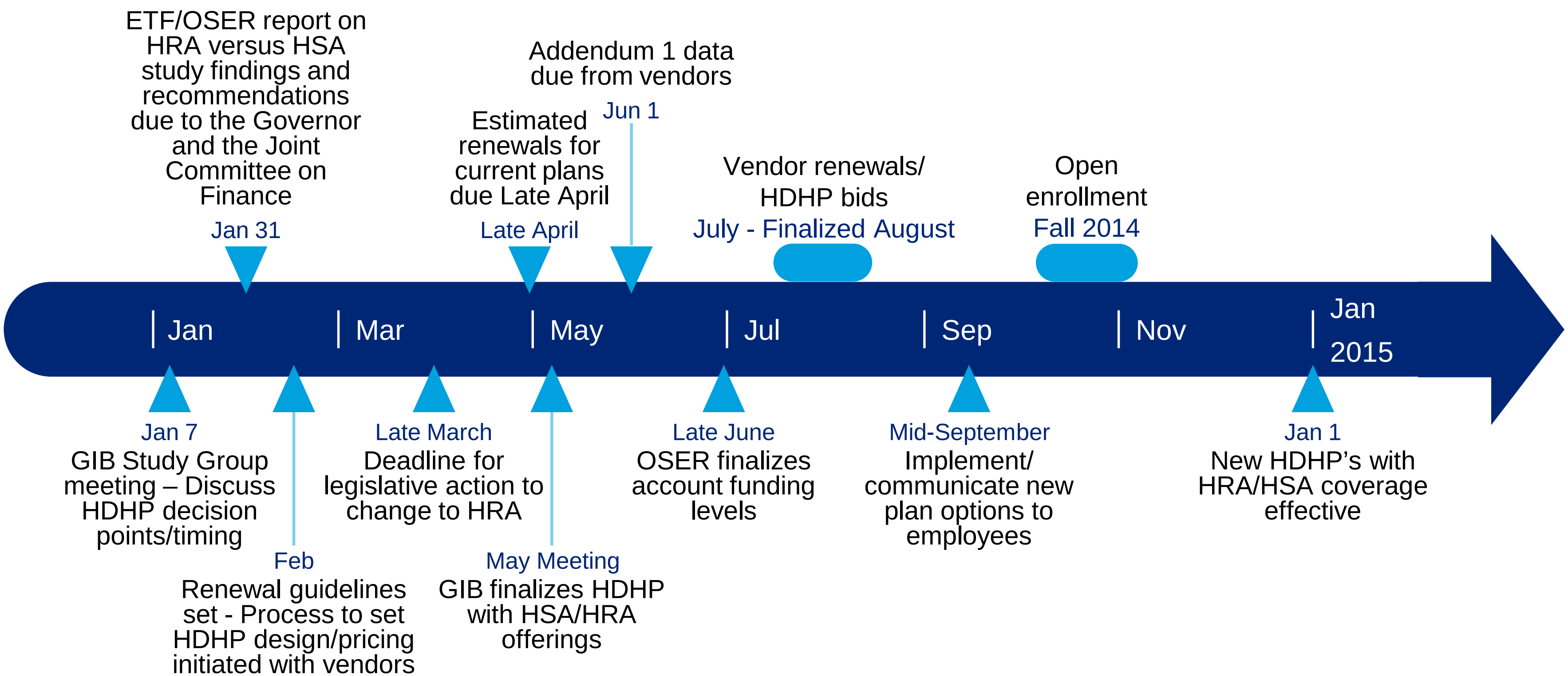
Contents

HDHP with HSA mandate

In addition to the health care coverage plans offered under s. 40.51 (6), beginning on January 1, 2015, the group insurance board shall offer to all state employees the option of receiving health care coverage through a high−deductible health plan (HDHP) and the establishment of a health savings account (HSA).

- The state shall make contributions into each employee's HSA in an amount specified by the director of the office of state employment relations (OSER).
- The group insurance board (GIB) shall ensure that the HDHP may be used in conjunction with a HSA.
- The GIB may contract with any person to provide administrative and other services relating to HSAs.
- The GIB may collect fees from state agencies to pay all administrative costs relating to the establishment and operation of HSAs.
- Beginning on January 1, 2015, to the extent practical, any agreement with any insurer or provider to provide health care coverage to state employees under s. 40.51 (6) shall require the insurer or provider to also offer a HDHP that may be used in conjunction with a HSA.

HDHP design and implementation timeline



Key decision points

- Goals for HDHP offering
  - Significant enrollment, favorable impact on utilization/aggregate cost?
  - Satisfy mandate, indifferent to enrollment?
- Financial implications
  - Actuarially equivalent to other plans?
  - Lower cost option?
  - Employee contribution parameters?
  - Value of account funding incorporated into premium rates or funded separately?
  - How to account for adverse selection
- HSA or HRA
  - Determination of State employer contribution
  - Plan design requirements/flexibility
  - Account funding: Notional vs. Actual
  - Portability

Key decision points

- Administration of accounts
  - – ERA vendor to administer HSA/HRA?
  - – Health plans to administer accounts?
  - – RFP required?
  - – Payroll implications of HRA or HSA?
  - – State employees only or local government as well?
  - – Medical and Rx vendor coordination where Rx is carved out

HSA/HRA comparison

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)
Ownership	• Employee ownership	• Employer ownership
Employee Contributions	• Allowed if covered under qualified HDHP (payroll deferral and/or direct) • Contributions excludable from gross income	• Prohibited
Employer Contributions	• Allowed if covered under qualified HDHP • Contributions excludable from gross income	• Allowed ("required" in order to exist) • Contributions excludable from gross income
Maximum Deduction and Exclusion Rule on Contributions	• The deduction and exclusion for contributions to an HSA cannot exceed the annual statutory maximum ($3,300 single coverage, $6,550 family coverage for 2014) • Additional "catch-up" contributions allowed for employees age 55+	• No statutory limit, but benefits for highly compensated employees may be limited by the application of nondiscrimination rules under code 105(h)
Funding Basis	• Actual	• Notional
Paired Health Plan	• Compatible with a qualified HDHP • For 2014: HDHP minimum deductible of $1,250 single / $2,500 family (combined medical/ pharmacy) • For 2014: Maximum out-of-pocket of $6,350 single / $12,700 family (combined medical/ pharmacy) • HDHP can not have an "embedded individual deductible" as part of the family deductible	• Flexible; defined by employer, with no lower limit to deductible and no upper limit to maximum out-of-pocket other than that specified under ACA • Pharmacy not required to be combined with medical deductible and/or out-of-pocket maximum
Claim Substantiation Requirements	• Employers and HSA trustees are not required to determine whether HSA distributions are used exclusively for qualified medical expenses. HSA holders should maintain supporting records.	• ERISA plan - medical care expenses must be substantiated.
Ability To Roll Over Funds Year Over Year	• Yes	• Yes, at employer's discretion
Portability	• Yes, completely (Statutory requirement).	• Only at employer's discretion, though COBRA-eligible benefit

Actuarial considerations
HDHP plan design: Cost neutral HSA plan design

Key Plan Design Provision	Current Uniform HMO	Illustrative HDHP+HSA Cost Neutral
Deductible (Single/Family)	$0 / $0	$2,000 / $4,000
HSA (Employer Funded)		$1,060 / $3,290
Maximum Out-of-Pocket (S/F) (Includes Deductible) Medical Drug Max OOP	$500 / $1,000 Med $410 / $820 Drug	$4,000 / $8,000 Combined
Preventive Care	100%	100%
Office Visits	90%	90%
Emergency Room	$75 copay	90%
All Other Medical Services	90%	90%
Prescription Drugs: Level 1 Formulary Generic Level 2 Formulary Brand Level 3 Non-Formulary	 $5 copay $15 copay $35 copay	 90% 90% 90%
Estimated Actuarial Value (2015) (Without Adjustments for Adverse Selection & Utilization Changes)	0.950	HDHP: 0.811 HSA: 0.114 Rollover: 0.025 Total: 0.950
Change In Actuarial Value		0%

- Cost neutrality to ETF includes unused HSA rollover balances.
- Differential in contributions may be required to promote HDHP+HSA enrollment, which, in turn, impacts cost neutrality.
- High actuarial value for current Uniform HMO requires smaller deductible “gap” between HSA and HDHP components to achieve cost neutrality.
- Designs do not include adjustments for possible adverse selection or changes in utilization.
- Cost neutrality after 2015 would require changes in HDHP+HSA deductibles, coinsurance, maximum out-of-pocket levels, and/or HSA contributions.

Actuarial considerations
HDHP plan design: Cost neutral HRA plan design

Key Plan Design Provision	Current Uniform HMO	Illustrative HDHP+HRA Cost Neutral
Deductible (Single/Family)	$0 / $0	$2,000 / $4,000
HSA (Employer Funded)		$1,100 / $3,345
Maximum Out-of-Pocket (S/F) (Includes Deductible) Medical Drug Max OOP	$500 / $1,000 Med $410 / $820 Drug	$4,000 / $8,000 Combined
Preventive Care	100%	100%
Office Visits	90%	90%
Emergency Room	$75 copay	90%
All Other Medical Services	90%	90%
Prescription Drugs: Level 1 Formulary Generic Level 2 Formulary Brand Level 3 Non-Formulary	 $5 copay $15 copay $35 copay	 90% 90% 90%
Estimated Actuarial Value (2015) (Without Adjustments for Adverse Selection & Utilization Changes)	0.950	HDHP: 0.811 HRA: 0.115 Rollover: 0.024 Total: 0.950
Change In Actuarial Value		0%

- Cost neutrality to ETF includes unused HRA rollover balances net of HRA forfeitures. Assumes 10% turnover rate.
- Differential in contributions may be required to promote HDHP+HRA enrollment, which, in turn, impacts cost neutrality.
- High actuarial value for current Uniform HMO requires smaller deductible "gap" between HRA and HDHP components to achieve cost neutrality.
- Designs do not include adjustments for possible adverse selection or changes in utilization.
- Cost neutrality after 2015 would require changes in HDHP+HRA deductibles, coinsurance, maximum out-of-pocket levels, and/or HRA contributions.

Actuarial considerations
HDHP plan design: Cost neutral HSA plan design (Reflects adverse selection)

Key Plan Design Provision	Current Uniform HMO	Illustrative HDHP+HSA Cost Neutral
Deductible (Single/Family)	$0 / $0	$2,000 / $4,000
HSA (Employer Funded)		$1,000 / $3,120
Maximum Out-of-Pocket (S/F) (Includes Deductible) Medical Drug Max OOP	$500 / $1,000 Med $410 / $820 Drug	$4,000 / $8,000 Combined
Preventive Care	100%	100%
Office Visits	90%	90%
Emergency Room	$75 copay	90%
All Other Medical Services	90%	90%
Prescription Drugs: Level 1 Formulary Generic Level 2 Formulary Brand Level 3 Non-Formulary	 $5 copay $15 copay $35 copay	 90% 90% 90%
Estimated Actuarial Value (2015) (Without Adjustment for Utilization Changes)	0.951	HDHP: 0.781 HSA: 0.131 Rollover: 0.034 Total: 0.946
Change In Actuarial Value		

- Cost neutrality to ETF includes unused HSA rollover balances; reflects assumed level of adverse selection and 10% migration.
- Differential in contributions may be required to promote HDHP+HSA enrollment.
- High actuarial value for current Uniform HMO requires smaller deductible “gap” between HSA and HDHP components to achieve cost neutrality.
- Designs do not include adjustments for changes in utilization.
- Cost neutrality after 2015 would require changes in HDHP+HSA deductibles, coinsurance, maximum out-of-pocket levels, and/or HSA contributions.

Actuarial considerations
HDHP plan design: Cost neutral HSA plan design (Reflects adv sel/util change)

Key Plan Design Provision	Current Uniform HMO	Illustrative HDHP+HSA Cost Neutral
Deductible (Single/Family)	$0 / $0	$2,000 / $4,000
HSA (Employer Funded)		$1,225 / $3,730
Maximum Out-of-Pocket (S/F) (Includes Deductible) Medical Drug Max OOP	$500 / $1,000 Med $410 / $820 Drug	$4,000 / $8,000 Combined
Preventive Care	100%	100%
Office Visits	90%	90%
Emergency Room	$75 copay	90%
All Other Medical Services	90%	90%
Prescription Drugs: Level 1 Formulary Generic Level 2 Formulary Brand Level 3 Non-Formulary	 $5 copay $15 copay $35 copay	 90% 90% 90%
Estimated Actuarial Value (2015)	0.951	HDHP: 0.776 HSA: 0.156 Rollover: 0.048 Total: 0.981
Change In Actuarial Value		

- Cost neutrality to ETF includes unused HSA rollover balances; reflects assumed levels of adverse selection, changes in HDHP utilization, and 10% migration.
- Differential in contributions may be required to promote HDHP+HSA enrollment.
- High actuarial value for current Uniform HMO requires smaller deductible "gap" between HSA and HDHP components to achieve cost neutrality.
- Cost neutrality after 2015 would require changes in HDHP+HSA deductibles, coinsurance, maximum out-of-pocket levels, and/or HSA contributions.

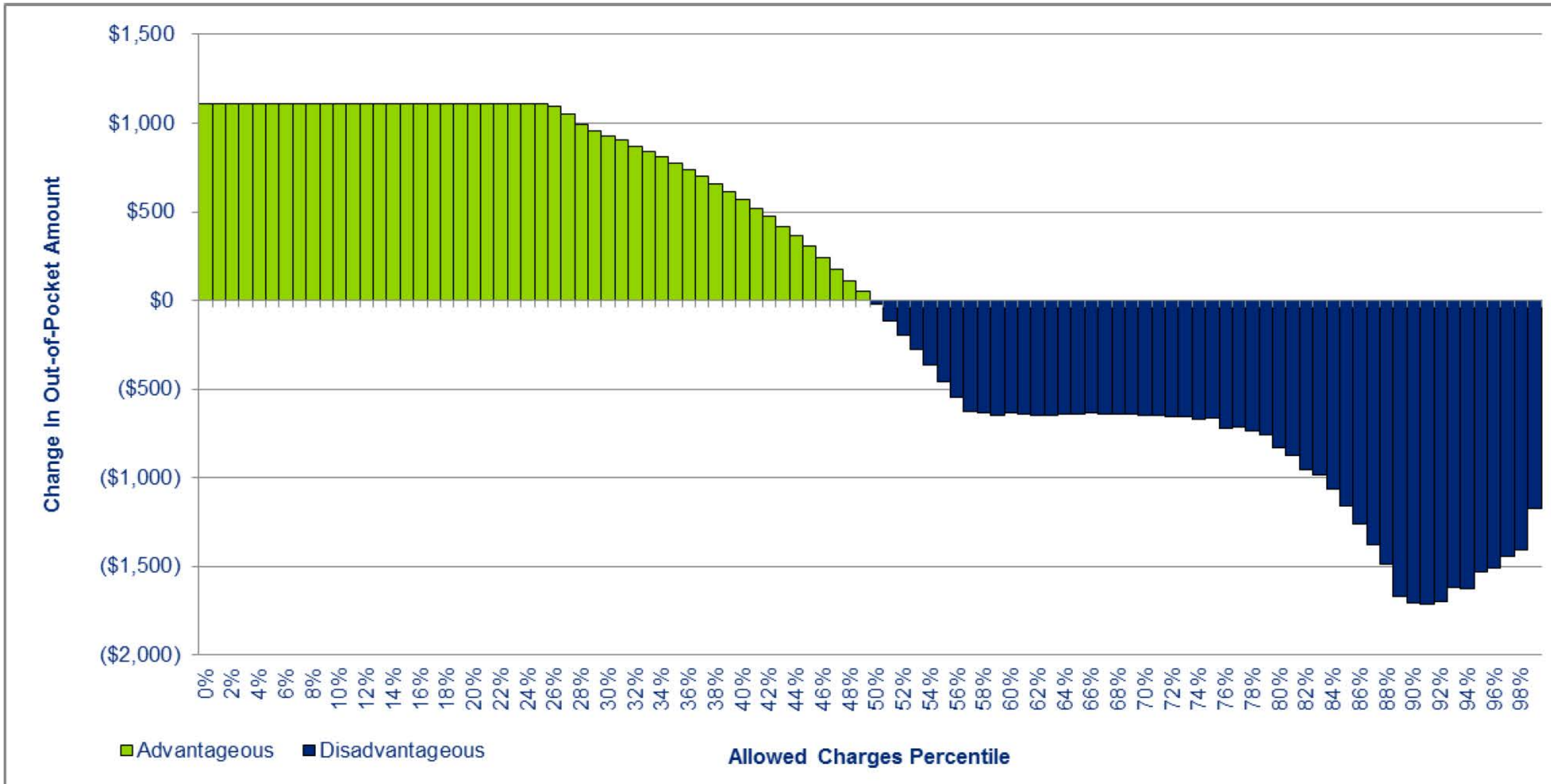
Actuarial considerations
HDHP plan design: Cost neutral HSA plan design (Excludes HSA rollovers)

Key Plan Design Provision	Current Uniform HMO	Illustrative HDHP+HSA Cost Neutral
Deductible (Single/Family)	$0 / $0	$2,000 / $4,000
HSA (Employer Funded)		$1,885 / $4,000
Maximum Out-of-Pocket (S/F) (Includes Deductible) Medical Drug Max OOP	$500 / $1,000 Med $410 / $820 Drug	$4,000 / $8,000 Combined
Preventive Care	100%	100%
Office Visits	90%	90%
Emergency Room	$75 copay	90%
All Other Medical Services	90%	90%
Prescription Drugs: Level 1 Formulary Generic Level 2 Formulary Brand Level 3 Non-Formulary	 $5 copay $15 copay $35 copay	 90% 90% 90%
Estimated Actuarial Value (2015) (Without Adjustments for Adverse Selection & Utilization Changes)	0.950	HDHP: 0.811 HSA: 0.139 Total: 0.950 Rollover: 0.041 Total: 0.991
Change In Actuarial Value		+4%

- Cost neutrality to ETF excludes unused HSA rollover balances.
- Differential in contributions may be required to promote HDHP+HSA enrollment.
- High actuarial value for current Uniform HMO requires significantly smaller deductible "gap" between HSA and HDHP components to achieve cost neutrality.
- Designs do not include adjustments for possible adverse selection or changes in utilization.

Actuarial considerations
Changes In Out-of-Pocket Amounts By Claims Level: HMO vs. HDHP+HSA

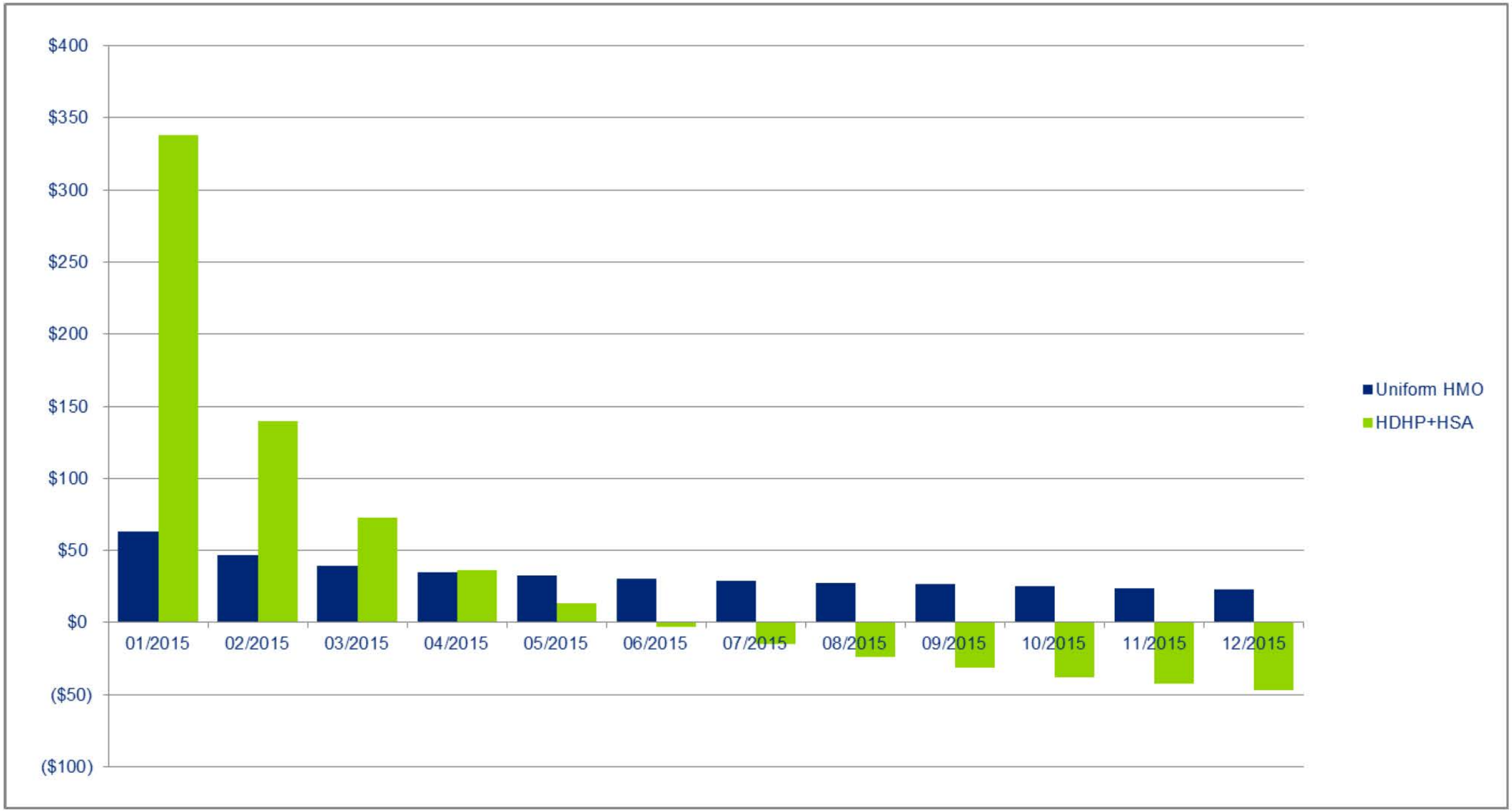
Cost Neutral Design Including Unused HSA Balances; Does Not Reflect Adverse Selection or Utilization Changes



- Chart reflects difference in estimated out-of-pocket costs (excluding contributions, but including unused HSA balances) across allowed charge spectrum. Those with higher allowed charges (right side of chart) would be expected to see greater out-of-pocket costs under the illustrative HDHP+HSA plan.

Actuarial considerations
Differences In Average Out-of-Pocket Amount By Month: HMO vs. HDHP+HSA

Cost Neutral Design Including Unused HSA Balances; Does Not Reflect Adverse Selection or Utilization Changes



- Chart reflects difference in average monthly out-of-pocket costs month-to-month in 2015. Assumes HSA contributions provided on pro-rata basis during the year.

Actuarial considerations
Utilization assumptions & adverse selection

Utilization Assumptions:

- Theory behind Consumer-Directed Health Plans is that exposure to a high deductible before insurance benefits are triggered plus plan incentives will induce participants to make better health care use decisions.
- Spending reductions concentrated among low- and medium-risk participants; spending increases among high-risk participants.
- Market-based clinical studies:

Metric	Health Affairs, June 2013 n = 13,278	RWJF, October 2012 n = Over 10,000
Inpatient Admits	9% reduction, diminished over time	Inconclusive
Inpatient Days	18% reduction, diminished over time	Inconclusive
ER Visits	Initial decrease, then 18% increase	Inconclusive
Office Visits	8% reduction, sustained	Reduction
Prescription Drug Scripts	10% reduction, sustained	Reduction for chronic conditions
Breast Cancer Screenings	Initial decrease, then 1% increase	Slight decrease
Cervical Cancer Screenings	Initial decrease, then 4% increase	Slight decrease
Colorectal Cancer Screenings	Initial decrease, then 10% increase	Slight decrease

"Consumer-Directed Health Plans Reduce The Long-Term Use Of Outpatient Physician Visits And Prescription Drugs", Health Affairs, June 2013, pp. 1,126-1,133.
"Consumer-directed health plans: Do they deliver?", Robert Wood Johnson Foundation, The Synthesis Project, October 2012. Summary of 34 separate studies.

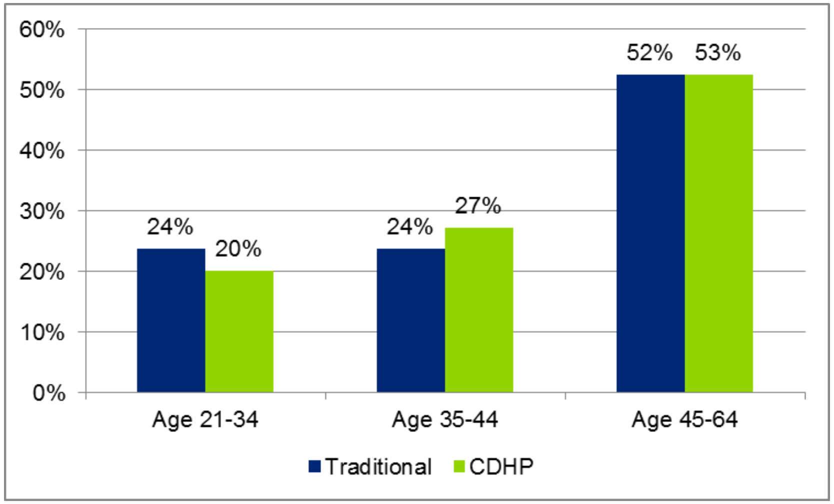
Actuarial considerations
Utilization assumptions & adverse selection

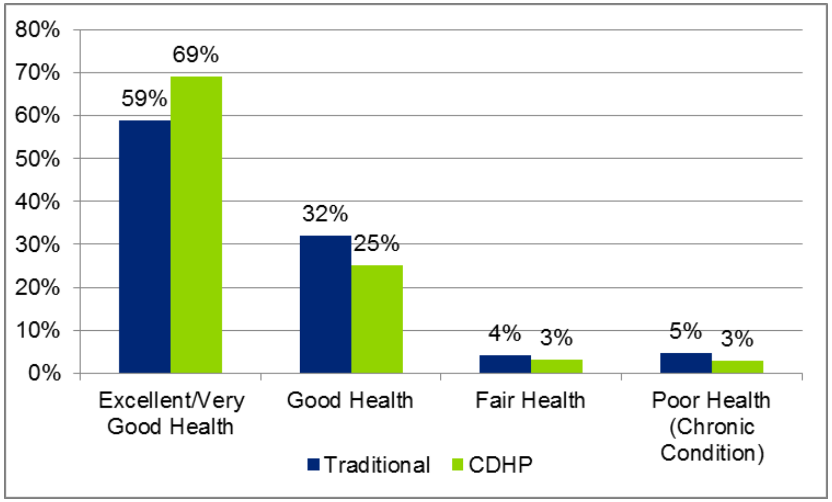
Adverse Selection:

- EBRI study (April 2013, n = 25 million) showed slight demographic differences in enrollees. Actuarial estimate of cost difference based only on demographic differences: CDH plans on average attract those with 1.5% higher costs. Fewer enrollees 21-34, more enrollees 35-44, no difference above 45.

  CDH plans attract greater percentage of enrollees with incomes above $100,000, less enrollees with incomes below $50,000.

  CDH plans attract fewer with fair/poor to good health status, and more with very good health status.





"Characteristics of the Population With Consumer-Driven and High-Deductible Health Plans, 2005-2012", Employee Benefit Research Institute, April 2013, vol. 34, No. 4.

Actuarial considerations
Utilization assumptions & adverse selection

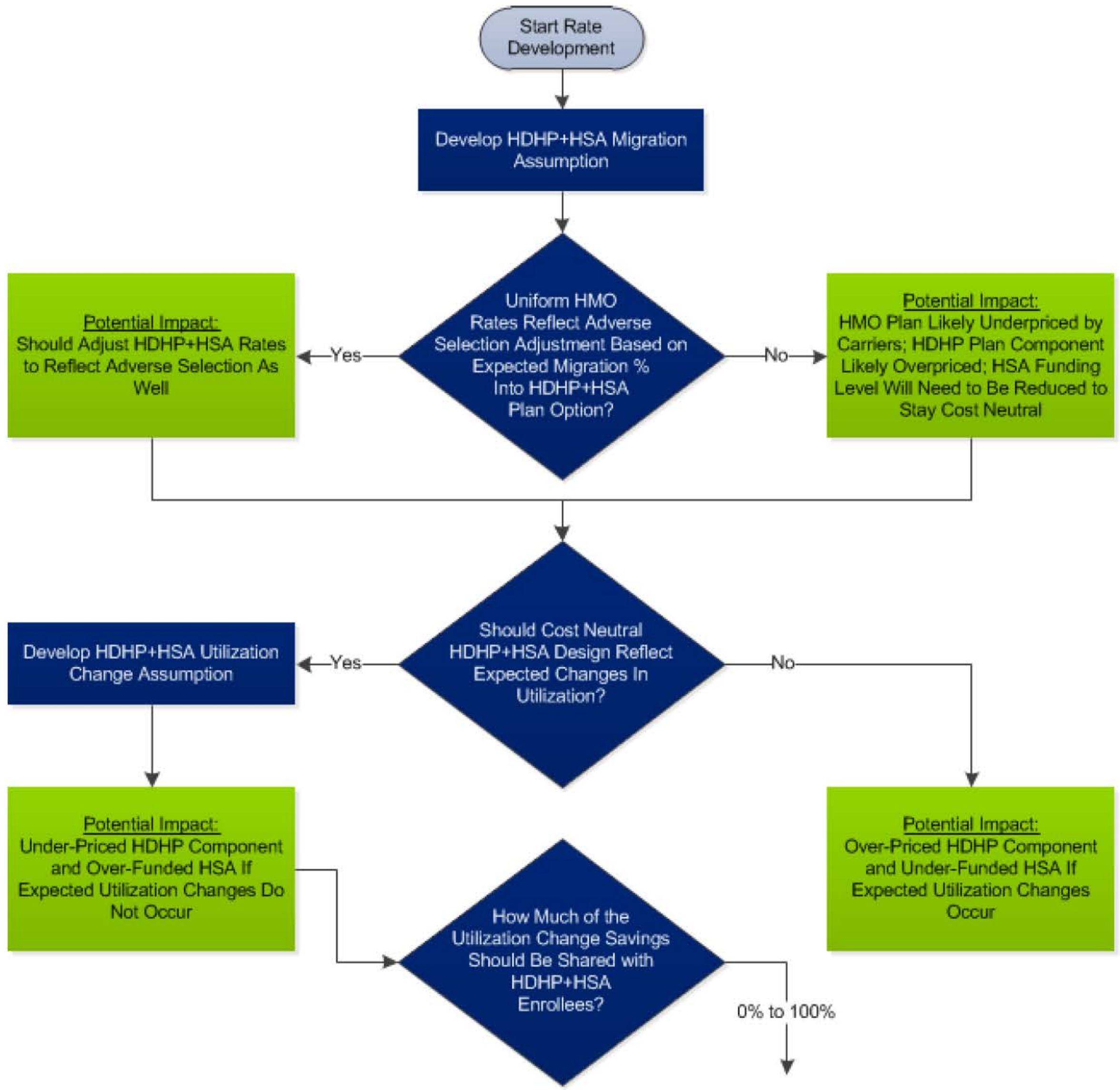
Adverse Selection:

- RWJF study (October 2012, n > 10,000) showed that HDHPs experience favorable selection only in the first year (versus PPO plans). Also showed that, while true when compared to PPO plans, no such favorable selection was observed compared to HMOs.

- Regardless of level of adverse selection assumed, all plans will continue to experience similar levels of acute care cases (which tends to lessen the overall impact of adverse selection).

"Consumer-directed health plans: Do they deliver?", Robert Wood Johnson Foundation, The Synthesis Project, October 2012.

Actuarial considerations
Utilization assumptions & adverse selection



Actuarial considerations
Sample 2015 premium rates: No adverse selection, No utilization change

2013 Monthly Estimated Average Premium Rate	Current Uniform HMO Design	Illustrative HDHP+HSA Cost Neutral Design
HMO and HDHP		
Employee Only	$719	$631
Employee + Family	$1,817	$1,542
HSA Funding (Monthly)		
Employee Only	- - -	$88
Employee + Family	- - -	$274
Total (Gross)		
Employee Only	$719	$719
Employee + Family	$1,817	$1,817
Total (Net)		
Employee Only	$627	$627
Employee + Family	$1,587	$1,587

- Sample rates reflect medical + drug claims only; exclude dental claims, admin, ACA fees.
- Rates assumed no impact due to adverse selection. HDHP rates & HSA funding level assume no changes in utilization by virtue of being in a CDH plan.
- Leveraged impact of trend would cause HDHP component premium rate to increase at a faster rate than the HMO rate.
- Overall HDHP+HSA trend can be controlled via increases in HSA funding each year.
- Fully-insured rates may include additional margin by carriers in anticipation of adverse selection.

Actuarial considerations
Sample 2015 premium rates: No adverse selection, No utilization change

2013 Monthly Estimated Average Premium Rate	Current Uniform HMO Design	Illustrative HDHP+HRA Cost Neutral Design
HMO and HDHP		
Employee Only	$719	$631
Employee + Family	$1,817	$1,542
HRA Funding (Monthly)		
Employee Only	- - -	$92
Employee + Family	- - -	$279
Total (Gross After Forfeitures)		
Employee Only	$719	$719
Employee + Family	$1,817	$1,817
Total (Net)		
Employee Only	$627	$627
Employee + Family	$1,587	$1,587

- Sample rates reflect medical + drug claims only; exclude dental claims, admin, ACA fees.
- Cost neutrality reflects assumed 10% turnover, resulting forfeitures.
- Rates assumed no impact due to adverse selection. HDHP rates & HRA funding level assume no changes in utilization by virtue of being in a CDH plan.
- Leveraged impact of trend would cause HDHP component premium rate to increase at a faster rate than the HMO rate.
- Overall HDHP+HRA trend can be controlled via increases in HRA funding each year.
- Fully-insured rates may include additional margin by carriers in anticipation of adverse selection.

Actuarial considerations
Sample 2015 premium rates: Adverse selection, No utilization change

2013 Monthly Estimated Average Premium Rate	Current Uniform HMO Design	Illustrative HDHP+HSA Cost Neutral Design
HMO and HDHP		
Employee Only	$736	$489
Employee + Family	$1,858	$1,185
HSA Funding (Monthly)		
Employee Only	- - -	$83
Employee + Family	- - -	$260
Total (Gross)		
Employee Only	$736	$573
Employee + Family	$1,858	$1,445
Total (Net)		
Employee Only	$643	$480
Employee + Family	$1,628	$1,215

- Rates reflect expected adverse selection cost shifts resulting from assumed 10% migration to HDHP+HSA plan option.
- HDHP rates & HSA funding level assume no changes in utilization by virtue of being in a CDH plan.
- If actual enrollment in the HDHP+HSA plan option is less than 10%, cost increase to state.

  If actual enrollment in the HDHP+HSA plan option is more than 10%, cost decrease to state.

Actuarial considerations
Sample 2015 premium rates: Adverse selection, Utilization change

2013 Monthly Estimated Average Premium Rate	Current Uniform HMO Design	Illustrative HDHP+HSA Cost Neutral Design
HMO and HDHP		
Employee Only	$736	$471
Employee + Family	$1,858	$1,134
HSA Funding (Monthly)		
Employee Only	- - -	$102
Employee + Family	- - -	$311
Total (Gross)		
Employee Only	$736	$573
Employee + Family	$1,858	$1,445
Total (Net)		
Employee Only	$643	$480
Employee + Family	$1,628	$1,215

- Rates reflect expected adverse selection cost shifts resulting from assumed 10% migration to HDHP+HSA plan option.
- HDHP rates & HSA funding level reflect assumed changes in utilization by virtue of being in a CDH plan.
- Increase in HSA funding level (over prior page) equates to completely rewarding participant for change in utilization patterns.
- If actual enrollment in the HDHP+HSA plan option is less than 10%, cost increase to state.

  If actual enrollment in the HDHP+HSA plan option is more than 10%, cost decrease to state.

Actuarial considerations
Sample 2015 premium rates: No adverse selection, No utilization change

2013 Monthly Estimated Average Premium Rate	Current Uniform HMO Design	Illustrative HDHP+HSA Cost Neutral Design (Before Rollovers)
HMO and HDHP		
Employee Only	$719	$631
Employee + Family	$1,817	$1,542
HSA Funding (Monthly)		
Employee Only	- - -	$157
Employee + Family	- - -	$333
Total (Gross)		
Employee Only	$719	$788
Employee + Family	$1,817	$1,875
Total (Net)		
Employee Only	$627	$696
Employee + Family	$1,587	$1,645

- Sample rates reflect medical + drug claims only; exclude dental claims, admin, ACA fees.
- Rates assumed no impact due to adverse selection. HDHP rates & HSA funding level assume no changes in utilization by virtue of being in a CDH plan.
- Leveraged impact of trend would cause HDHP component premium rate to increase at a faster rate than the HMO rate.
- Overall HDHP+HSA trend can be controlled via increases in HSA funding each year.
- Fully-insured rates may include additional margin by carriers in anticipation of adverse selection.

Actuarial considerations
Sample 2015 premium rates: Rating variables

Rating Strategy Variables to Consider:

- **HSA or HRA?** "Leakage" due to rollover amounts; Account use for uncovered services; Account used for uncovered dependents; Forfeiture of unused balance at termination.
- **Turnover rate.**
- **Reflect assumed adverse selection and/or utilization changes in rates?** Definition of "cost" basis with respect to these?
- **HDHP cost basis?** Including or excluding expected unused HSA/HRA balances?
- **Sources of design savings:** HDHP component; HSA funding level; Contributions; Mix of these.
- **Sharing of expected utilization savings?** Should expected HDHP utilization change savings be shared with enrollees in rate development?
- **Migration?** What level of assumed migration to the HDHP plan option should be used?

Next steps

- Placeholder

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Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Established	• IRC §223 (December 2003)	• IRC §§105-106 (June 2002)	• IRC §105 & §125 (November 1978)
Eligibility	• Employees, retirees, and the self-employed who are covered under a qualified high-deductible health plan (HDHP), but not covered under any other health plan (vision plans, dental plans, and limited purpose or post-deductible ERAs and HRAs possible exceptions). • Medicare-primary eligible individuals cannot make contributions, but can draw down HSA balances.	• Must be paired with a medical plan option (can not be “stand-alone”). • May be offered to current and former employees and individuals electing COBRA. • No restriction for individuals covered by Medicare. • Can be covered under an ERA as well, and can draw from previously-established HSA where no new contributions are being made.	• May be offered to current and former employees and individuals electing COBRA. • No restriction for individuals covered by Medicare. • Can be covered under an HRA as well, and can draw from previously-established HSA where no new contributions are being made.
Ownership	• Employee ownership	• Employer ownership	• Employer ownership
Employee Contributions	• Allowed if covered under qualified HDHP (payroll deferral and/or direct). • Contributions excludable from gross income.	• Prohibited.	• Allowed (payroll deferral only). • Contributions excludable from gross income.
Employer Contributions	• Allowed if covered under qualified HDHP. • Contributions excludable from gross income.	• Allowed (“required” in order to exist.) • Contributions excludable from gross income.	• Allowed. • Contributions excludable from gross income.
Maximum Deduction and Exclusion Rule on Contributions	• The deduction and exclusion for contributions to an HSA cannot exceed the annual statutory maximum ($3,300 single coverage, $6,550 family coverage for 2014). • Additional “catch-up” contributions allowed for employees age 55+.	• No statutory limit, but benefits for highly compensated employees may be limited by the application of nondiscrimination rules under code 105(h).	• The deduction and exclusion for contributions to an ERA cannot exceed the annual statutory maximum ($2,500 for 2013).

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs *(continued)*

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Employee Tax Impact	• Reimbursements are tax free if they are distributed to reimburse for any qualified medical expenses. • Reimbursements taxed if not for any qualified medical expenses. • Reimbursements subject to 20% tax penalty if not for qualified medical expenses (20% penalty does not apply if made after death, disability, or age 65).	• Reimbursements are tax free if they are distributed to reimburse for plan-allowed qualified medical expenses. • Reimbursements typically not allowed if not for plan-allowed qualified medical expenses.	• Reimbursements are tax free if they are distributed to reimburse for plan-allowed qualified medical expenses. • Reimbursements typically not allowed if not for plan-allowed qualified medical expenses.
Funding Basis	• Actual.	• Notional.	• Actual.
Funding Requirements	• Must be funded in a trust or custodial account established by employee.	• Commonly designed as "virtual or notional accounts" with reimbursements made from employer's general assets as claims occur. • The account may be, but is not required to be, pre-funded by the employer.	• Commonly designed as "virtual or notional accounts" with reimbursements made from employer's general assets as claims occur.
Tax Treatment of Earnings	• Earnings on HSA assets are not subject to tax while they are held in the HSA and are never taxed if they are distributed to reimburse for qualified medical expenses.	• Since accounts are notional, earnings at employer's discretion (not common feature). • If earnings provided, not subject to tax.	• No "earnings" in classic sense, though additional account accruals can occur due to distribution of forfeitures from other employees, though any annual accrual in excess of statutory maximum is taxable.

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs *(continued)*

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Paired Health Plan	• Compatible with a qualified HDHP (legislated definition). • For 2014: HDHP must have an in-network annual deductible of at least $1,250 for single coverage, $2,500 for family coverage. • For 2014: In-network out-of-pocket expense requirement cannot exceed $6,350 for single coverage, $12,700 for family coverage. • HDHP can not have an “embedded individual deductible” as part of the family deductible.	• Flexible; defined by employer, with no lower limit to deductible and no upper limit to maximum out-of-pocket other than that specified under ACA.	• n/a
Reimbursable Expenses	• <u>Must</u> reimburse for any health expenses defined in Section 213(d) of the Internal Revenue Code. • Generally cannot be used to pay for health plan premiums (exceptions include COBRA, long-term care premiums, and premiums for non-Medigap premiums for people over age 65).	• <u>May</u> reimburse for medical expenses defined in Section 213(d), including amounts paid for health plan premiums and long-term care coverage premiums, but cannot reimburse expenses for long-term care services.	• <u>May</u> reimburse for medical expenses defined in Section 213(d), including amounts paid for health plan premiums and long-term care coverage premiums, but cannot reimburse expenses for long-term care services.
Qualified Premiums	• Non-Medicare Supplement post-65 health insurance, Medicare, COBRA, qualified LTC, health insurance if unemployed.	• Retiree health insurance, including qualified LTC, COBRA.	• None.

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs *(continued)*

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Claim Processing	• Discretionary or automatic. • Can be via debit card. • Handled by claims administrator or separate HSA trustee. • Reimbursement <u>limited</u> to amount in account at time of reimbursement request.	• Discretionary or automatic. • Typically handled by claims administrator. • Reimbursement <u>can be based on</u> entire annual accrual amount even if not yet completely funded. If reimbursement limited to year-to-date pro-rata accrual, temporarily exposes employee to greater out-of-pocket cost exposure.	• Discretionary or automatic. • Handled by claims administrator or separate ERA trustee. • Reimbursement <u>must be based on</u> entire annual accrual amount even if not yet completely funded.
Claim Substantiation Requirements	• Employers and HSA trustees are not required to determine whether HSA distributions are used exclusively for qualified medical expenses. HSA holders should maintain supporting records. • Substantiation likely required under HDHP.	• ERISA plan - medical care expenses must be substantiated.	• ERISA plan - medical care expenses must be substantiated.
Timing of Reimbursements	• Can receive reimbursement any time for any expense incurred after creation of HSA (even years later).	• Reimbursement window limited by employer (e.g., 90 days after close of plan year).	• Reimbursement window limited by employer (e.g., 90 days after close of plan year).
COBRA	• COBRA is not applicable to HSAs, but it would apply to the qualified HDHP. • Can use HSA to pay COBRA premiums.	• COBRA is applicable to both the HDHP and the HRA. • Can use HRA to pay COBRA premiums.	• COBRA is applicable. • Can not use ERA to pay COBRA premiums.

Appendix: Comparison of HSAs, HRAs, and Health ERAs

Shaded cells reflect potential employer financial and/or administrative advantage between HSA and HRA.

HSAs, HRAs, and ERAs *(continued)*

Issue	Health Savings Account (HSA)	Health Reimbursement Arrangement (HRA)	Employee Reimbursement Account (ERA)
Ability To Roll Over Funds Year Over Year	• Yes	• Yes, at employer's discretion.	• No. Unused funds remaining at the end of the plan year are forfeited to the employer. However, an employer may opt to provide a grace period of up to 2½ months after the end of the plan year to incur reimbursable claims.
Portability	• Yes, completely (Statutory requirement).	• Only at employer's discretion, though COBRA-eligible benefit.	• Only at employer's discretion, though COBRA-eligible benefit. • Reversion to employer (with limitations).
Administration Cost	• Yes (annual basis). • Fees often paid by employer while employee is active; paid by employee after termination (i.e., deducted from HSA).	• Yes (monthly basis). • Fees generally paid by employer.	• Yes (monthly basis). • Fees generally paid by employer.