
Consumer Directed Health Plans

Turning Health Benefit Cost into
Tax Favored Equity



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What is a CDHP?

Any Health Benefit Plan is a Consumer Directed Health Plan (CDHP) to the extent that it...

- Requires plan members to share the economic consequences of their health and health care decisions;
- Provides plan members with tools to help them understand those consequences; and
- Helps plan members identify & access health and health care resources that maximize value.

The Many Flavors of CDHP

Many CDHPs combine a High Deductible Health Plan with a Tax Favored Equity Account;

However, there are “flavors” of CDHPs that do not require a High Deductible Health Plan or a Tax Favored Equity Account.

Non-equity Flavors of CDHP

- Plans that provide economic subsidy for cost effective health & healthcare behaviors.
 - Gym membership, weight loss, smoking cessation, etc...
- Plans that vary employees' premium contributions according to their health and health care behaviors.
 - Accessing high value health care providers
 - Participating in a company wellness program
- Triple Option Plans (TOPs) that allow employees to choose from three different benefit levels at three different price points based on their expected level of claims utilization.

Equity Flavors of CDHP

- Equity Accounts normally complement some sort of High Deductible Health Plan (HDHP)
- All CDHP Equity Accounts allow tax deductible contributions (by employer or employee or both) and tax free withdrawals (by members) for authorized healthcare expenses.
- Different types of CDHP Equity Accounts may be “mixed & matched” in one plan design (subject to certain limitations).

Three Types of Equity Accounts

- Flexible Spending Account (FSA) funds may be used for any qualified expense but may not be invested or accumulated; unused funds are forfeited at the end of the benefit period.
- Health Reimbursement Arrangement (HRA) funds may be used for any qualified expense permitted by the employer and may be accumulated from year to year; however, unused funds are usually forfeited upon termination of employment.
- Health Savings Account (HSA) funds may be used for any qualified expense; funds may also be used for non-qualified expenses subject to tax (penalty may apply); funds may be accumulated and invested.

Health Savings Accounts

- What is an HSA (Health Savings Account)?
 - A *tax advantaged* investment vehicle that empowers qualified individuals and families to build tax favored equity to pay for current and future health care expenses.
- Who may participate in an HSA?
 - Anyone covered by an HSA Compatible health plan.
- What makes a Plan HSA Compatible?
 - A deductible of \$1,100 (single) or \$2,200 (family) that is not paid by any other health plan
 - Note: other requirements apply; ask Benemax for details

Tax Advantages of HSA: #1

- HSA is a “Triple Tax Free” Investment Vehicle
 - Deposits are tax deductible
 - Investment earnings accumulate untaxed
 - Withdrawals can be tax free
 - if used to pay for a qualified healthcare expense
 - IRC Section 213(d) expenses with modifications

- Compare to typical “Double Tax Free” Vehicles
 - IRA & 401k: taxable when withdrawn
 - Roths: deposits not tax deductible
 - FSA: no tax free investment earnings accumulation

Tax Advantages of HSA: #2

- Member can deposit & deduct up to \$2,900 per single, \$5,800 per family
 - Even if plan deductible is only \$1,100/2,200.

- Deduction applies to...
 - Federal Income Tax
 - FICA (Social Security) & FUTA (Unemployment) Taxes
 - State Income Tax (most states)
 - Local Income Tax (most cities)

The Disappearing Deductible

- Employer establishes an HSA qualified plan
 - \$1,100 deductible/single; \$2,200/family

- Employee deposits & deducts the maximum
 - \$2,900/single; \$5,800/family

- If Employee is in a 38% combined tax bracket...
 - Tax savings alone pays for 100% the deductible.
 - Full employee contribution remains in HSA.

Exhibit #1: Disappearing Deductible

	<u>Employee</u>	<u>Family</u>
HSA Annual Deductible	\$1,100	\$2,200
HSA Annual Contribution (Max)	\$2,900	\$5,800
Tax Savings (@38%)	(1,100)	(2,200)
Net Employee Deductible Exposure	\$0	\$0

The Benemax Wrap

- Employer buys an HSA qualified plan HDHP
 - Deductible up to \$5,000 (single), \$10,000 (family)
 - Employer “wraps” deductible down to \$1,100/2,200
 - Employer funds claims between \$1,100 and \$5,000 via a Section 105 Plan administered by Benemax.

- Employee deposits & deducts the maximum
 - \$2,900/single; \$5,800/family
 - Tax savings (@38%) make Deductible “disappear”

Exhibit #2: Benemax Wrap

	Non HSA Plan	Standard HSA	Benemax HSA
Plan Deductible	\$0	\$1,100	\$5,000
Benemax "Wrap"	0	0	(3,900)
Net Deductible	\$0	\$1,100	\$1,100
Typical Annual Premium	\$5,000	\$4,000	\$2,400
Estimated Wrap Cost			800
Total Plan Cost	\$5,000	\$4,000	\$3,200



The Maximum Tax Advantage

- Employer establishes an HSA qualified plan
 - Up to \$5,000 deductible/single; \$10,000/family
 - Employer “wraps” deductible down to \$1,100/2,200
- Employer funds HSAs @ \$1,100 or \$2,200 each
- Employee deposits & deducts the difference
 - \$1,800 for singles; \$3,600 for families
- No deductible exposure for *any* employee
- *All* employees *enjoy* tax savings *plus* tax free equity

Exhibit #3: Maximum Tax Advantage

Wrapped HSA	
Plan Deductible	\$5,000
Benemax "Wrap"	(3,900)
Net Deductible	\$1,100
Employer HSA Contribution	\$1,100
Annual Premium	2,400
Wrap Cost (\$1,800 @ 30%)	540
Total Plan Cost	\$4,040
Employee Contribution	\$1,800
Employee Tax Savings (@ 38%)	(680)
Employee's Untaxed Equity	(2,900)
Net Employee Cost	(1,780)

Is HSA the Best Type of CDHP?

- Not Always...but HSA combined with the Benemax Wrap is the most tax advantaged strategy
 - Still, it is NOT the right solution for every employer
- All the flavors of CDHP have a place in the total mix.
Benemax helps companies with *all* types of CDHP
 - Non-equity & Equity Account Solutions
 - FSA, HRA, HSA
 - Traditional HSA, Wrapped HSA

What is the Role of Benemax?

- Benemax works with each employer to design a CDHP strategy that is right for that employer
 - Considering objectives, demographics & culture
 - “One size fits one”
- Benemax conducts ongoing education of plan members
- Benemax supports each employer’s CDHP with concierge-level customer service
- Benemax administers CDHP claims
 - FSA, HRA, Section 105 Plans and Wrapped HSAs

What's Next?

For Answers to Questions,
For help with your current CDHP,
Or for a proposal...

CALL BENEMAX

1-800-528-1530

x 117

