



CHRISTIAN SCHOOLS
INTERNATIONAL

CSI Insurance Plan & Trust Fund

UPDATE

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To: Member Schools

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Executive Secretary Treasurer

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New Choices in Health Care Plans

In addition to CSI's POS, HMO 100, and HMO 80 plans, two new, lower-cost options are available to schools. Beginning September 1 we will offer a Health Savings Account (HSA) and a Health Reimbursement Account (HRA). Schools may offer up to three plans: the HSA or HRA plus two selections from the POS, HMO 100 or HMO 80 plans.

The HSA/HRA Concept

These HSA/HRA plans are known as "consumer driven health care" or "consumer engaged health care" and are designed to encourage greater involvement by participants in their health care choices and decisions. Current POS and HMO plans have an office visit copay and a prescription drug copay that make it difficult for the participant to know the true cost. From a financial perspective, participants have little incentive to seek out the best procedure or drug at the lowest cost.

The incentive for participants to get more involved in the decision-making process is a plan with a high deductible. The idea is that participants will make better decisions with their own money. There is an advantage: an employee account to which the employer can contribute funds. These funds can be used to offset the costs associated with a high deductible, and, in the case of the HSA plan, can be saved for retirement on a tax-free basis. There is also a safety net for participants in the form of an out-of-pocket maximum.

When considering a choice of health plans that includes an HSA/HRA option, participants should look at their past history of medical expenses and estimate future expenses to determine which plan that will work best for them.

Why Select the HSA Plan?

There are three reasons to select a Health Savings Account. First, a high deductible health plan has lower premium rates than a lower deductible plan. If HSA plans are as successful as projected in lowering health care expenses, premium increases will also be lower. Second, HSAs are triple-tax advantaged. Contributions to the account are tax-free, earnings on the account accumulate tax-free, and distributions from the account used for qualified medical expenses are tax-free. Third, HSAs are participant-owned and contributions can be made by

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the employer, participant, or both. Account balances roll over without limitation from year to year. The accounts are completely portable so if the participant terminates employment, they take the HSA account with them.

How Does the HSA Plan Work?

The HSA plan consists of two parts: the health plan and a savings account. CSI offers a qualifying health plan through Priority Health and Priority Health has partnered with Mellon Bank to provide a savings account.

The qualifying health plan has a single deductible of \$1,000 and a \$2,000 deductible for employee plus spouse, employee plus children, and family coverage. The out-of-pocket maximum, which includes the deductible, is \$2,000 for single coverage and \$4,000 for other levels of coverage. This means that the participant pays for services and prescription drugs up to the amount of the deductible. After the deductible is satisfied, the plan will pay 80% of the expenses and after the out-of-pocket maximum is reached, the plan will pay 100% of expenses. Because preventive care is vital to long term health, preventive care services like routine physicals, mammograms, and well-child care are not subject to the deductible.

The savings accounts are employee-owned, portable, tax-free trust accounts. Schools and/or participants may contribute up to the amount of the deductible for each participant; this contribution is deposited into each participant's own savings account. Participants can then be reimbursed from their HSA for eligible expenses that apply to the deductible or for eligible expenses that are not covered by the health plan. Any funds left in the HSA at the end of the year belong to the participant and keep accumulating until retirement. This employee ownership is the key incentive to help increase careful and efficient use of health care resources. Earnings on individual accounts accumulate tax-free, and if they are used for qualified medical expenses, they are not taxed. At retirement, participants may continue to use the funds for health expenses. If the funds are used for non-health related expenses, income tax and/or additional taxes may be due.

Why Select the HRA Plan?

There are two reasons to select a Health Reimbursement Account. First, a high deductible health plan has lower premium rates than a lower deductible plan. Second, any funds remaining in the health reimbursement accounts are retained by the employer and reduce overall health costs.

How Does the HRA Plan Work?

The HRA plan consists of two parts: the high deductible health plan and an account owned by the employer for each participant. CSI offers the health plan and HRA account through Priority Health.

The qualifying health plan has a single deductible of \$1,000 and a \$2,000 deductible for other levels of coverage. There is a \$20 office visit copay and a prescription drug copay of \$15/\$30. The participant pays for services up to the amount of the deductible. After the deductible is satisfied, the plan will pay 100% of expenses. Because preventive care is vital to long term health, preventive care services like routine physicals, mammograms, and well-child care are not subject to the deductible.

Schools using this plan will fund an account for participants. These funds will be used to pay providers for amounts that apply to the deductible. Up to 90% of the deductible can be paid through the account. This HRA account is not a savings account like an HSA but is an account owned by the employer. Any funds left in the HRA at the end of the year belong to the employer and are forfeited by the participant.

HSA/HRA Comparison

Feature	Health Savings Account (HSA)	Health Reimbursement Account (HRA)
Overview	A tax-free savings account to pay for qualified medical expenses.	An account that pays providers for expenses that apply to the deductible.
Who may contribute?	The employer, employee, or both may contribute.	Only the employer. Federal regulations do not permit participant contributions.
Who owns the account?	The account is established in the participant's name at Mellon Bank and is owned by the participant.	The employer owns the account.
What is the tax treatment of contributions?	Participant contributions are made pre-tax. Employer contributions are excluded from gross income and are not subject to employment taxes.	Employer contributions are excluded from gross income and are not subject to employment taxes.
Can funds be rolled over to the following year?	Yes, funds can be rolled over without limit.	No, funds that are not used are forfeited.
Are accounts portable?	Yes, participants own the accounts and can take them when they leave or change jobs.	No, funds in the account belong to the employer.
May the medical reimbursement account feature of the CSI Flexible Benefits Plan be used?	Yes, FSA funds may be used for vision, dental and expenses that do not apply to the HSA deductible (see below).	Yes, However, for medical expenses that apply to the deductible, HRA funds must be used first, then the FSA funds may be used.

CSI Flexible Benefits Plan

A Section 125 plan like the CSI Flexible Benefits Plan can be used to pay for premiums on a pre-tax basis for all of CSI's health plans, including the HSA and HRA plans. The CSI Flexible Benefits Plan may also be used to pay dependent care expenses on a pre-tax basis.

The medical reimbursement account can be used for expenses *not reimbursed* through another plan. For the HSA plan, however, reimbursement is limited to dental and vision expenses, as well as expenses *not covered* by the HSA plan. **There is a significant change here for participants in the HSA plan: even if the expense applies to the HSA deductible, it is a "covered" expense and is not eligible for reimbursement through the CSI Flexible Benefits Plan. There is also a significant change for the HRA plan: If the expense applies to the medical deductible, HRA funds must be exhausted before the FSA is used.**

Informational Meeting

CSI, in partnership with Priority Health, will hold an informational meeting on HSA/HRA plans in May. In the meantime, contact Brian Meekhof at 616-957-1070, ext. 267 or me at ext. 226 if you have questions.