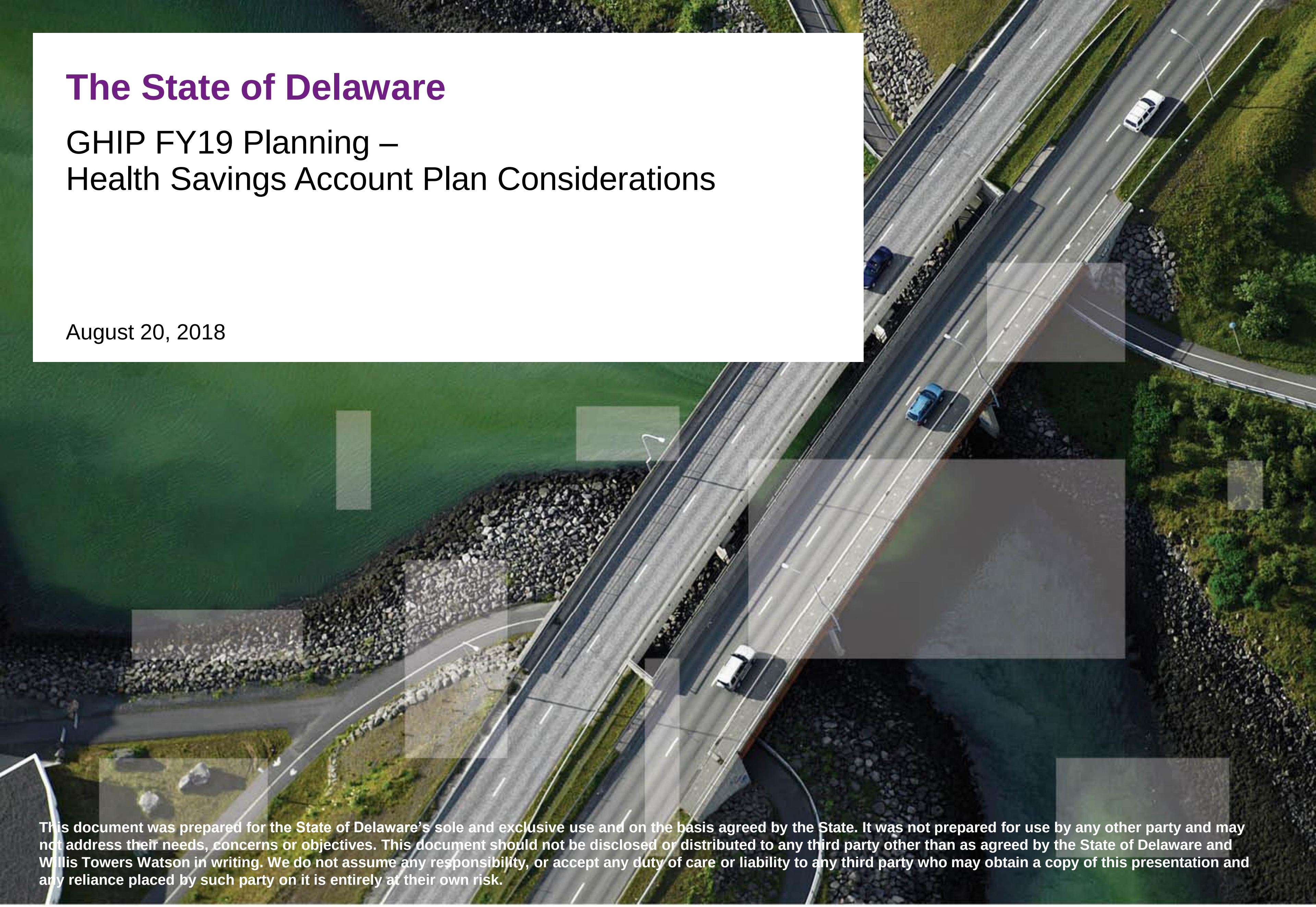

The State of Delaware

GHIP FY19 Planning – Health Savings Account Plan Considerations

August 20, 2018

Willis Towers Watson

Contents

Health Savings Account plan – defined

Definitions	
Consumer Directed Health Plan (CDHP)	A type of medical plan offered together with a personal account (i.e., health savings account or health reimbursement arrangement) that can be used to pay a portion of the medical expense not paid by the plan. Also called a High Deductible Health Plan (HDHP).
Health Savings Account (HSA)	A tax-advantaged medical savings account available to taxpayers in the United States who are enrolled in an IRS-qualified HDHP.

References to a ***Health Savings Account (HSA) plan*** are intended to describe an IRS-qualified Consumer Directed Health Plan with a Health Savings Account

Advantages of a Health Savings Account plan – For current employees

- There are multiple advantages to offering a Health Savings Account plan that are not available in the current GHIP plans

Employee savings vehicle	▪ A Health Savings Account allows employees to save for future medical expenses, including but not limited to retiree medical ▪ Employees decide when and how to use Health Savings Account funds, or whether to save them for future qualified medical expenses, including after retirement ▪ Employees can start, stop, or adjust Health Savings Account contributions at any time ▪ Funds can be invested once the Health Savings Account balance exceeds a certain threshold
No "use it or lose it" rule	▪ Unused funds carry over from year to year and are always the employee's to keep, unlike employee contributions to a health care Flexible Spending Account (FSA)
Triple tax incentives	▪ No federal taxes (or state taxes, except in NJ and CA)[1] on the funds the employee deposits, the employer-provided funds, the interest earned, or the funds spent on qualified medical expenses ▪ Taxes and penalties do apply if Health Savings Account funds are used to pay for anything other than qualified medical expenses
Competitive position	▪ The marketplace has been moving in this direction, with 73% of all large employers and 63% of public sector and education employers offering a consumer directed health plan (either Health Savings Account or Health Reimbursement Arrangement plan) in CY2017[2] ▪ New hires may have open Health Savings Accounts from a prior employer

1 Health Savings Account contributions made by the State or by the employee via pre-tax payroll deductions are not eligible for tax-favored treatment for state tax purposes in NJ and CA. In AL, pre-tax contributions are tax-free, but any post-tax employee contributions to the Health Savings Account are taxable by the state.
2 2017 Willis Towers Watson Best Practices in Health Care Employer Survey. Sample: Companies with at least 1,000 employees.

Advantages of a Health Savings Account plan – For former employees

- There are also advantages to having a Health Savings Account for former employees, including COBRA participants and retirees
- Accumulated Health Savings Account funds can be used to pay for qualified medical expenses
- Former employees can continue to make tax-advantaged contributions to a Health Savings Account, if still enrolled in an IRS-qualified consumer directed health plan ***and if not accepting Social Security payments after becoming eligible for Medicare***[1]
- This group can use Health Savings Account funds to pay for the following:
  - COBRA premiums
  - Health coverage while receiving unemployment compensation
  - Qualified long-term care insurance contracts, within statutory limits[2] (even if Health Savings Account contributions were made on a pre-tax salary reduction basis under a cafeteria plan)
- Individuals over age 65 can also use the Health Savings Account to pay for:
  - Health premiums for Medicare Part A, Part B, and Part D, Medicare Advantage premiums, and coverage under an employer's self-insured retiree health plan
    - **Note:** Premiums for Medigap/Medicare Supplement plans are not qualified medical expenses
  - Non-health related withdrawals without tax penalty (still subject to ordinary income tax) – just like an Individual Retirement Account (IRA)

1 Medicare Part A premiums are automatically removed from the Social Security benefit payments for Medicare-eligible individuals; it is not possible for those individuals to opt out of Medicare Part A. This automatic enrollment in Medicare Part A disqualifies any Social Security recipient from being eligible to make or receive Health Savings Account contributions.
2 See appendix for further details.

Future decision points

- The following are additional decision points for the SEBC, in order of priority:
  1. Determine whether and when to offer Health Savings Account plan
  2. Determine whether to move FSA from CY to Plan Year
  3. Determine whether to eliminate existing CDH Gold plan
     - If eliminated, determine whether (and how) employees will have access to unused HRA funds
  4. Finalize Health Savings Account plan design[1]
  5. Determine Health Savings Account plan administrator(s)
  6. Develop and approve premium rates for Health Savings Account plan

1. Includes consideration of Health Savings Account plan design and incentives for use of Centers of Excellence.

Future decision points

★ *Denotes SEBC vote*

Decision Point	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Determine whether and when to offer Health Savings Account plan	★							*FY21 Open Enrollment Communications*; *FY21 Open Enrollment (including FY21 FSA)*	
Determine Health Savings Account plan administrator(s)	*Streamlined RFP for Health Savings Account administrator(s)*[1]	★	*Health Savings Account plan implementation*						
Determine whether to move FSA from CY to Plan Year		*RFP for FSA administrator (starting 6 months early, to change plan year to align with fiscal year)*		★		*FSA OE*[2]	*FSA FY20 Plan Year*		*FSA FY21 Plan Year*
Determine whether to eliminate existing CDH Gold plan[3]		*Work in progress*	★						
If eliminated, determine whether (and how) employees will have access to unused HRA funds[3]		*Work in progress*	★						
Finalize Health Savings Account plan design[3,4]				*Work in progress*	★				
Develop and approve premium rates for Health Savings Account plan[3]					*Work in progress*	★			

1. Pending affirmative vote for a Health Savings Account plan by the SEBC.
2. Open Enrollment for 6-month FSA Plan Year (1/1/20 – 6/30/20).
3. Will be evaluated by the Health Policy & Planning, and Financial Subcommittees (pending affirmative SEBC vote on subcommittee structure), for review and approval by the SEBC
4. Includes consideration of Health Savings Account plan design and incentives for use of Centers of Excellence.

Recommendation to the SEBC

- Move forward with the adoption of a Health Savings Account plan effective July 1, 2020 (FY21) with the other decision points to be determined over the coming months

Appendix

Qualified long-term care insurance contracts

- A qualified long-term care insurance contract is an insurance contract that provides only coverage of qualified long-term care services. The contract must[1]:
  1. Be guaranteed renewable,
  2. Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed,
  3. Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract must be used only to reduce future premiums or increase future benefits, and
  4. Generally not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

- Qualified long-term care premiums up to the following amounts (2018 per person limits) may be considered as qualified medical expenses[2]:
  – Age 40 or under – $420
  – Age 41 to 50 – $780
  – Age 51 to 60 – $1,560
  – Age 61 to 70 – $4,160
  – Age 71 or over – $5,200

1 Source: https://www.irs.gov/publications/p502, accessed 5/29/18.
2 Source: IRS Revenue Procedure: 2017-58; limits are subject to change as the IRS updates publications such as this from time to time.