



HEALTH SAVINGS ACCOUNTS



TAX-ADVANTAGED HEALTHCARE FUNDING

HEALTH SAVINGS ACCOUNTS



MEDICAL
MUTUAL

health plans for life

INTRODUCING MEDICAL MUTUAL'S HEALTH SAVINGS ACCOUNTS



ARE YOU CONSIDERING A COST SHIFT TO A HIGHER DEDUCTIBLE BUT WANT TO MITIGATE SOME OF THE INCREASE? DO YOU WANT TO OFFER A METHOD FOR TAX-ADVANTAGED SAVINGS? DO YOU WANT TO INCREASE THE OPTIONS FOR POST-RETIREMENT HEALTHCARE? DO YOU WANT TO PROMOTE INCENTIVES TO BE A SMART HEALTH SERVICES BUYER?

HEALTH SAVINGS ACCOUNTS WILL HELP YOU ACHIEVE THESE GOALS.

Medical Mutual® introduces Health Savings Account (HSA) plans, tax-favored savings accounts from which money can be drawn to offset eligible healthcare expenses. HSAs, which were included in the Medicare Prescription Drug, Improvement and Modernization Act of 2003, replace Medical Savings Account (MSA) plans and are available to persons under age 65 who have a Qualified High-Deductible Health Plan (QHDHP)*.

*A Qualified High-Deductible Health Plan (QHDHP) is a pure deductible, comprehensive major medical plan with no copays. Medical Mutual offers a range of QHDHPs that are compatible with HSAs.

HSA FEATURES

- *Tax Treatment:* Account distributions are tax-free for qualified medical expenses (IRC Section 213d) and certain insurance premiums, and grow tax-free. If contribution is via payroll on a pre-tax basis, the account holder may not also deduct when filing taxes.
- *Eligibility:* To attain the tax deduction for an HSA, the account holder must be in a QHDHP, not enrolled in Medicare and not covered by any other health plan that duplicates any benefits in the QHDHP. Exceptions are permitted for accident coverage, dental, vision and LTC coverage.
- *Account Ownership:* Employee owns account.
- *Account Funding:* Employee and/or employer. If employer makes a contribution, it is tax-deductible and must be the same amount for all employees.
- *Portability:* Account is portable and is real funds (cash) with checks and/or debit card access.
- *Investment Options:* Same investment flexibility as IRA or 401k.
- *Account Contribution:* The maximum contribution is \$2,850 individual/\$5,650 family (2007 amounts).
- *Account Catch Up:* The rules allow increased contributions for those age 55 to 64: additional \$800 contribution to the account is allowed in 2007, grows by \$100 per year until 2009 when an additional \$1,000 is allowed.



HSAs can save you money!

HOW DOES A HEALTH SAVINGS ACCOUNT WORK?

A QHDHP IS REQUIRED

CURRENT PLAN

Variety of Coinsurance, Deductible,
Copays and Drug Cards

QUALIFIED HIGH-DEDUCTIBLE HEALTH PLAN (QHDHP)

Single: Minimum \$1,100 Deductible
Family: Minimum \$2,200 Combined Deductible
No Drug Copays — Major Medical Drug
No Office Copays

QHDHP WORKS WITH THE HSA

QUALIFIED HIGH-DEDUCTIBLE HEALTH PLAN (QHDHP)

Single: Minimum \$1,100 Deductible
Family: Minimum \$2,200 Combined Deductible
No Drug Copays — Major Medical Drug
No Office Copays

HEALTH SAVINGS ACCOUNT

Flexible, Powerful Account

Tax-Free Use for Medical Expenses:

- Used for Deductible
- Used for Other Qualified Medical Expenses

Tax-Deferred:

- For Retirement

SUPERMED TOOLS

All SuperMed programs offer decision support tools for members to learn about health coverage and manage their care.



my health plan

Check on claims, review costs in Healthcare 101 or take a Health Risk Assessment online.

WebMD®

Access health information through a number of interactive activities.

SuperWell®

Programs to manage specific medical conditions and find tips on how to lead a healthier life.

SETTING UP A HEALTH SAVINGS ACCOUNT

Medical Mutual will provide a vehicle to set up the HSA.

To open an HSA, a person must be covered by a QHDHP that meets the following requirements:

- Self-only deductible of at least \$1,100
- Family combined deductible of at least \$2,200 (indexed for inflation annually)
- Maximum combined out-of-pocket expenses of coinsurance and deductibles of \$5,500 for self only. \$11,000 family maximum applies only to in-network expenses (also indexed)

Once an employer has decided which QHDHP(s) to offer, each employee interested in opening an HSA may request a bank account application.

Note: Since these are real funds (cash) on deposit, a beneficiary and actual signature are required. Each individual account requires signed forms and an initial deposit.

After the initial account opening the employer may make payroll deduction available. Once the account is opened, an employee may elect to invest his/her HSA in one of several options other than an interest-bearing account.

Both the initial deposits and completed account forms need to be forwarded to the HSA administrator. **NO MATERIALS SHOULD BE SENT TO MEDICAL MUTUAL.**

Once an account is opened, each employee will receive a welcome kit, including:

- Initial set of checks
- Debit card
- Instructions on making deposits
- Customer service information

Monthly statements will be sent to each account holder.

At year-end the account custodian will issue the required IRS forms and report account activity to the IRS.

Medical Mutual does not require groups use the recommended banking approach; however, using an alternative bank may result in incremental costs to the employer or employee for additional administrative services.

Once a qualified QHDHP is installed an HSA can be opened.



THE HSA EVOLUTION

1996	2002	2004	FUTURE
MSAs Available to Certain Segments	HRAs: Self-funded Accounts with Carryover	HSAs: Tax-advantaged, Portable Accounts	Respond to Government Direction

FREQUENTLY ASKED QUESTIONS

□ **Who is eligible for an HSA?**

Persons under age 65 (*not enrolled in Medicare and not a tax dependent*) with a Qualified High-Deductible Health Plan (QHDHP).

□ **How much may be contributed to an HSA?**

For calendar year 2007, the maximum annual contributions are:

- For individual coverage, the maximum annual contribution is:
 - \$2,850 (indexed for inflation after 2007)
- For family coverage, the maximum annual contribution is:
 - \$5,650 (indexed for inflation after 2007)
- In addition to the maximum contribution amount, catch-up contributions may be made by or on behalf of individuals between the ages of 55 and 65.

□ **What are the catch-up contribution provisions?**

Persons age 55 and older have a catch-up provision of \$800 in 2007. Catch-up contributions grow by \$100 per year until 2009, when \$1,000 extra contribution is allowed.

□ **How can contributions be made to an HSA?**

Contributions to an HSA must be made in cash and may not be made in the form of stock or other property. Contributions to an HSA may be made through a cafeteria plan via pre-tax payroll method or after-tax by making deposits. In any given year, contributions may be made until April 15 of the following year.

□ **How can HSAs be invested?**

HSAs may be invested like a 401k or IRA — in an interest-bearing account, a mutual fund, stocks or bonds. For easy access to pay for qualified medical expenses, it is recommended that the majority of the HSA account be invested in a bank account.

□ **What are qualified medical expenses?**

HSAs may be used to pay for various medical expenses, including some that are excluded in health insurance plans. Following is a partial list of qualified medical expenses based on IRC Section 213 and listed in Publication 502:

- Health insurance plan deductibles, copayments and coinsurance
- Prescription and over-the-counter drugs

- Dental services including braces, bridges and crowns
- Vision care including glasses and lasik eye surgery
- Psychiatric and certain psychological treatments
- Long-term care services
- Medically related transportation and lodging
- Certain health premiums including COBRA (but not premiums while active employee)

□ **What are HSA tax advantages?**

- After-tax contributions are tax-deductible
- Pre-tax payroll contributions help the employer save on its share of payroll related taxes
- Employers may deduct contributions
- Qualified medical expenses payable in tax-advantaged manner

Much like an IRA, HSA deductions are "above-the-line" and may be deducted even if the taxpayer does not itemize. Regardless of who contributes, the HSA accumulates tax-free.

□ **What happens to the account at year-end? Is the account portable?**

The account balance may be carried over into future years with no limits. The account is owned by the employee or individual and maintained in a trust. The account holders may then use the account after they leave the employer who offered the QHDHP even if their new employer does not offer QHDHP, they retire or have no medical coverage.

□ **How can the HSA be accessed?**

Checks and a debit card will be provided to each individual account holder. Account holders may use the checks/debit cards for expenses as they choose.

The HSA information provided is general information only and is not comprehensive for all features. Employers and employees are encouraged to reference the HSA rulings as issued by the Department of Treasury (notice 2004-2). Medical Mutual is not responsible for HSA accuracy or account compliance. Tax advisors should be consulted.



HEALTH SAVINGS ACCOUNTS

Medical Mutual
2060 East 9th Street
Cleveland, OH 44115-1355
www.MedMutual.com