

Benefit Insights

HSA-Linked Consumer Driven Health Plans Are Hotter than Ever

The Basics of HSA Reporting and Record Keeping

If you're not already offering HSA-linked consumer driven health plans, it may be time to jump on the bandwagon. These health plans continue to skyrocket in popularity and still remain the number one CDHP of choice, according to a November 2009 survey by Aon Consulting and the International Society of Certified Employee Benefit Specialists.

According to the Aon Corp. survey, which included 370 respondents, 44 percent of employers now offer CDHPs to their employees. That's up a whopping 16 percent from 2006. Of those employers that offer CDHPs, 54 percent offer HSA-linked plans, 35 percent link to health reimbursement plans and 9 percent use both methods.

However, there's no question that the HSA model is winning the popularity contest in the CDHP arena. The survey shows the number of employers offering HSA-linked CDHPs has mushroomed to 56 percent, up from 48 percent in 2006.

What's all the fuss about?

As demand continues to soar, it's clear that employers and employees alike adore these HSA-linked consumer driven health plans. But why? It's probably because these innovative health plans provide a smart, cost-effective solution for

employees seeking top-notch health insurance.

HSA-linked CDHPs offer countless advantages to your employees, including:

- Consistently lower premiums than HMOs, PPOs and other plans
- Lower renewal rates
- The ability to fund an HSA with premium savings (At the end of the year, any money remaining in an employee's HSA is theirs to keep!)
- Valuable tax benefits (Money deposited into an HSA is tax-free and tax deductible, and funds in an HSA earn tax deferred interest.)
- It gives consumers more control over their health care

All the rage

Considering all these benefits, it's no wonder why CDHPs coupled with HSAs are hotter than ever. An incredible 63 percent of employers say that more than 10 percent of their workforce is currently enrolled in a CDHP, according to the Aon Corp. survey.

The survey also shows that 66 percent of employers contribute money for CDHPs linked with HSAs—that's up from 60 percent in 2007. Of those employers that contribute, about 15 percent contribute less than \$500 per employee, 45 percent contribute \$500 or more and only 6 percent match their employee's contribution.

As a matter of fact, these consumer driven health plans are so fashionable that many employers are completely replac-

continued on page 3

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Happy Spring!

It is a great time to recharge and review your company's benefits package. Benefit cutbacks, salary freezes and bonus eliminations make it difficult for most successful companies to motivate employees and maintain their loyalty. Voluntary benefits can play an important role in filling gaps and helping you maintain a competitive benefit package.

bi Borislow
Insurance

Borislow Insurance
One Griffin Brook Drive
Methuen, MA 01844
Website: www.borislow.com

Phone: (978) 689-8200
Fax: (978) 794-1098
Email: colleen@borislow.com



Improving Prescription Medication Compliance for the Chronically Ill Can Cut Back Unnecessary Health Care Spending

Poor adherence to prescribed medication regimens increases the incidence of hospitalization, especially among individuals with chronic medical conditions, and consequently adds significantly to health care costs. This failure—along with less-than-optimal prescribing, drug administration and diagnoses—creates as much as \$290 billion each year in avoidable health care spending...or 13% of total health care expenses. A research brief from the New England Healthcare Institute reports these figures, along with suggested interventions to stem such unnecessary spending. Employers can consider these suggested interventions in designing prescription benefit programs, to help employees improve compliance with their prescription drug regimens.

Poor medication compliance includes behaviors such as failing to pick up or renew a prescription, not taking medications in the prescribed dosage level or at prescribed intervals, stopping a prescription before it has been completed, or abandoning a prescription regimen altogether. The report cites a number of barriers to medication compliance, including cost, side effects, difficulties in managing multiple prescriptions, forgetfulness, and a lack of understanding about the medical condition being treated or the urgency for treatment when a medical condition is asymptomatic.

Individuals with chronic conditions generally demonstrate lower adherence to a prescribed medication course of treatment than those with acute conditions, and adherence drops even lower with the passage of time. And, among chronic patients, those not following a prescribed drug regimen have higher hospitalization rates and higher mortality rates. Higher hospitalization rates lead, of course, to increased medical costs.

Because individuals with chronic conditions seem to do worse following prescription drug treatment regimens, one strategy for employers to use to increase compliance is disease management and condition management programs. These programs target individuals with chronic conditions and actively work with them to help them manage their diseases. Services can include monitoring prescription drug compliance, sending refill reminders and educating members on their chronic condition, thus addressing some of the reasons cited above for prescription noncompliance.

The research brief suggests three broad strategies to improve prescription medication compliance—

- Reduce the cost barriers to obtaining prescribed medications. Out-of-pocket prescription drug costs can, of course, influence the extent to which a patient follows a prescribed course of treatment, with higher costs leading to

lower compliance. A prescription benefit plan's employee copayment requirements determine an employee's out-of-pocket costs. Designing the copayment requirement to encourage filling appropriate prescriptions is key. The research brief cites "value-based insurance design (VBID)" plans with lower employee contributions and out-of-pocket costs for cost-effective medications for chronic conditions, saying this "can be linked to improved medication possession ratios."

- Address the behaviors and preferences of individual patients. Employees will vary across a wide spectrum as to how well they understand their medical condition, how engaged they are in their overall health care management, how willing they are to ask questions of physicians and pharmacists, etc. Reaching employees with a chronic condition on an individual basis—such as can be achieved through the personal contact that is part of a disease or condition management program—can involve them more intimately with their course of treatment and enhance the probability of prescription medication compliance.
- Design the right medication regimen for the individual patient. According to the research brief, getting the drug regimen right in the first place could dramatically reduce prescription medication noncompliance. Poor prescribing is a particular problem for individuals taking multiple medications. Again, disease and condition management programs can help. The individual contact such programs feature helps to ensure that the patient's medications are not contra-indicated, that the patient understands the prescribing instructions, and that the patient is, indeed, staying on top of the regimen.

In considering prescription benefit plan strategy and design, keeping these ideas in mind can help to promote appropriate employee use of prescription drugs, and with it improved health outcomes and more managed health care costs.



Use Voluntary Benefits to Offset Negative Reaction to Benefits Cutbacks

All successful companies face the challenge of attracting and retaining the best employees. Even in an economy with widespread workforce reductions and a job market that favors employers, salary freezes, bonus eliminations and benefits cutbacks make it more difficult to motivate employees and maintain their loyalty. Though disgruntled employees may stay on board for as long as tough economic times persist, when conditions improve they'll begin to get their resumes in order and explore other opportunities. That's one reason why it's important to maintain a competitive benefits package, even during times when employees aren't actively looking for new employment.

However, with employers feeling the economic pinch as much as employees, funding a comprehensive benefits program might not be within all companies' budgets. When the economy forces benefits cutbacks, voluntary benefits can play an important role in filling gaps and helping a company maintain competitive benefits offerings.

Suppose, for example, rising health plan costs force you to choose between allocating limited benefits budget dollars to the health and dental plans along with a significant cost increase to employees, or directing all of these dollars to the health plan and eliminating the dental plan. A voluntary benefits program gives you another option: Continuing to offer employees access to a dental plan, but on a voluntary basis. Employees will pay the full premium, but at a discounted rate since the plan is offered on a group basis. They also have the convenience of payroll deduction, and the option to pay premiums pre-tax, a money-saving measure that would not be available to them if they'd had to purchase the coverage

on their own. The group pricing and tax-savings potential give employees access to benefits coverage that they otherwise may not have been able to afford.

Whether the pre-tax savings opportunity is available will depend on the type of voluntary benefit-for example, while dental, vision and supplemental medical premiums can be paid for with pre-tax dollars, certain types of life insurance and products like group auto insurance, group homeowners insurance and group legal cannot. But even when pre-tax payment is not available, employees will likely gain substantial savings from the discounts of group purchasing.

Along with the types of benefits mentioned above-dental, vision and supplemental medical, and group auto insurance, group homeowner's insurance and group legal-common voluntary benefits offerings include supplemental life insurance, disability insurance, and financial planning.

In addition to filling gaps in coverage, voluntary benefits also are a great way to be responsive to the varying needs of today's diverse workforce, and enable your company to offer employees access to an array of benefits that few employers would be able to finance on their own.

Since it's important to offer voluntary benefits that are most likely to be well-received by employees, look both at what coverage gaps exist in your company's core benefits program, and at employee demographics to determine which voluntary benefits offerings are most appropriate. Employee focus groups and employee surveys also can be useful information-gathering tools in selecting the voluntary benefits that would be the best fit for your workplace.

continued from page 1...HSA-Linked Consumer Driven Health Plans Are Hotter than Ever The Basics of HSA Reporting and Record Keeping

ing their health care plans with CDHPs. About 17 percent of surveyed employers have already made the switch, and experts say that number will increase in the coming year.

If you participate in a high deductible health plan (HDHP), you have the opportunity to take advantage of a federal income tax break by saving and paying for health care expenses through a Health Savings Account (HSA). Contributions you make to your HSA are deductible from your gross income, earnings on your HSA funds grow tax-free, and withdrawals used to pay for qualified medical expenses are tax-free.

HSAs may be established by employers for their employees, or by individuals outside of an employer-based plan. Regardless of whether your HSA is through your employer or established individually, you will be responsible for some reporting and record keeping requirements. These tasks are not extensive or burdensome, but must be followed so that you receive the tax advantages that the HSA offers.

Reporting HSA contributions. IRS Form 8889 is the key reporting vehicle for HSAs. Form 8889 is used to report HSA contributions, figure your HSA deduction, and report any HSA distributions. Contributions you make, and those made by anyone else on your behalf, including contributions made by your employer, must be reported. Employer contributions will be shown in Box 12 of your W-2, and will be coded with a "W." You also will receive a Form 5498-SA from the HSA trustee, which will show the amount contributed to your HSA during the year, from all sources. You must file a Form 8889 with your federal income tax return if, during the taxable year, contributions were made to your HSA, you received distributions from your HSA, or you acquired an interest in an HSA due to the death of an HSA account beneficiary.

Figuring your HSA deduction. Form 8889 instructions walk you through the process of calculating the deduction allowed for HSA contributions. The amount of your

continued on page 4

continued from page 3...HSA-Linked Consumer Driven Health Plans Are Hotter than Ever
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deduction is limited to the IRS maximum (up to \$3,000 individual/\$5,950 family for 2009), and is reduced by any HSA contributions made by your employer. You enter the deductible amount as an adjustment to your gross income on your federal income tax return. If both you and your spouse have an HSA, IRS Publication 969 explains how to handle the reporting for this situation. You also use Form 8889 to calculate whether excess contributions were made to your HSA. Excess contributions receive no tax preference and generally are subject to a 6% excise tax (unless timely withdrawn). Excess contributions, if made by your employer and not included in Box 1 of your W-2, should be reported as "Other income" on your federal income tax return.

Reporting HSA distributions. The HSA trustee reports distributions on IRS Form 1099-SA. HSA distributions used to pay for qualified medical expenses are free from tax. However, you still must report these on Form 8889. Distributions used for something other than qualified medical expenses are taxable, and subject to a 10% additional tax. Report taxable HSA distributions as "Other income" on your federal income tax return. Use Form 8889 to calculate the additional 10% tax, and report this in the "Other tax" section of your federal income tax return.

HSA Recordkeeping. According to IRS Publication 969, HSA accountholders must keep records sufficient to show that—

- HSA distributions were used to pay for or reimburse qualified medical expenses;
- the qualified medical expenses paid from the HSA were not paid for or reimbursed from another source; and
- the qualified medical expenses paid from the HSA were not itemized as a medical deduction in any previous year.

You should retain the paperwork verifying you have met these requirements, however, do not file the paperwork along with your federal income tax return.

State Tax Reporting/Record Keeping Requirements. These will vary by state. Review the instructions on your state income tax return, or check with your tax preparer.

Compliance with these reporting and record keeping requirements will help ensure your HSA provides the intended tax benefits.



Borislow Insurance
One Griffin Brook Drive
Methuen, MA 01844
Website: www.borislow.com

Phone: (978) 689-8200
Fax: (978) 794-1098
Email: colleen@borislow.com