

CONSUMER-DIRECTED HEALTH PROGRAMS (CDHPs)

Guide For Employers



Consumer-Directed Health Programs (CDHP) are the next generation of managed health care plans. CDHPs take an active approach to engaging members in health care spending and health management, and ultimately support a healthier workforce and better management of health plan costs.

Employers can choose to introduce CDHP plans as a full replacement to the existing health benefits program, or can offer CDHP options alongside other managed care options, such as a PPO. Incentives can be designed to encourage members to participate and better manage their health.

FlexSave of America provides a comprehensive selection of services that enables employers to tailor programs that best fit their corporate objectives and workforce needs.

Key components of a successful CDHP plan include:

FSA's

HRA's

HSA's





HRA's

The ever-rising cost of healthcare is a major concern for most employers. An HRA plan is usually coupled with a high-deductible healthcare plan and allows employers the ability to enhance their employee benefit package while still achieving their goals of lowering health insurance costs or maintaining costs at current levels.

Health Reimbursement Arrangement – What is it?

Sometimes called defined contribution, personal care accounts, or healthcare accounts, Health Reimbursement Arrangements, or HRA's are a benefit plan funded by the employer that reimburses employee's for qualified medical expenses. An HRA may reimburse any or all of the same expenses as a Section 125 Flexible Spending Account (FSA), as well as individual insurance premiums, and reimbursements are tax-free. However, unlike an FSA, only employers can contribute to an HRA.

The most common use of an HRA is in combination with a High Deductible Health Plan(HDHP), which results in lower health insurance premiums for the employer . Contributions are also tax-deductible. The money saved on premiums is then used to fund an HRA for each employee participant and therefore help cushion the effect of the higher out-of-pocket costs they will likely incur.

What benefits can an employer include in an HRA plan?

Medical expenses not covered by insurance

Typical expenses include insurance co-pays and deductibles, eye exams, eyeglasses, eye surgery, contact lenses and solutions, dental visits, orthodontic care, medical examinations, mental health care, chiropractic services and prescriptions drugs.

Insurance premiums

Health insurance provided by the employer, individually-owned policy premiums, or long term care insurance premiums may be paid from the HRA plan



Plan Design Flexibility

One of the best attributes of an HRA, is the flexibility it provides to an employer in designing the plan.

Limits can be set on types of services reimbursed by an HRA from a specific group of expenses to all eligible medical expenses. Amounts contributed to an HRA can be in a lump sum or in increments throughout the year. This is in contrast to a Section 125 Medical FSA where the employer can be liable for the full amount on the first day of the plan.

Also, unlike FSA's, the "use-it-or-lose-it" rule does not apply to the HRA, allowing unused funds to be carried forward, contingent upon the employer's plan design. The employer can choose to carry over unused HRA funds to the next plan year, or have all or a portion of the unused HRA funds forfeited back to them (the employer) at the end of the year.

How Does An HRA Work?

- Only the employer may fund the HRA
- An employer establishes an HRA by adopting a formal plan distributing a Summary Plan Descriptions (SPD) to all eligible employees. The SPD describes, among other things the amount of money available in each employee's personal account for the coverage period. As eligible expenses are submitted, the employee's personal account is reduced and paid to them on a non-taxable basis.
- When you establish an HRA and FSA together, you'll determine which account money is drawn from first.

What Happens When an Individual Incurs an Expense?

- The participating provider will submit a claim for processing
- If any applicable deductible hasn't been met, an Explanation of Benefits will be sent to both the provider and member with a balance due from the member.
- Debit card users can pay with their debit card and the amount is automatically deducted from their HRA, up to the amount available in the HRA.
- If the account isn't sufficiently funded to pay the claim, the member is responsible for the balance of the bill.



HRA Plan Design Options

As mentioned previously, Plan design options are very flexible. There are many options for an employer to consider, but the four most popular options are:

Bridge

The Bridge plan complements a higher-deductible insurance product. It pays only for deductible items covered by insurance and provides a bridge between out-of-pocket expense and insurance coverage.

Comprehensive

The comprehensive plan pays all medical expenses not covered by insurance. These expenses include, but are not limited to, dental, vision, chiropractic services, co-pays, deductibles, and insurance premiums. This plan could be coupled with a higher-deductible or limited coverage insurance arrangement or as an additional employee benefit.

Limited

A limited HRA covers only a group of expenses such as dental or vision. It can also be restricted to a single medical expense such as prescriptions.

Insurance Only

The insurance only plan allows employees to pay for employer-provided insurance coverage or individually owned policies for health, disability, or long-term care insurance.

It's easy and convenient to provide all benefits through one delivery system, and keep administration to a minimum.

Employer Advantages

- **Tax Savings**
 - Contributions made by employers are made with pre-tax dollars, which lowers FICA taxes.
 - Administrative costs are tax deductible and can be paid by you, your employees, or a combination of employee/employer dollars.
- **Lower Health Insurance Premiums**
 - By combining a higher-deductible insurance plan with an HRA plan, you can cut the cost of providing healthcare benefits to your employees.
- **Better cash-flow management**
 - Keep more money up front, contributing funds only as employees accrue expenses.
- **Control and Flexibility**
 - HRAs allow you as an employer to retain control of funds and decide what type of expenses will be reimbursed, how much to contribute and also whether the HRA funds will carry over from year to year or be forfeited back to the employer.
- **Choice with HRAs**
 - There are no restrictions on the type of health plan that can be paired with an HRA, so employers are free to choose the perfect plan for the employees.
- **Can be combined with a Flexible Spending Account (FSA).**
- **Retirement retiree benefit costs could be capped or reduced.**

Employee Advantages

- Lower taxes and higher disposable income
 - The reimbursement of qualified expenses to an employee is not taxed so the employee saves on Federal, State and Local (where applicable) and FICA taxes.

How The Employer Saves

Example of How the Employer Saves

ABC company has 50 employees and a current health plan with a \$250 annual deductible. ABC company switches to a higher deductible of \$2,500 and sets up a \$2,000 annual HRA fund per employee. The higher deductible reduces ABC's total annual premium costs by \$131,400. If 30% of the HRA fund amounts provided are actually utilized, ABC company's Net Annual Savings will be \$101,400

ABC Company Has 50 Employees	Old Plan	New Plan w/ HRA & HDHP	Savings
Deductible	\$250	\$2,500	
Mo. Premium/Employee	\$584	\$365	
Annual Premium – All Employees (\$584 * 50 empl * 12 mo)	\$350,400	\$219,000	\$131,400
HRA Fund Amount/Employee		2,000	
100% HRA Utilization (\$2,000*50)		\$100,000	
Anticipated HRA Utilization Rt = 30%		\$30,000	
Net Annual Employer Est. Savings			\$101,400*

Funding the Account

Only the employer can fund the HRA. Employers may also adjust contributions for seniority or income, limit the amount that may be rolled over, and fully fund the account in a trust or set it up as a "promise to pay". There's no minimum contribution amount for an employer. Flexible Spending Account (FSA) forfeitures cannot fund the HRA.

You start by pre-funding your account with 5 percent (is this true for Flex Save????) of your total HRA contribution. While the full HRA allotment is available to employees at the beginning of the year, you only pay funds as your employees accrue expenses – replenishing your account on a pre-tax basis to maintain your 5 percent prefund balance. Once your employees have exhausted their individual HRA funds, they're responsible for medical costs until they reach their out-of-pocket maximum.

More Control Over Your Funds

Because employees don't contribute to the HRA, you retain control over the account. All funds belong to you, not your employees, so the account doesn't follow them when they change jobs – giving you the option to reclaim those funds for another use or reallocate them back into your overall HRA contribution.

*Example is theoretical. Actual savings will vary.



Guidelines

An HRA can cover current employees, allow former employees to participate and permit retirees continued access to unused account funds.

Who Can Sponsor an HRA?

Regular corporations, partnerships, S-corporations, Limited Liability companies (LLCs), sole proprietors, professional corporations, and not-for-profits can all save money on taxes by establishing an HRA plan.

Are There Restrictions?

While regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), or individuals owning more than 2% of an S corporation from participating in the HRA plan, they may still sponsor a plan and benefit from the savings on payroll taxes. "Employee" shareholders of regular corporations may also participate.

The employer group must have at least 2 eligible employees in order to enroll.

Can it be combined with FSA's?

The HRA can be combined with an FSA. The employer must define which account funds will be drawn from first. Typically, employers require that funds be drawn from the FSA first.

Why maintain a section 125 flexible spending account (FSA) if an HRA is created?

An FSA and an HRA both reimburse employees for eligible medical expenses, so why use both? It's simple – more employee choices and flexibility.

For a full listing of Allowed and Disallowed Medical expenses, please go to www.flexsaveamerica.com

Allowed Medical Expenses

In general, eligible expenses must be for the diagnosis, treatment or prevention of disease or for the amounts you paid for transportation to get medical care. Below is a partial listing of some of the most common allowed expenses.

Contact Lenses, Acupuncture, Dental Treatment, Eye Glasses, Hospital Bills, Insulin Treatments, Lab Tests, Lasik, Prescription Medicines, Hearing Aids, Dermatologist, Vaccinations, Eligible Over the Counter items, etc.

Disallowed Medical Expenses

Disallowed expenses include Cosmetic surgery expenses, Diaper service, Hair transplant, Health Club Dues, Supplements, Vitamins, etc.



The FlexSave Difference

• POS access to funds with the FlexCard	• Customized web portal (with employer logo branding)	• Approximate 80% auto-adjudication rate of debit card claims	• Multiple plan designs
• 24 hour claims processing time	• Online receipt upload	• Online Enrollment	• Online Claim Filing
• Free direct deposit	• No Phone Prompts	• Talk to a specialist	• Multiple reimbursement options

About FlexSave

Our company offers a full service, turn-key Consumer-Directed Health Plan solution that gets you a positive return on your investment. Our services include employee communications, enrollment assistance and processing, employee account management (claims adjudication, debit card processing, customer service) as well as reporting and compliance support. Our services are designed to eliminate the administrative burden associated with sponsoring consumer-directed health plans, reduce the associated administrative costs and help you focus more on your organizations key HR initiatives.

Getting Started

You can start an HRA at any time. Is this true?????????????

To set up an HRA Plan, simply visit flexsaveamerica.com/quoterequest.asp to fill out a quote request. One of our representatives will contact you to design a custom HRA Plan and walk you through the process of implementing your HRA.

For more information or to be put in touch with a benefit consultant, call 888-231-1363 or email bfaber@flexsaveamerica.com for more design options and money saving strategies.