

5. HEALTH SAVINGS ACCOUNTS AND THEIR ADVANTAGES

Clients who are attracted to the premium savings of a ConnectiCare SOLO High-Deductible Health Plan (HDHP) may wish to combine it with a Health Savings Account (HSA), which offers a pre-tax solution for meeting the plan deductible.

Note: HSAs can only be combined with a ConnectiCare SOLO HDHP. Our ConnectiCare SOLO POS plans are not HSA-compatible.

Although your clients are not required to open an HSA, the arrangement does offer important advantages:

- The HSA is a tax-favored savings account that can be used to pay for medical services that are subject to the ConnectiCare SOLO plan deductible. (See page 99 for the maximum annual amount that individuals are allowed to contribute.)
- HSA funds can be used to pay for a variety of other qualified medical expenses that are not covered by the ConnectiCare SOLO plan. These expenses include some over-the-counter drugs, eyeglasses, dental fees, prescriptions and other medical supplies. For a complete list of qualified medical expenses, go to www.1hsa.com and scroll down to “About Health Savings Accounts.” Click “IRS Guidelines” and “Eligible Medical Expenses.”
- All unused dollars in the account can be carried over from year to year.

More than 11.4 million Americans are now enrolled in HDHP/HSA products, according to a January 2011 census from America’s Health Insurance Plans (AHIP). In the individual market alone, 2.4 million covered lives are enrolled in HDHP/HSA products, a four-fold increase over the 550,000 covered lives in March 2005.

PLEASE SEE “IMPORTANT NOTICE” ON THE INSIDE BACK COVER.

Explaining an HSA

HSAs have a number of unique features, but they can also be confusing for some people. Make sure your clients understand the following key points before choosing an HSA:

- **They should not open the HSA fund until their application to a ConnectiCare SOLO HDHP has been approved.**
- Once they have been approved for ConnectiCare SOLO membership, your clients should open the HSA fund as soon as possible. **In order to pay for medical expenses with the HSA, the account must be open before the date the claim is incurred.**
- **Your clients should open the HSA even if they don’t intend to fund it right away.** They’ll have until April 15th of the following year to fund up to the maximum amount set by the IRS.
- **Your clients will fund the HSA—and they will own it.** The HSA is a personal savings account that earns tax-free interest. If your

clients ever switch health plans or HSA administrators, they take the HSA account with them.

- **Contributions to the account may now exceed the plan deductible.** The maximum annual amount you are allowed to contribute in 2012 is \$3,100 for self-only coverage and \$6,250 for family coverage, as set by the IRS.
- **There are tax benefits.** Self-employed individuals may claim their HSA contributions as a tax deduction. Individuals who work for an employer may be able to deposit money into their HSA on a pre-tax basis. Please consult with your tax advisor on the tax benefits of an HSA account.
- **Your clients can carry over their funds.** Unused dollars can be saved and carried over year after year. In doing so, these dollars are invested and earn tax-deferred interest.

The ConnectiCare HSA Solution



ConnectiCare has selected one of the nation's leading HSA administrators that can manage, administer and service your clients' HSA funds. As a leading fiduciary in the HSA industry, First HSA has worked with members of Congress in the development of today's HSA rules.

FirstHSA pays a sliding commission scale to ConnectiCare brokers for each new account opened.

Opening a *First HSA* account is easy. Go to connecticare.com/solo and click on “helpful facts & forms”, then “forms” and you’ll find *First HSA*’s online enrollment application.

First HSA provides a full range of administrative and technical services for its HSA customers, including:

- Flexible and convenient contribution options
- Free account setup and monthly account administration for members of a ConnectiCare SOLO High-Deductible Health Plan with a First HSA account
- An option for a free VISA payment card
- Automated telephone banking 24-hours a day, seven days a week
- E-statements or quarterly account statements that detail contributions, withdrawals, interest earned and ending balance
- Year-end tax statements
- Free internet access to account information at www.1hsa.com
- Periodic newsletter
- Free integrated investment options through Charles Schwab
- Competitive interest rates
- 24/7 live customer service

For more information on First HSA, call toll-free 1-888-769-8696 or go to www.1hsa.com.

Common HSA Questions and Answers

1. What is an HSA?

A Health Savings Account (HSA) is a tax-favored savings account established to pay for qualified medical expenses. HSA account holders enroll in a qualifying High-Deductible Health Plan (HDHP) and contribute funds to the HSA that can be used to cover qualified medical expenses, including those subject to the health plan deductible. Unused dollars earn tax-deferred interest and can be rolled over from year to year.

2. Who is eligible to open an HSA?

Once individuals are accepted into a qualified HDHP, they can open an HSA, subject to IRS rules and restrictions.

3. Who is ineligible to open an HSA?

Individuals covered by another health plan, such as someone covered by a spouse's plan for primary coverage, and those individuals covered by Medicare and Medicaid. Other IRS rules and restrictions may apply.

4. How and when are funds deposited?

The individual can make deposits at anytime until April 15th of the following year, for prior-year contributions. Deposits can be made by check, electronic funds transfer (EFT), direct deposit or with Automatic Clearing House (ACH) transfer. (ACH transfer is the U.S. Federal Reserve system for electronic processing of checks and inter-bank transactions.)

5. How much can be contributed to the HSA?

The annual maximum HSA contribution amount is subject to limits set by the IRS. The 2012 contribution levels are set at a maximum of \$3,100 for an individual and \$6,250 under qualifying circumstances for a family covered by a HDHP.

6. What can HSA funds be used for?

HSAs were established to provide funding for eligible medical expenses. Funds withdrawn for any purpose other than distributions for eligible expenses are taxable and subject to a 20%-penalty.

HSA SAVINGS EXAMPLES

The following illustrations show how an individual and a family, rolling over unused funds, might use a typical HSA over a three-year period. All cost information below is for example purposes only and does not necessarily reflect actual charges, your plan rules or HSA account rules. Administrative fees may be charged on account balances. The illustrations are based on hypothetical health plans.



Example #1

Mary has a \$1,500 High-Deductible Health Plan and an HSA that she contributes \$1,500 to annually.

YEAR 1	\$1,500	HSA contribution
	- \$300	Medical expenses applied to the deductible and paid by the HSA
	<u>\$1,200</u>	HSA balance to be rolled over into year 2

In year 1, Mary sees her physician in his office several times for a minor medical problem and has \$300 applied to the deductible. She uses \$300 from her HSA, leaving a balance of \$1,200 in unused HSA funds that will be rolled over into year 2.

YEAR 2	\$1,200	HSA rollover from year 1
	+ \$1,500	Contribution for year 2
	<u>\$2,700</u>	HSA balance for year 2
	- \$1,500	Medical expenses applied to the deductible and paid by the HSA
	- \$225	Prescription coinsurance amount paid by HSA
	<u>\$975</u>	HSA balance
	- \$700	Medical expenses not covered by plan but paid by HSA
	<u>\$275</u>	HSA balance to be rolled over into year 3

In year 2, the \$1,200 rollover is combined with the year-2 total annual contribution of \$1,500 for a balance of \$2,700. During the year Mary receives covered medical services that total \$1,500, and prescription drug coinsurance costs of \$225. Both of these amounts apply to the deductible and are reimbursed from the HSA. Mary also incurs \$700 in medical costs for over-the-counter medications and contact lenses, which are not covered by her health plan but are considered qualified HSA expenses. These expenses are also reimbursed from her HSA, leaving a balance of \$275 to be rolled over to year 3.

YEAR 3	\$275	HSA rollover from year 2
	+ \$1,500	Contribution for year 3
	<u>\$1,775</u>	HSA balance for year 3

In year 3, the year 2 rollover of \$275 is added to the year 3 total annual contribution of \$1,500 for a starting balance of \$1,775.



Example #2

The next illustration is a family plan. Bob, his wife Jane, and their two children have a \$5,000 High-Deductible Health Plan and contribute \$4,000 annually to their HSA.

YEAR 1	\$4,000	HSA contribution
	-\$1,000	Medical expenses applied to the deductible and paid by the HSA
	<u>\$3,000</u>	HSA balance to be rolled over into year 2

In year 1, the family has \$1,000 in expenses applied to the deductible for an emergency room visit. The expenses are reimbursed from the HSA, leaving a balance of \$3,000 to be rolled over into year 2.

YEAR 2	\$3,000	HSA rollover from year 1
	+\$4,000	Contribution for year 2
	<u>\$7,000</u>	HSA balance for year 2
	-\$5,000	Medical expenses applied to the deductible and paid by the HSA
	-\$225	Prescription coinsurance amount paid by HSA
	<u>\$1,775</u>	HSA balance
	-\$1,000	Medical expenses not covered by plan but paid by HSA
	<u>\$775</u>	HSA balance to be rolled over into year 3

In year 2, the \$3,000 in rollover funds is combined with the year-2 total annual contribution of \$4,000 for an HSA balance of \$7,000. The family incurs \$5,000 for an elective surgical procedure, and the amount is applied to the deductible. In addition, the family has prescriptions that result in coinsurance costs of \$225. The family also incurs \$1,000 in other medical expenses not covered by the health plan but considered qualified HSA expenses. Bob and Jane use the HSA account for reimbursement of the surgery, prescription coinsurance and other medical expenses, leaving \$775 to be rolled over into year 3.

YEAR 3	\$775	HSA rollover from year 2
	+\$4,000	Contribution for year 3
	<u>\$4,775</u>	HSA balance for year 3

In year 3, the year 2 rollover of \$775 is added to the year 3 total annual contribution of \$4,000 for a total beginning HSA balance of \$4,775.

DENTAL PLANS

Plus Network: \$25 Deductible, 100%/0%/0%, Unlimited Max., No Ortho.

Dental Plan Benefits Summary for ConnectiCare SOLO Subscribers

Participating Provider (In-Network Level Of Benefits)	Non-Participating Provider (Out-of-Network Level Of Benefits)*	Care Category	Procedure Code	Description By Illustration, Not By Limitation
100%	100%	Diagnostic	00100-00199 00331-00999	Oral examination, diagnostic casts.
100%	100%	X-Rays	00200-00330	Complete mouth x-rays, periapical x-rays, bitewing x-rays, panoramic x-rays.
100%	100%	Preventive	01000-01999	Prophylaxis, fluoride applications, space maintainers.
100%	100%	Restorative**	02000-02399	The treatment of tooth decay by the use of amalgam and/or composite restorations.
0%	0%	Restorative-Crowns**	2400-02999	The use of gold, semiprecious, or nonprecious metals to restore a tooth or teeth which cannot be restored with amalgam or composite restorations.
0%	0%	Endodontics**	3000-03999	The treatment of the diseases of the nerve of the tooth.
0%	0%	Periodontics**	04000-04999	The treatment of the supporting tissues of the teeth, gums, and underlying bone, with either surgical or non surgical procedures (where applicable).
0%	0%	Prosthetics – Removable**	05000-05399 05600-05899	The replacement of missing teeth by the use of a removable appliance.
0%	0%	Prosthetics - Adjustment**	05400-05799	The repair or modification of existing removable and/or fixed appliances so that they can continue to be serviceable.
0%	0%	Prosthetics – Fixed, Implants**	06000-06999	The use of gold, semiprecious, precious metal or implant to replace a missing tooth or teeth, which cannot otherwise be replaced with a removable appliance.
0%	0%	Extractions**	07000-07219 07250-07999	The extraction, either simple or surgical, of either a single tooth or multiple teeth, the shaping of bone ridges, the removal of a tooth end abscess, etc.
0%	0%	Bony Impactions**	7220-07249	The surgical removal of teeth partially or fully covered by bone.
0%	0%	Orthodontics**	08000-08999	The straightening of tee th for dental health reasons.
0%	0%	General Services**	09000-09999	All other adjunctive general services as coded in the American Dental Association (ADA) Current Dental Terminology, which are not included in the specific categories listed, that are covered services.

Deductibles and Maximums

Participating Provider (In-Network Level Of Benefits)	Non-Participating Provider (Out-of-Network Level Of Benefits)*	
Unlimited	Unlimited	Annual Maximum Per Individual
\$25.00	\$25.00	Annual Deductible Per Individual
\$0.00	\$0.00	Orthodontic Lifetime Maximum Per Individual

Benefit year effective date: 2012

As used herein, “Annual” means the benefit year in which dental care services are performed.

* For those subscribers electing to be served by a non-participating provider; submitted claims will be processed at any time during the benefit year and reimbursements will be made at the level of coverage listed under “Non-Participating Provider (Out-Of-Network Level of Benefits)” and in amounts up to the schedule of allowances paid to participating provider. Payments will be limited to the individual annual maximum listed above or that portion of the individual annual maximum, which may be remaining if care had previously been provided during the benefit year by a participating provider, subject to the plan’s deductibles and standard exclusions and limitations.

** Care Category (ies) of coverage the deductible applies to.