

HDHP/HSA Option 2010 Update



HDHP and HSA

Background

- HDHP = High Deductible Health Plan
- HSA = Health Savings Account
- The HDHP/HSA option provides a medical plan choice **in addition to the:**
 - ❑ Standard and Choice PPO Plans and the Choice Plus POS Plan for non-bargaining employees,
 - ❑ BU BCBSF-750 and BU BCBSF-1500 PPO Plans for bargaining unit employees, and
 - ❑ HMO options in Florida

HDHP and HSA

The advantages

- ***A way to set aside tax-free money to help pay out-of-pocket medical expenses now and into retirement***
- ***Long-term investment opportunities***
- ***Portability – you can take your HSA with you when you leave the company***
- ***Company seed money if you open an HSA***
- Protection against catastrophic medical expenses with 100% coverage for preventive care under the HDHP

How the HDHP works

Eligibility

All regular, full-time non-bargaining and bargaining unit employees (and retirees) and their eligible dependents under age 65, who are not:

- ❑ Covered by any health plan that is not a HDHP,
- ❑ Claimed as a tax-dependent on someone else's tax return, or
- ❑ Participating in or eligible for benefits from a health care reimbursement account, including a spouse's.

How the HDHP works

Coverage

- In- and out-of-network coverage and the same BCBS network of providers as the other PPO plans
- Preventive care services covered at 100%
- Deductible applies to all other covered services, including:
 - ❑ Office and emergency room visits,
 - ❑ Hospitalizations,
 - ❑ Mental health care, and
 - ❑ Prescription drugs
- **NEW FOR 2010: After the deductible is met, eligible services are covered at 100%**

How the HDHP works

Plan design

Preventive care	Covered at 100%
<u>All</u> other covered medical services except preventive care	Deductible applies; after deductible is met, eligible charges are covered at 100%
Annual deductible	\$2,500/employee only \$5,000/employee plus one dependent or family
Lifetime plan maximum	\$2,000,000 per person

How the HDHP works

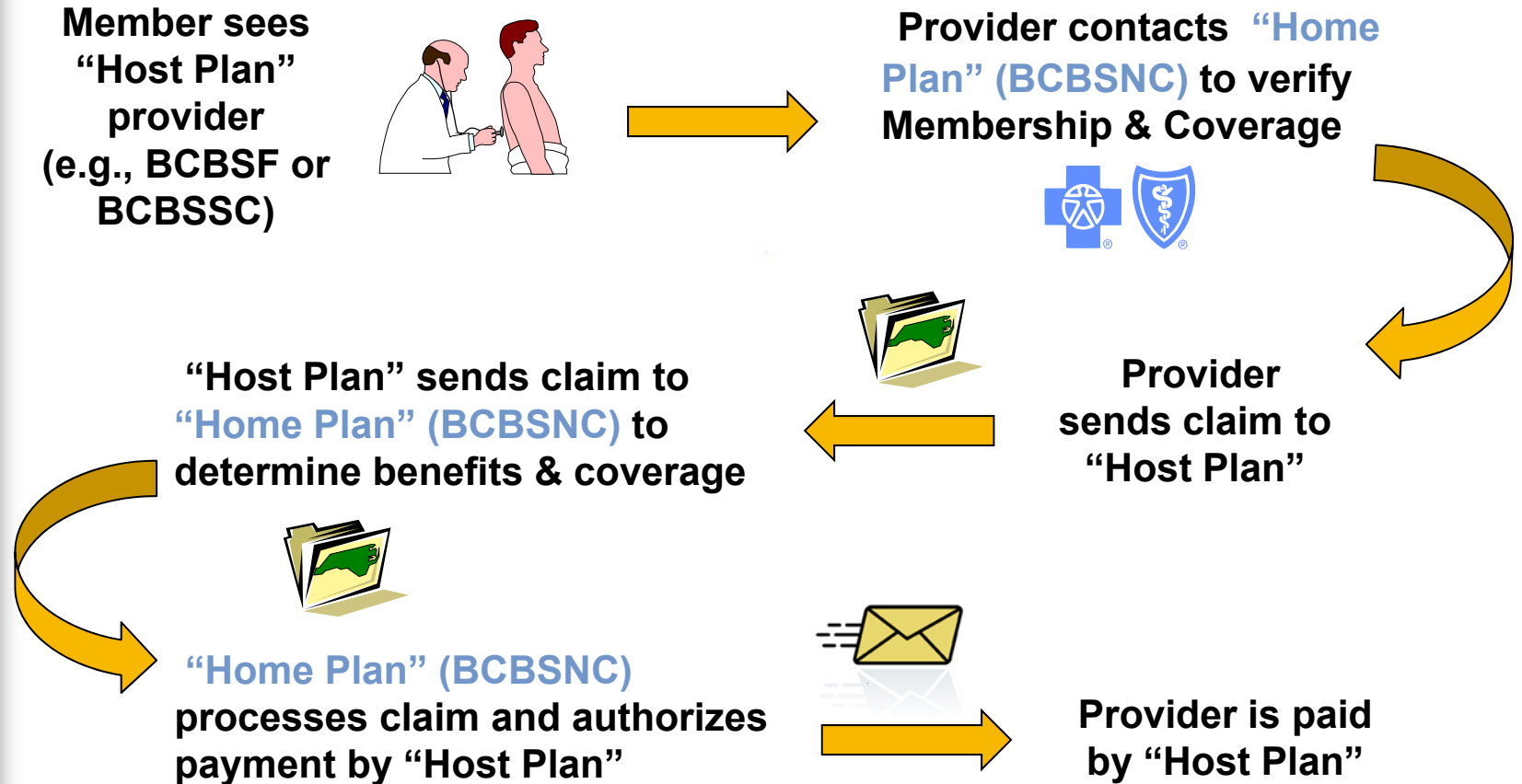
Plan design

Important!

- If your coverage includes other family members, the family deductible of \$5,000 ***must be met*** before plan benefits are payable for any covered person
- ***Prior plan approval is required*** for certain procedures to be covered, in- or out-of-network – make sure you or your health care provider obtains the approval

How the HDHP works

For members who live outside NC



What is an HSA?

- A tax-advantaged account - often called a “medical IRA” – which is funded by:
 - ❑ Company contribution (“seed money”)*
plus
 - ❑ Optional personal contributions from you or others, up to annual limits
- To open an HSA, you must be covered by an HDHP

* The amount of company seed money, if any, is subject to annual review

Why use an HSA?

- Obtain a triple tax advantage:
 - ❑ Company and personal **contributions** are deposited tax-free
 - ❑ Interest and any investment **earnings** grow tax-free, year after year
 - ❑ HSA **distributions** for qualified medical expenses are tax-free
- Build a fund to pay medical expenses tax-free – today or any time in the future

How the HSA works

Company seed money

Employee only - \$500	Employee + one dependent or Family - \$1,000
\$250 initial deposit	\$500 initial deposit
\$10 each remaining pay period	\$20 each remaining pay period

100% immediate vesting in all amounts

How the HSA works

Other contributions and limits

- Optional pre-tax employee contributions
 - ❑ No minimum contribution per paycheck
 - ❑ Start or stop anytime

- Contributions from other sources are deductible on your tax return

- IRS contribution limits for 2010 from all sources (including seed money):
 - ❑ \$3,050 Employee only coverage
 - ❑ \$6,150 Employee + one dep or Family coverage

- Catch-up contributions for those ages 55 to 64: up to \$1,000

How the HSA works

Earnings on your checking and investment account balance

- Checking account interest: 0.1%
 - ❑ Accrues daily
 - ❑ Posted at the end of each month

- Investment account earnings
 - ❑ When HSA checking account balance is at least \$1,500, you may open an *investment account* and transfer a portion to available mutual funds

How the HSA works

Investing your account balance

- Choose among available mutual funds with varying risk/reward profiles:
 - ❑ Checking account balance must be at least \$1,500 following any transfer to your investment account
 - ❑ No minimum investment
 - ❑ Currently 20 investment fund choices
 - ❑ Fee of \$2.90 per month applies to use the HSA Solution investment platform. No additional transaction fees, loads or commissions apply.

How the HSA works

Qualified expenses

- Qualified expenses are eligible for tax-free distributions from your HSA and include:
 - ❑ Medical expenses covered, but not paid by the HDHP (e.g., deductibles, coinsurance)
 - ❑ Items and services not typically covered by a medical plan – see Publication 502 ([irs.gov](https://www.irs.gov)) for a detailed listing of qualified expenses

How the HSA works

Examples of qualified expenses

- ❑ Acupuncture
- ❑ Deductibles and coinsurance under your and your dependents' medical plans
- ❑ Dental treatment
- ❑ Eyeglasses, Lasik surgery
- ❑ Hearing aids
- ❑ Fertility treatments
- ❑ Medicare deductibles
- ❑ Mileage and travel expenses for medical care
- ❑ Nursing homes
- ❑ Orthodontia
- ❑ Orthopedic shoes
- ❑ Over-the-counter medications
- ❑ Vitamins (if prescribed)
- ❑ Smoking cessation and weight loss programs
- ❑ Premiums for Medicare, COBRA coverage and long-term care insurance

How the HSA works

Using your HSA checking account

- Pay with your HSA debit card or checkbook
 - ❑ HSA debit card works where qualified health care services can be purchased (pharmacies, doctors' offices, etc.)
 - ❑ HSA checkbook works anywhere; use it to pay your providers or reimburse yourself

You may also elect to pay your expenses out-of-pocket and let your HSA grow from year-to-year

How the HSA works

Tax treatment – contributions/earnings

Type of contribution or credit	Tax treatment when credited to HSA
Company seed money	Tax-free
Your personal contributions	Tax-free
Other contributions on your behalf	Tax deductible
Interest or investment earnings	Tax-free

How the HSA works

Tax treatment–distributions/withdrawals

Type of distribution or withdrawal	Tax treatment
Qualified medical expenses	Tax-free
Nonqualified expenses (age 65 and older, total disability or death)	Subject to income taxes
Nonqualified expenses (under age 65, unless total disability or death)	Subject to income taxes plus 10% penalty tax

How the HSA works

Tax treatment – distributions/withdrawals

Type of distribution or withdrawal	Tax treatment
Qualified medical expenses for dependents not enrolled in your plan	Tax-free
Any expenses for your domestic partner	Subject to income taxes plus 10% penalty tax

How the HSA works

More on taxes...

- You will receive IRS Forms 5498-SA and 1099-SA from BNY Mellon every year for tax reporting purposes

- ***Document your distributions!***
 - ❑ No documentation is required to obtain a tax-free distribution from your account
 - ❑ ***If you are audited by the IRS, you must be able to show that tax-free distributions from your HSA were for qualified medical expenses***
 - ❑ You may use your HSA funds for anything you choose, but distributions for nonqualified expenses are subject to income taxes (and possibly penalty taxes)

How the HSA works

Account fees and expenses

- \$15 one-time set-up fee
- \$3.50 monthly maintenance fee when your average balance for any month is \$1,000 or less (will not apply until the month after you establish your HSA)
- Insufficient balance/overdraft fees will apply

How the HSA works

Managing your account

- Easy online access at:
bcbsnc.com/members/progressenergy
 - ❑ Activate online access to your HSA
 - ❑ Log on to *My HSA Account*
- BNY Mellon HSA Solution Contact Center
 - ❑ Voice response system will be available 24/7
 - ❑ BNY Mellon representatives will be available weekdays from 8 am and 8 pm ET
- Monthly paper statements showing all account activity

How the HSA works

My HSA Account - online toolkit

- Secure online access to:
 - ❑ Summary of plan benefits and covered dependents
 - ❑ Review medical claims and expenses
 - ❑ Monitor HSA fund balances and transactions
 - ❑ Link transactions to health claims for tax reporting
 - ❑ Check investment account information
 - ❑ Order additional checks
 - ❑ And more...

What happens if...?

You leave the company

You take your HSA with you:

- If you maintain HDHP coverage through COBRA or another employer, you may
 - ❑ Continue contributing to your HSA (but company seed money will end), or
 - ❑ Roll over your HSA funds into your new employer's HSA

- If you are not covered by an HDHP, you are not permitted to make contributions to your HSA, but you may continue to manage your account and use it to pay for qualified medical expenses tax-free

What happens if...?

You retire

- If you are under age 65 and eligible for retiree medical coverage, you may:
 - ❑ Continue coverage in the HDHP,
 - ❑ Receive any available company seed money, and
 - ❑ Make personal contributions to your HSA (at age 65, you will have to choose another medical plan option)

- If you are age 65 or older, participation in the HDHP ends, but you may:
 - ❑ Continue to manage your HSA funds, and
 - ❑ Use your HSA to pay for qualified medical expenses, including Medicare premiums and expenses

What happens if...?

You stop participating in the HDHP

- No new contributions may be made (including personal contributions and company seed money)
- You may still manage any funds in your HSA
- You may still use your HSA to pay for qualified medical expenses tax-free, now or in the future
- You will receive a new checkbook and debit card and continue to receive monthly account statements
- Access to the online tools through *My HSA Account* will no longer be available

You must be covered by an HDHP to make HSA contributions.

What happens if...?

A balance remains upon your death

- If you are married, your spouse will become the owner of your HSA, unless you have named another beneficiary
 - ❑ Your spouse may use the funds to cover qualified expenses incurred by him or her, by eligible dependents, or by you before your death
- Funds that go to a beneficiary will be subject to income taxes
- If you are single and have named no beneficiary, your HSA will become part of your estate

Making your decision

- Take advantage of the resources:
 - ❑ *Your Guide to the HDHP and HSA Option* (available on *ProgressNet*)
 - ❑ Special edition of *ProgressLife*
 - ❑ *Choice Benefits and FlexPower Enrollment Booklets* (available on *ProgressNet* during enrollment)

- Review your plan options
 - ❑ HDHP/HSA
 - ❑ Standard and Choice PPO Plans and Choice Plus POS Plan for non-bargaining employees,
 - ❑ BU BCBSF-750 and BU BCBSF-1500 PPO Plans for bargaining unit employees,
 - ❑ HMO options in Florida

Making your decision

- Use the online medical plan modeling tool available during enrollment to estimate your *total out-of-pocket costs* for each plan, including:
 - ❑ Premium contributions,
 - ❑ Copays, deductibles and coinsurance, and
 - ❑ HSA contributions (including company seed money)
- Compare the results and choose the plan that best meets your needs

Wrap up

- The HDHP/HSA option provides medical coverage choice to meet varying needs and budgets
- If you have questions about any of the Progress Energy medical plans, you may:
 - ❑ Review the enrollment materials on *ProgressNet*, or
 - ❑ Contact the ESC by phone or email.