Health Insurance
“Cost Cutting”

Expenses

- What is one of if not the largest expense of many employers?
- Health insurance costs.
- CWPP™ advisors are well versed in the various ways to protect a client's money and one way to do that is by saving money on what many people see as a boring topic (health insurance).
- Boring or not, if you can save money with the topic we want to address it.

Health Reimbursement Accounts

- -- An account to reimburse medical expenses

  that are paid solely by the employer and are not funded by salary reduction or otherwise under a cafeteria (section 125) plan.
- -- An account to be used for medical expenses incurred by the employee, their spouses, and their dependents.
- -- An account from which an employer will reimburse up to a specified maximum dollar amount for a covered period, and can forward unused amounts for subsequent coverage periods if employer chooses.
- Most of the time HRAs are **unfunded until needed**.

HRA continued

- The HRA provides two primary levels of control.
- 1. The significant reduction in premiums with the purchase of a high deductible plan places an employer on a much kinder trend track.
- 2. Through the appropriate use of incentives, employers have a very realistic hope of reducing employees' utilization of health care by up to 30%.
- Under most employers' current insurance, there is no incentive for employees to make the cost of services used a serious consideration.
- The HRA corrects this situation. The real key to an **HRA is the motivation for behavioral change** in how and why health care services are accessed to gain the best cost advantage.

HRAs continued

- **Who can be covered?**

  -- Current employees, spouses, and dependents

  -- Former employees, spouses, and dependents

  -- Retirees, spouses, and dependents

  -- Spouses and dependents of deceased employees

  Employees can not fund HRAs (only the ER).
- **Who can't be covered?***

  -- Sole proprietors

  -- Partnerships

  -- 2% shareholders in S corporations

  -- LLC members (unless the LLC is treated as a C-Corporation for tax purposes)

HRA Bottom Line

- They can save ERs money by having a high deductible plan.
- They make EEs aware of the expenses of their health care when they have to ask for reimbursement from the ER.
- They can be unfunded until needed so the ER when implementing does not have to supercharge an HRA pool with big dollars.
- EEs do not get to keep any money in an HRA account. It stays with the ER.

Prescription Drugs

- The costs of drugs is out of control in this country.
- Drug costs are so high today that many senior citizens can not pay for all their needed drugs.
- For ERs trying to provide health insurance to EEs, the type of drug coverage can have a huge impact on the cost of a plan.

Drug Carve Out Plan

- If your employees are relatively young and healthy, they can expect to realize a 10% – 20% savings with a fully insured ‘Carve-Out’ program and possibly over 50% savings with a self-insured ‘Carve-Out’ program.
- Carve-out plans allow ERs to design their own type of coverage (most carriers offer limited designs).
- Have your clients ask their agent about offering a $5/50% Rx card, which gives the participant a huge incentive to ask for the generic equivalent, if available.
- The basic premise behind such programs is to get the consumer a little more involved in **making smarter purchasing decisions**.

Section 125 plans (Flexible Benefit Plan or Cafeteria Plan)

- 125 plans permit EEs to pay their share of the cost of qualified benefits with **pre-tax income**.
- EEs deduct money typically per pay check into a 125 plan.
- The money can be used for a number of medical expenses.
- The money can be used to pay for day care expenses if the children are under 13 years old.
- Note: Individuals with 2% or more stock in an S-Corporation, Partnership, or Sole Proprietorship are NOT eligible to participate. Also, an employed spouse of an S-Corp, Partnership, or Sole Proprietorship owner is NOT eligible.

Example

	W/O POP	With POP
Employer Savings Example:	W/O POP	With POP
Annual Payroll	$500,000	$500,000
Pre-tax Employee Premiums	$0	$(25,000)
Net Taxable Payroll	$500,000	$475,000
FICA Tax @ 7.65%	$38,250	$36,337
Payroll Tax Savings With POP		**$1,913**

	W/O POP	With POP
Employee Savings Example:	W/O POP	With POP
Annual Income	$30,000	$30,000
POP Premium Contributions	$0	$(2,400)
Taxable Income	$30,000	$27,600
Estimated Taxes @ 30%	$(9,000)	$(8,280)
After-tax Premium Contribution	$(2,400)	$0
Net Take-home Pay	$18,600	$19,320

- INCREASED Take-home Pay With POP: $720

Health Savings Accounts (HSA)

- An HSA is a tax-sheltered savings account similar to an IRA, but contributions are earmarked for medical expenses and can be withdrawn for that purpose tax free.
- Deposits are 100% tax deductible and can easily be used to pay for the small and routine medical expenses with tax free dollars until a deductible has been met.

HSA Continued

- **Where do the contributions go?**
- The contributions to an HSA are paid to an administrator who places the money in very conservative investments until needed by employees who have incurred qualified medical costs.
- What is not used each year stays in the account and continues to grow on a tax-favored basis to be used for future medical expenses, or to supplement retirement just like a traditional IRA. It’s like a ‘Medical IRA.’

HSA Continued

- The money in an HSA can be used to pay an employee’s deductible and co-pays as well as many expenses not normally covered under traditional small employer heath insurance plans.
- Those would include: contact lenses, prescription glasses, dental treatments, orthodontics, drugs, psychiatrists, and many more. (including elective surgery).

Why use an HSA

- 1) There is a great possibility an employer can lower the health insurance premiums for the company (sometimes in excess of 50%).
- 2) The employer can offer added benefits for employees without any extra out-of-pocket costs.
- 3) If the money contributed to the HSA is not used during a calendar year, it not only rolls over for use during later years for the participant but also, at age 65, the money can be used as supplemental retirement income.
- 4) Employee contributions to HSAs are pre-tax salary reductions and, therefore, provide the same tax advantages as the Section 125 program discussed earlier.

Saving money with an HSA

- Employee-only deductibles must be between $1,000 and $2,550 a year, and family deductibles must be between $2,000 and $5,150.
- The key is that with the higher deductibles, the employee and family insurance premiums will be significantly lower.
- When structured properly, the employee will have **first dollar coverage** and **less over-all exposure** than with the current low deductible plan. There is a serious misconception in the marketplace, and that is, “the lower the deductible and higher the coinsurance **percentage**, the better the plan.”

Example

- The existing plan was a $250/$500/$750 deductible and 90/10 co-pay with a $15 doctor's office co-pay, and a $7/$15 drug card. The new plan would be a $1,750/$3,450 deductible HSA with 100% coverage thereafter; no Rx card, no office coverage.
- The employer's premiums were reduced from approximately $530,000 to $410,000 (23%). The employer's contributions to the HSA accounts amounted to $93,240.
- While this was a small savings of $14,000 the first year, **$93,240 of the total expenditure went to employees' HSA accounts, not to the insurance company to be lost forever!**
- Plus when future increases come, they will be based off $410,000 not $530,000

Summary on HSAs

- HSAs are a great way to reduce costs and provide employees with additional coverage (dental, eye, and coverage for elective procedures (plastic surgery)).
- HSAs put the EE in a situation to utilize the health care system with an eye on how much things cost. When the EE knows the money will be kept in their account, they are not so quick to spend it.
- If the money is not used, it continues to grow for future use and ultimately for retirement.

Summary on Health Insurance

- A CWPP™ is an advisor that is well rounded and is dedicated to preserving the wealth of his/her clients.
- While health insurance for some advisors may not be the most exciting topic, having a working knowledge of the topic is important when you have small business clients.
- Health insurance costs are out of control and if advisors can help clients save money by knowing the topic better, then everyone wins in the long run.