SYSTEM F.I.R.S.T.
A publication by and for the Associates of Ephraim McDowell Health
www.emhealth.org • October 19, 2007

THOMSON TOP HOSPITALS
Performance Improvement Leaders
2006

Answers to frequently-asked questions from Ephraim McDowell Associates

Q: Health insurance premiums are increasing by 5.0% and dental insurance by 6.6%; if pay increases by 3.0 or 3.5%, it will not be enough to keep up with insurance increases.

A: Healthcare-related expenses continue to increase 8% to 10% per year within EMH and on a national average. It is regrettable but necessary to pass along some of this increase as a premium adjustment. The design of our three plan options remains the same, which means the deductible amount, co-insurance percentage, co-payment amount and maximum out-of-pocket expense will not change. Additionally, EMH is introducing a fourth option in 2008 -- a high deductible health plan with a Health Savings Account (HSA). Many Associates may prefer this option because it has a lower premium and a higher coinsurance percentage. However, as the name implies, it has a higher deductible than our traditional plan. We will describe this option in more detail in response to other questions. In response to this specific question, it is important to look at the cost increase more so than the percentage increase and also the total amount of the pay adjustment in relation to the cost of the insurance premiums. For illustration purposes we will use a base rate of $10.00/hour and a 3.0% increase. We will also assume the individual is enrolled in the Low Risk (Premium) Family plan, which includes the largest premium increase:

Base rate increase - $10.00/hour x 3.0% = $0.30/hour
$0.30/hour x 2080 hours worked/year = $624 annual economic adjustment amount

Health insurance premium increase - $10.28/pay period - a total of $267.28/ year
Dental insurance premium increase - $ 2.48/pay period - a total of $64.48/ year
Total premium increase = $331.76/year

Net economic adjustment after premiums = $292.24

This example uses the highest premium increases to demonstrate a worst case scenario. However, depending upon each individual's personal or family needs, our BeneFlex plan will provide multiple options from which Associates may reduce costs or increase income.

Q: What is the deductible amount for the High Deductible Health Plan and can I pay expenses that apply to my deductible out of my Health Savings Account.

A: The deductible for the HDHP is $1,500 for the single plan and $3,000 for the Family plan. To the extent money is available in the Health Savings Account, deductible expenses can be withdrawn from the HSA.

Q: How much will EMH contribute to my HSA?

A: EMH will make a flat contribution to the HSA based on plan level. For the single plan, it will be $100; for the Associate and Child(ren) or Associate and Spouse, it will be $150; and for the Family plan, it will be $175. This will more than offset the expense for establishing the account and the monthly maintenance fee. In addition, EMH will match contributions to the account. For every dollar the Associate places in the account, EMH will match that with $0.25/dollar up to Associate contributions of $1,500 on a single plan and up to $3,000 on the family plan. The Internal Revenue Service defines family plans to include Associate and Child(ren), Associate and Spouse or full Family plans. Therefore, in the case of a single plan, EMH will contribute $100 plus up to $375 if the Associate contributes $1,500 (57.69/ pay period) to the HSA. Likewise, for the Family plan, EMH will contribute a flat amount of $175 plus up to $750 if the Associate contributes $3,000 ($115.38/pay period).

Q: What happens to the money in my account if I don't use it?

A: The Health Savings Account is your personal account and any money not used will continue to rollover each year. Unlike the Flexible Spending Account, there is no "use it or lose it" rule. You will have the option to determine the amount of your contributions each year and if your account continues to grow beyond $1,000 it's possible to place the money in a variety of investment options similar to those available in the Retirement Savings Plan.

Q: What if I retire or leave EMH?

A: The Health Savings Account is your personal account and all funds in the account are yours. As long as you use the money to pay for eligible health-related expenses, there is no tax applied going into the account or when you use the funds.

Q: What if I withdraw money from my HSA for non-medical uses?

A: Any withdrawal for non-qualified medical expenses will be subject to both income tax and a 10% penalty except when taken after an individual dies, becomes disabled or reaches age 65.

Q: Where will my Health Savings Account be set up?

A: The Principal Bank. EMH has an excellent relationship with the Principal Financial Group as they administer our Retirement Savings Plan. This relationship and the opportunity for Associates to have one site for their retirement funds and Health Savings Account makes this an attractive and convenient solution.

Q: How will the claims be processed and how can I access my HSA?

A: Claims processing will be the same as your current plan. As you incur a claim, it will be sent to the WestLake Financial Group to be processed. If you have not satisfied your deductible, WFG will send you an Explanation of Benefits (EOB) sheet indicating your responsibility for paying the amount of the claim. You may then use a debit card for your HSA or a check to be drawn on your account to pay the expense to the provider or, if you paid an expense at the point of service, you will reimburse yourself through the HSA.

Q: What types of withdrawals are considered tax-free distributions?

A: The following are examples:

- Payment for any qualified medical expense of the person covered by the HDHP, or of their spouse or dependents, even if they are not covered by the HDHP;
- Over-the-counter drugs;
- Deductible amounts including prescriptions;
- COBRA continuation coverage;
- Any health coverage cost while receiving unemployment;
- Medicare premiums and out-of-pocket expenses but not Medigap premiums.

Q: Should I keep receipts of expenses?

A: Yes. You may need to prove to the IRS your distributions were for medical expenses and/or that your deductible was met.

Q: What happens if I make a non-qualified withdrawal by mistake?

A: Mistaken withdrawals can be returned to the HSA if:

- You show clear and convincing evidence that it was a mistake;
- You return the funds to the HSA by April 15 of the year following the year in which you knew or should have known about the mistaken distribution.

Q: What happens to my HSA if I die?

A: If you are married, the account goes to your spouse as an HSA. If you are not married, the following applies:

- The account is no longer treated as an HSA.
- The account will become taxable to the recipient, including the estate of the individual.
- The taxable amount will be reduced by any qualified medical expenses incurred by the deceased before death paid by the recipient of the HSA.

Q: What is the maximum contribution I can make to the HSA?

A: Maximum contributions are determined by the IRS and may be indexed each year. In 2008, the maximum is $2,900 for a single plan and $5,800 for a family plan. Individuals between 55 and 65 can contribute an additional $800 in 2008 as a catch-up contribution. This is defined by the IRS.

Q: Can my HSA funds be used for expenses from a previous year?

A: Yes, as long as the expenses were incurred on or after the date the HSA was established. There is no time limit on when the withdrawal must occur. You should keep records to prove the expenses were incurred and that they were neither paid for nor reimbursed by another source, nor itemized as a deduction.

Q: If I have a Health Savings Account (HSA) can I also have a Flexible Spending Account (FSA)?

A: You cannot have both a HSA and FSA for healthcare reimbursement. You can have a HSA and a Limited Flexible Spending Account. The Limited FSA could be used for expenses such as dental or vision claims. EMH will have the Limited FSA available for anyone interested in this option. You could also have an HSA with a Dependent Care FSA. The key point is that you can have only one tax-free account for health-related expenses.

Q: Will we receive more information on the HDHP and HSA plan?

A: The Principal Financial Group has prepared an educational booklet for Associates interested in this option. Additionally, a representative from the HSA group of the Principal Financial Group will be here during the Benefits Fair to respond to specific questions.

Q: What are the key features of the HSA?

A: The key features of the HSA, aside from the plan design of the HDHP, are:

- Money can be contributed pre-tax.
- Funds can earn interest or investment returns tax-free.
- The money can be used tax-free to pay qualified medical expenses.
- Balances can be used in future years and HSA is portable; it belongs to the plan participant.

Q: Can HSA funds be used to pay premiums for an HDHP?

A: No, health insurance premiums are not considered "qualified" except for:

- Qualified long-term care insurance
- COBRA health care continuation coverage
- Health care while a participant is receiving unemployment

Q: Can HSA funds really be used for long-term care insurance premiums?

A: Yes, but the amount is subject to limits based on age and is adjusted annually. The limits are normally listed in the instructions for Form 1040 Schedule A.

Q: Are over-the-counter drugs considered "qualified" medical expenses?

A: Yes, if they are listed in Section 213(d) of the Internal Revenue Code.

Q: Can HSA funds be used to pay Medicare premiums?
A: Yes, Medicare Part A, B, D and Medicare Advantage (HMO). However, Medigap premiums are not considered a qualified medical expense.