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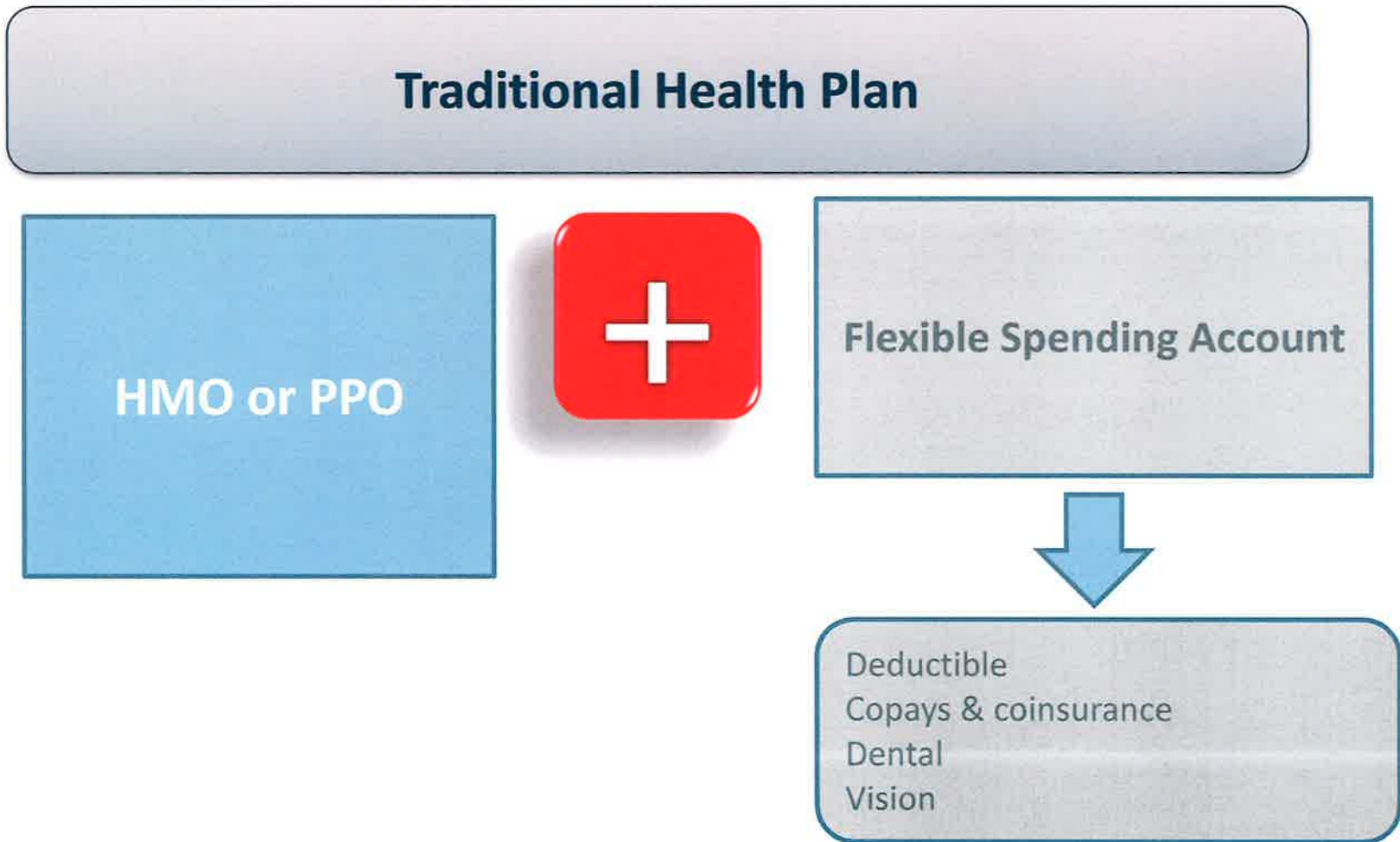
Bonita Unified School District December EBC Meeting

DECEMBER 5, 2016

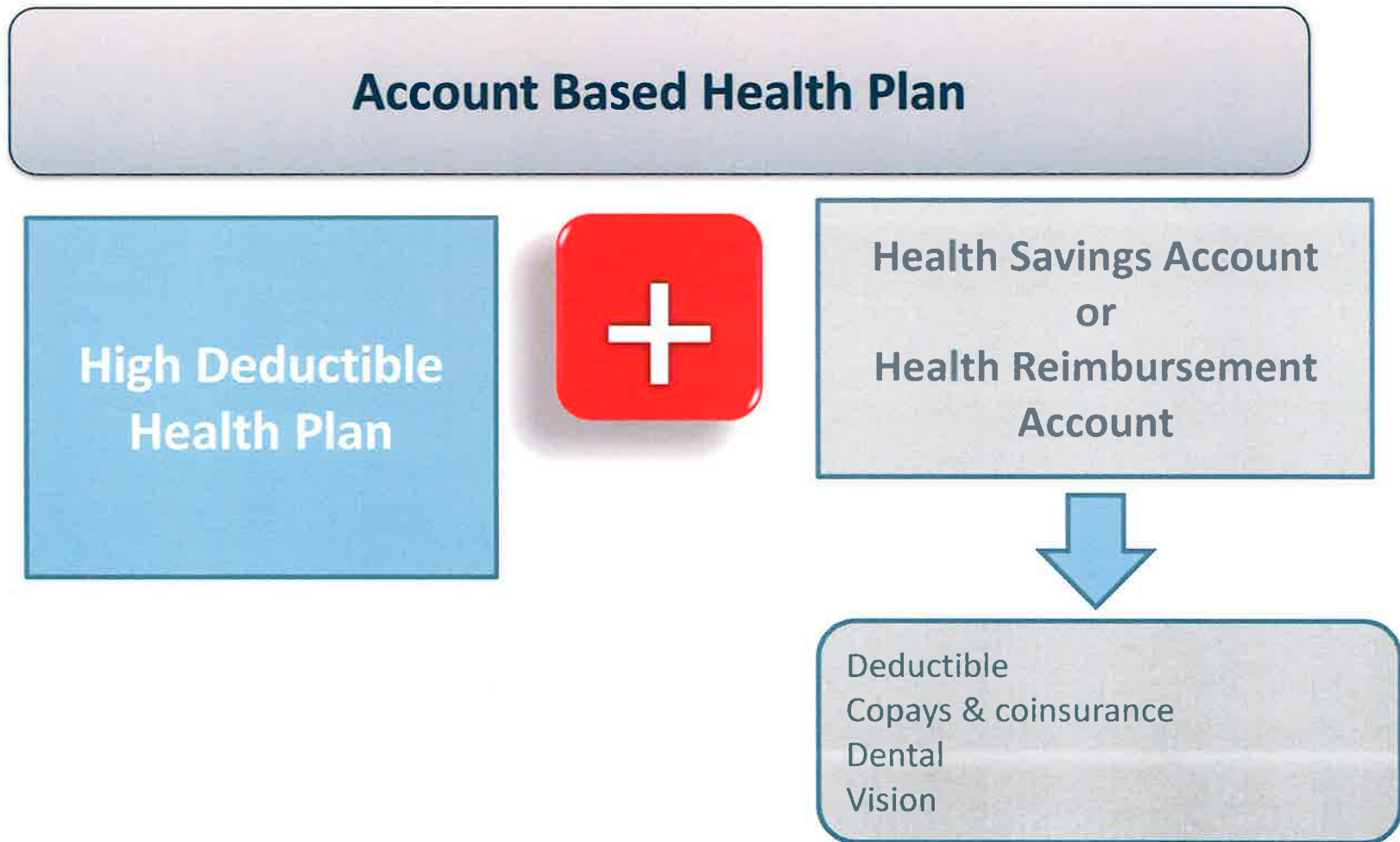
Bonita USD EBC Meeting Agenda

- Comparison of HRAs, HSAs and FSAs
- Options Outside of CalPERS
- Overview of Public Agency Pools /Trusts
 - What is offered
 - Eligibility requirements
- 2017 Costs under CalPERS Post Open Enrollment
- Estimated 2017 Costs Outside CalPERS
- Next Steps

Traditional Health Plans



Account Based Health Plans



Health FSA, HSA and HRA

Provision	Health FSA	HSA	HRA
Eligibility	Employees whose employer offers a Health FSA	Individuals covered under a HDHP with no disqualifying coverage	Individuals covered under a group health plan
Account	Employee pre-tax salary reductions	Individual has own account	Employer holds account for employee
Contributors	Employee and employer	Employee, employer, and anyone else	Employer only
Annual Contribution Limit for 2017	\$2,600	Single coverage - \$3,350 Family coverage - \$6,650 Catch-Up - \$1,000	Unlimited
Carryover of Unused Amounts	2.5 month grace period, or up to \$500 carryover	Mandatory	Employer decision
Portability	No	Mandatory	Employer decision

Key Advantages of HSAs

Key Advantages:

- Account can be funded pre-tax through a cafeteria plan – no FIT or FICA
- Account can be funded with after-tax dollars, then deducted on Form 1040
- Account earnings not taxable – no FIT or FICA
- Distributions for qualified expenses are not taxable – no FIT or FICA
- Distributions may be made for non-qualified expenses, but subject to FIT & 20% penalty
- No forfeitures

Key Advantages of HRAs

Key Advantages:

- Employer determines annual contributions
- Distributions for qualified expenses are not taxable – no FIT or FICA
- Employees are not required to set up individual accounts
- Does not need to be paired with a high deductible health plan (HDHP)
- When employee leaves the Employer unused funds revert back to Employer

HSA, FSA and HRAs

- Important note: If you participate in an HSA plan, you can only enroll in a limited purpose FSA plan.
 - In a limited purpose FSA plan you are only allowed to submit dental and vision expenses until you have reached the deductible on your HSA plan, then you can also use the FSA for medical expenses as well.

Options Outside of CalPERS

There are a number of medical plan options outside of CalPERS:

- The District can contract directly with the carriers
 - Aetna, Anthem, Blue Shield, CIGNA, Kaiser, UHC, etc.
- If self-funded, the District can contract with a third party administrator (TPA) to manage eligibility, pay the claims, and provide member services, and in addition rent the provider network from Aetna, Anthem, Blue Shield, CIGNA, or UHC
- The District can participate in public agency pools or trusts
 - This option typically appeals to smaller and higher risk employers the most
 - Similar to CalPERS, most pools and trusts are blind, so you will not receive claims utilization (ASCIP is the only exception)

Types of Pooled Purchasing Arrangements

- There are three types of pooled purchasing arrangements:
 1. **Totally Pooled** – 100% of the experience of the pool is used to develop rates (CalPERS).
 2. **Shared Risk** – The experience of the group counts, but is blended with the experience of the whole pool (ASCIP).
 3. **Banking JPA** – The experience of your group dictates 100% of your rating. Groups join these JPAs to get a discounted administrative fee.
- JPA versus Trust
 - Trusts are a jointly managed labor and management program (CVT).
 - JPAs are a management program only (ASCIP).

Overview of Public Agency Pools / Trusts

Feature	California's Valued Trust (CVT)	Santa Clara County Schools Insurance Group (SCCSIG)	California Schools Employee Benefits Association (CSEBA)	Self Insured Schools of California (SISC)	Alliance of School for Cooperative Insurance Programs (ASCIP)
Size of Groups	All size groups	30 - 1,200 employees	50 - 4,000	100 - 4,000 Employees	10 - 1,400 Employees
Number of Groups	234 groups	31 groups	48 groups	420 Groups	73 Groups
Eligibility Requirements	Open to CA public schools K-14: Certificated and Classified ees must be affiliated with a recognized labor union. Management/Confidential ees as long as one represented group from the District participates in the Trust.	Perform impact analysis on census data	All public school employees, ROP's, K-14s are eligible	Classified permanent or probationary ees who work 20+ hours/week; Certificated who work 50%+. Variable, temporary and seasonal can enroll in Bronze PPO plan.	Actives, part-time working more than 50%, anyone eligible under COBRA and Ed Code 7000
Participation Requirements	Require 100% participation of the FT ees. Part-time and retirees not subject to 100% rule. Opt outs can be grandfathered, but can't exceed 20%. No new opt outs are allowed.	Proof of other coverage for opt outs (Covered CA will count) and signed affidavit. Part-time employees who receive full district premiums are subject to same guidelines as full-time employees.	Require 80% participation of the FT ees. Waivers or opt outs are allowed with valid proof of other coverage.	Reviewed case by case	Require 75% participation and try to avoid groups that allow ees to waive without proof of other coverage or that offer cash in lieu
Carriers Offered	Anthem, Blue Shield, CVS Caremark, Kaiser Delta Dental and VSP	Anthem, Kaiser Delta Dental and VSP	Anthem, Blue Shield, Kaiser, Express Scripts Delta Dental, VSP, MES, Voya (Life)	Anthem, Blue Shield and Kaiser Delta Dental, VSP, MES	Anthem, Blue Shield, Kaiser and UHC Dental - Delta Dental Vision - VSP

Overview of Public Agency Pools / Trusts

Feature	California's Valued Trust (CVT)	Santa Clara County Schools Insurance Group (SCCSIG)	California Schools Employee Benefits Association (CSEBA)	Self Insured Schools of California (SISC)	Alliance of School for Cooperative Insurance Programs (ASCIP)
Plans Offered	HMO/PPO	HMO / PPO / HSA	HMO / PPO / HSA	HMO/PPO	HMO/ PPO
Decision Support	Medical/Rx calculator to help estimate out of pocket expenses	Using WorkTerra's decision support tools	No member tool	Plan Comparison Tool - side by side plan comparisons; Expert Second Medical Opinion	No member tool
Customer Support	Dedicated account manager and member service representative. Dedicated service unit within Anthem	Dedicated account team and dedicated service unit within the carriers	Dedicated account manager and utilize Health Advocate's advocacy services	Dedicated team of 3 that provide eligibility, billing, and account management support	Dedicated Benefits Service Consultants handles administrative issues. Members are
Actives / Pre- and Post Actives	Actives, Retirees who are Pre-65 and Post-65 are covered	Active and pre-65 retirees only	Actives and retirees who are pre-65 access all plans. Post-65 only covered through their Medicare Exchange	Actives, Retirees who are Pre-65 and Post-65 covered. Medicare required for 65	<i>where's RHP?</i>
Experience Needed for Rating	No, don't need experience	No, don't need experience	No, don't need experience	No, don't need experience	No, don't need experience
Reporting	Blind pool, no reporting	Reporting on enrollment, no claims	Blind pool, no reporting	Monthly membership, no claims experience. Blind pool	Monthly reporting that shows enrollment, medical and Rx claims.
January 1 Effective Date	Yes	Yes	Yes	Yes	Yes

2017 Medical Costs – Actives (Post OE)

Kaiser Permanente

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	168	\$543.83	\$573.89	\$30.06	5.5%
Employee + 1	20	\$1,087.66	\$1,147.78	\$60.12	5.5%
Employee + 2	40	\$1,413.96	\$1,492.11	\$78.15	5.5%
Totals	228	\$169,675.04	\$179,053.52	\$168.33	5.5%

BSC Access+

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	59	\$566.53	\$675.98	\$109.45	19.3%
Employee + 1	14	\$1,133.06	\$1,351.96	\$218.90	19.3%
Employee + 2	26	\$1,472.98	\$1,757.55	\$284.57	19.3%
Totals	99	\$87,585.59	\$104,506.56	\$612.92	19.3%

UnitedHealthcare

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	63	\$492.24	\$545.71	\$53.47	10.9%
Employee + 1	10	\$984.48	\$1,091.42	\$106.94	10.9%
Employee + 2	21	\$1,279.82	\$1,418.85	\$139.03	10.9%
Totals	94	\$67,732.14	\$75,089.78	\$299.44	10.9%

PERS Choice

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	54	\$598.75	\$637.53	\$38.78	6.5%
Employee + 1	9	\$1,197.50	\$1,275.06	\$77.56	6.5%
Employee + 2	6	\$1,556.75	\$1,657.58	\$100.83	6.5%
Totals	69	\$52,450.50	\$55,847.64	\$217.17	6.5%

Health Net SmartCare

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	35	\$585.39	\$526.73	-\$58.66	-10.0%
Employee + 1	4	\$1,170.78	\$1,053.46	-\$117.32	-10.0%
Employee + 2	12	\$1,522.01	\$1,369.50	-\$152.51	-10.0%
Totals	51	\$43,435.89	\$39,083.39	-\$328.49	-10.0%

PERS Select

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	23	\$547.55	\$565.33	\$17.78	3.2%
Employee + 1	3	\$1,095.10	\$1,130.66	\$35.56	3.2%
Employee + 2	4	\$1,423.63	\$1,469.86	\$46.23	3.2%
Totals	30	\$21,573.47	\$22,274.01	\$99.57	3.2%

2017 Medical Costs – Actives (Post OE) continued

Health Net Salud y Más

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	15	\$466.11	\$414.79	-\$51.32	-11.0%
Employee + 1	1	\$932.22	\$829.58	-\$102.64	-11.0%
Employee + 2	4	\$1,211.89	\$1,078.45	-\$133.44	-11.0%
Totals	20	\$12,771.43	\$11,365.23	-\$287.40	-11.0%

PERSCare

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	14	\$666.91	\$715.88	\$48.97	7.3%
Employee + 1	2	\$1,333.82	\$1,431.76	\$97.94	7.3%
Employee + 2	0	\$1,733.97	\$1,861.29	\$127.32	7.3%
Totals	16	\$12,004.38	\$12,885.84	\$274.23	7.3%

Anthem HMO Select

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	9	\$543.47	\$592.78	\$49.31	9.1%
Employee + 1	1	\$1,086.94	\$1,185.56	\$98.62	9.1%
Employee + 2	2	\$1,413.02	\$1,541.23	\$128.21	9.1%
Totals	12	\$8,804.21	\$9,603.04	\$276.14	9.1%

Anthem HMO Traditional

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	0	\$610.64	\$713.69	\$103.05	16.9%
Employee + 1	1	\$1,221.28	\$1,427.38	\$206.10	16.9%
Employee + 2	0	\$1,587.66	\$1,855.59	\$267.93	16.9%
Totals	1	\$1,221.28	\$1,427.38	\$577.08	16.9%

BSC NetValue

Coverage Type	Subscribers	Current Rates	2017 Renewal Rates	Dollar Change	Percentage Change
Employee Only	1	\$576.46	\$675.98	\$99.52	17.3%
Employee + 1	0	\$1,152.92	\$1,351.96	\$199.04	17.3%
Employee + 2	0	\$1,498.80	\$1,757.55	\$258.75	17.3%
Totals	1	\$576.46	\$675.98	\$557.31	17.3%

Total Active Employees (No Retirees)

Coverage Type	Subscribers	Current Monthly Total	2017 Renewal Total	Dollar Change	Percentage Change
Employee Only	441	\$243,010.71	\$258,796.00	\$15,785.29	6.5%
Employee + 1	65	\$72,114.84	\$78,184.64	\$6,069.80	8.4%
Employee + 2	115	\$162,704.84	\$174,831.73	\$12,126.89	7.5%
Totals	621	\$477,830.39	\$511,812.37	\$33,981.98	7.1%

2017 Medical Costs – Retirees (Post OE)

Carrier and Product - Rolled Up by Geography	Employee				Employee + 1				Totals			
	Enrolled	2016 Costs	2017 Costs	% Change	Enrolled	2016 Costs	2017 Costs	% Change	Enrolled	2016 Costs	2017 Costs	% Change
PERS	63	31,111.22	31,110.86	0.0%	15	13,322.30	13,314.74	-0.1%	78	44,433.52	44,425.60	0.0%
Choice	12	7,319.37	7,756.95		4	4,843.12	5,156.80		16	12,162.49	12,913.75	
Choice Medicare Supplement	26	9,525.88	9,194.38		8	5,862.08	5,658.08		34	15,387.96	14,852.46	
Choice and Medicare Supplement	5	4,910.61	5,043.05						5	4,910.61	5,043.05	
Care	1	761.50	727.39		1	1,392.98	1,330.58		2	2,154.48	2,057.96	
Care Medicare Supplement	13	5,304.52	5,066.88		2	1,224.12	1,169.28		15	6,528.64	6,236.16	
Select	3	1,642.65	1,695.99						3	1,642.65	1,695.99	
Select Medicare Supplement	2	732.76	707.26						2	732.76	707.26	
Select and Medicare Supplement	1	913.93	918.96						1	913.93	918.96	
Kaiser Permanente	40	15,750.68	16,239.09	3.1%	7	5,147.62	5,300.36		47	20,898.30	21,539.45	3.1%
HMO Senior Advantage	27	8,025.21	8,112.96		5	2,972.30	3,004.80		32	10,997.51	11,117.76	
HMO	11	6,043.35	6,377.39		2	2,175.32	2,295.56		13	8,218.67	8,672.95	
HMO w/SR Adv	2	1,682.12	1,748.74						2	1,682.12	1,748.74	
UnitedHealthCare Group	21	8,388.56	8,667.04	3.3%	4	2,567.84	2,593.68	1.0%	25	10,956.40	11,260.72	2.8%
Group Medicare Advantage PPO Health Only	12	3,851.76	3,890.52		4	2,567.84	2,593.68		16	6,419.60	6,484.20	
Group Medicare Advantage PPO Health/Dental/Vision	5	1,604.90	1,621.05						5	1,604.90	1,621.05	
Group HMO and Medicare Advantage PPO Health Only	2	1,626.44	1,739.84						2	1,626.44	1,739.84	
Group HMO and Medicare Advantage PPO Health/Dental/Vision	1	813.22	869.92						1	813.22	869.92	
HMO	1	492.24	545.71						1	492.24	545.71	
Blue Shield	19	10,793.86	12,843.62	19.0%	3	3,419.04	4,055.88	18.6%	22	14,212.90	16,899.50	18.9%
Access+	16	9,064.48	10,815.68		2	2,266.12	2,703.92		18	11,330.60	13,519.60	
NetValue	3	1,729.38	2,027.94		1	1,152.92	1,351.96		4	2,882.30	3,379.90	
Anthem	1	543.47	592.78	9.1%					1	543.47	592.78	9.1%
HMO	1	543.47	592.78						1	543.47	592.78	
Grand Total	144	66,587.79	69,453.39	4.3%	29	24,456.80	25,264.66	3.3%	173	91,044.59	94,718.05	4.0%

There are 7 retirees who are out of Los Angeles county or out of state so their premium increases were estimated based on the LA county increases.

2017 Enrollment Shifts

- Enrollment increased from 590 actives on medical to 621 in 2017 (↑ 31 employees, all single coverage)
- There were some significant enrollment shifts from 2016 to 2017 in response to the high renewals on Blue Shield plans:
 - 113 Employees left Blue Shield Access+
 - 14 Employees left Blue Shield NetValue
 - 51 Employees moved to UHC
 - 48 Employees moved to HealthNet Smart Care
 - 15 Employees moved to HealthNet Salud y Mas
 - 11 Employees moved to PERS Select

Detailed information in appendix

Medical Enrollment Changes (from 2016 to 2017)

Kaiser Permanente			
	2016	2017	
Coverage Type	Subscribers	Subscribers	Change
Employee Only	152	168	
Employee + 1	18	20	
Employee + 2	37	40	
Totals	207	228	10%

BSC Access+			
	Subscribers	Subscribers	Change
Coverage Type	Subscribers	Subscribers	Change
Employee Only	128	59	
Employee + 1	28	14	
Employee + 2	56	26	
Totals	212	99	-53%

UnitedHealthcare			
	Subscribers	Subscribers	Change
Coverage Type	Subscribers	Subscribers	Change
Employee Only	27	63	
Employee + 1	5	10	
Employee + 2	11	21	
Totals	43	94	119%

PERS Choice			
	Subscribers	Subscribers	Change
Coverage Type	Subscribers	Subscribers	Change
Employee Only	46	54	
Employee + 1	8	9	
Employee + 2	6	6	
Totals	60	69	15%

Health Net SmartCare			
	Subscribers	Subscribers	Change
Coverage Type	Subscribers	Subscribers	Change
Employee Only	3	35	
Employee + 1	0	4	
Employee + 2	0	12	
Totals	3	51	1600%

PERS Select			
	Subscribers	Subscribers	Change
Coverage Type	Subscribers	Subscribers	Change
Employee Only	15	23	
Employee + 1	2	3	
Employee + 2	2	4	
Totals	19	30	58%

Medical Enrollment Changes (from 2016 to 2017)

Health Net Salud y Más

Coverage Type	Subscribers	Subscribers	Change
Employee Only	4	15	
Employee + 1	0	1	
Employee + 2	1	4	
Totals	5	20	300%

PERSCare

Coverage Type	Subscribers	Subscribers	Change
Employee Only	12	14	
Employee + 1	3	2	
Employee + 2	0	0	
Totals	15	16	7%

Anthem HMO Select

Coverage Type	Subscribers	Subscribers	Change
Employee Only	8	9	
Employee + 1	1	1	
Employee + 2	1	2	
Totals	10	12	20%

Anthem HMO Traditional

Coverage Type	Subscribers	Subscribers	Change
Employee Only	0	0	
Employee + 1	1	1	
Employee + 2	0	0	
Totals	1	1	0%

BSC NetValue

Coverage Type	Subscribers	Subscribers	Change
Employee Only	14	1	
Employee + 1	0	0	
Employee + 2	1	0	
Totals	15	1	-93%

Total Active Employees (No Retirees)

Coverage Type	Subscribers	Subscribers	Change
Employee Only	409	441	
Employee + 1	66	65	
Employee + 2	115	115	
Totals	590	621	5%

Overall Medical Costs

- There could be potential exposure when coming out of CalPERS if waivers come back in to the plan
 - \$8,000 per employee (270 waivers) could be an additional \$2,160,000/year
- 2017 Costs
 - This includes medical, dental, vision, and voluntary plans

	Total Annual 2017 Premiums	Total Annual 2017 Cost to Bonita
Actives	\$11,645,282	\$6,871,581
Retirees - Pre-65	\$620,316	\$178,176
Retirees - Post 65	\$516,300	\$114,000
Totals	\$12,781,899	\$7,163,757

- 928 employees with some type of benefit, 128 under the \$8,000 cap

2017 Cost Estimates Using HRM Tool

- Gallagher uses a proprietary tool, called the Health Risk Modeling (HRM) tool, to model future costs of plans
- We've used HRM to estimate costs in 2017, to give the District a better idea of whether or not it would be beneficial to stay or exit CalPERS in 2018
- Outside of CalPERS, the estimated difference in 2017 is a 11.9% increase from 2016 and a 4.4% difference from the 2017 renewal
- If employees have the opportunity to purchase a lower cost plan (buy down), the overall cost could go down for Bonita as well as for employees
- CalPERS doesn't offer HSA/HRA options – Offering CDHPs could decrease costs for both employees and Bonita

2017 Estimated Costs Outside CalPERS

HRM PROJECTION

Kaiser	Subscribers	CalPERS 2017	Over Current
Employee Only	168	\$573.89	5.5%
Employee + 1	20	\$1,147.78	5.5%
Employee + 2	40	\$1,492.11	5.5%
Totals	228	\$179,054	5.5%

HMO	Subscribers	Projected 2017	Over Current
Employee Only	182	\$622.79	15.8%
Employee + 1	31	\$1,245.59	15.8%
Employee + 2	65	\$1,619.26	15.8%
Totals	278	\$257,213	15.8%

PPO	Subscribers	Projected 2017	Over Current
Employee Only	77	\$671.48	15.2%
Employee + 1	12	\$1,342.95	15.2%
Employee + 2	10	\$1,745.84	15.2%
Totals	99	\$85,277	15.2%

PPO Buy Up	Subscribers	Projected 2017	Over Current
Employee Only	14	\$719.40	7.9%
Employee + 1	2	\$1,438.80	7.9%
Employee + 2	0	\$1,870.45	7.9%
Totals	16	\$12,949	7.9%

Monthly Total	621	\$534,494	11.9%
Annual Total		\$6,413,923	
Change from Renewal		\$272,174	4.4%

Next Steps

- Set target date to make a go/no-go decision to market
- Create 2017 meeting calendar and agenda
- In early Spring initiate marketing project (if applicable)



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Appendix

HSA, FSA and HRA

Provision	Health Savings Accounts (HSAs)	Health Care Flexible Spending Accounts (FSAs)	Health Reimbursement Arrangements (HRAs)
Overview	A tax-exempt trust or custodial account created to pay for the qualified medical expenses of the account holder and dependents.	An employer-sponsored benefit program under which employees receive reimbursement for qualified medical expenses.	An employer funded account that reimburses employees for qualified medical care expenses.
Who is eligible to set up an account?	Individuals covered only under a qualified high-deductible health plan .	An employee whose employer offers a health care FSA option.	An employer may establish and contribute to an HRA for an employee or former employee who is enrolled in a group health plan that provides minimum essential coverage.
What are the requirements for the corresponding health plan?	<i>Qualified high-deductible health plan:</i> In 2017, self-only deductible must be at least \$1,300, out-of-pocket maximum of not more than \$6,550; Family deductible must be at least \$2,600 with an out-of-pocket maximum of not more than \$13,100. Plan can provide first-dollar coverage of preventive care. For PPOs, maximum out-of-pocket amounts may apply only to in-network services with higher amount permitted out-of-network.	No health plan requirements. Note: although the employee is not required to be covered under another medical plan, the employee must be eligible for another medical plan sponsored by the employer in order for the FSA to qualify as an “excepted benefit” not subject to PPACA.	Must be integrated with minimum essential coverage using one of two permitted integration methods. Stand-alone HRAs will not comply with PPACA, unless the HRA reimburses only HIPAA excepted benefits or is a separate retiree-only plan.

HSA, FSA and HRA

Provision	Health Savings Accounts (HSAs)	Health Care Flexible Spending Accounts (FSAs)	Health Reimbursement Arrangements (HRAs)
Who may contribute to the account?	Anyone. Generally will be the account holder (including via salary reduction) or the employer or both.	The employee, employer, or both. Usually funded by employees, who choose to salary reduce a certain amount of their pay in an FSA account.	Solely the employer.
What are the limits on contributions?	Up to the statutory maximum for the calendar year. For 2017: Single coverage - \$3,400 Family coverage - \$6,750 Catch up (age 55+) - \$1,000 These amounts index annually.	\$2,600 for employee contributions. This amount indexes annually and is expected to increase in future years.	No federal income tax law limits. Employers typically set limits, often equal to or less than the amount of the deductible under the employees' health plan.
What are qualified medical expenses?	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code, e.g., amounts paid for doctors' fees, prescription medicines, dental and vision expenses, and necessary medical services not paid for by insurance or health plan. HSA funds generally cannot be used to pay health insurance premiums; however, there are certain exceptions.	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code: e.g., amounts paid for doctors' fees, prescription medicines, dental and vision expenses, and necessary medical services not paid for by insurance or health plan. Health FSA funds cannot be used to pay health insurance premiums.	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code. May be used to pay the employee contribution for the group health plan that is integrated with the HRA. Employee may not be given a choice between paying required contributions from the HRA or via salary reduction. May not be used to pay premiums for individual health insurance.

HSA, FSA and HRA

Provision	Health Savings Accounts (HSAs)	Health Care Flexible Spending Accounts (FSAs)	Health Reimbursement Arrangements (HRAs)
What are the claim substantiation and adjudication requirements?	Claim substantiation by a third party is not required; however the individual HSA owner must maintain the records substantiating their claims. Plan is self-adjudicated by account owner submitting only eligible claims or reporting the taxable distribution.	Claim substantiation and adjudication (other than by the employee) is required.	Claim substantiation and adjudication (other than by the employee) is required.
When can funds be used to pay health insurance premiums?	<ol style="list-style-type: none"> 1. While receiving unemployment benefits (state or federal) 2. While covered under federal COBRA 3. Retiree medical contributions (or premiums) for retirees 65 and older (Medigap premiums not qualified) 	Health care FSAs cannot be used to pay insurance premiums of any kind.	Funds can be used to pay for premiums under: <ol style="list-style-type: none"> 1. The employee's group health plan, if integrated (if no pre-tax payment through employer's cafeteria plan available) 2. A spouse's group health plan, if integrated 3. The employer's retiree health plan contribution 4. COBRA continuation coverage
Can funds be used to pay for long-term care coverage?	Yes, premiums for qualified long-term care insurance are reimbursable up to the dollar limits specified in IRC 213(d).	No, long term care insurance premiums are not reimbursable under an FSA.	Yes, premiums for long-term care insurance are reimbursable.

HSAs, FSAs and HRAs

Provision	Health Savings Accounts (HSAs)	Health Care Flexible Spending Accounts (FSAs)	Health Reimbursement Arrangements (HRAs)
Are withdrawals for non-medical expenses allowed?	Yes, but distributions not used exclusively to pay “qualified medical expenses” are included in income and are subject to a 20% additional tax.	No	No
Can an employer or trustee limit the type of expenses that may be reimbursed?	No	Yes. The plan may define covered expenses.	Yes. The plan may define covered expenses.
What is the tax treatment of contributions?	Employer contributions (including salary reduction amounts) are excludable from gross income and not subject to federal employment taxes (e.g., FIT, FICA). Employee contributions are tax deductible on Form 1040 if made on an after tax basis.	Employees pay no federal, Social Security or (in most states) state taxes on FSA contributions. Employers pay no FICA tax on FSA contributions.	Employer contributions are generally excludable from employee’s gross income and not subject to federal employment taxes (e.g., FIT, FICA).
Can funds be carried over from one year to the next?	Yes. Funds may be carried over indefinitely during a participant’s lifetime. Upon a participant’s death, an HSA may be passed on to a surviving spouse without federal tax liability.	Unused FSA balances are generally forfeited at the end of the year. Employer may include up to a 2.5 month grace period at the end of the year, or as an alternative the plan may allow for a \$500 carryover.	Yes. Unused amounts in an HRA may be carried over, subject to any limits set by the employer.

HSA, FSA and HRA

Provision	Health Savings Accounts (HSAs)	Health Care Flexible Spending Accounts (FSAs)	Health Reimbursement Arrangements (HRAs)
Are accounts portable?	Yes. The account is owned by the account holder. Employee account holders continue to have access to the account when they leave or change jobs.	No. Unused FSA balances are forfeited if the employee leaves or changes jobs. (Except as permitted by COBRA or a plan's grace period.)	Yes, but only at discretion of the employer. The HRA must contain a provision permitting the employee (or retiree) to opt out.
Does interest accrue on funds deposited in the account?	Yes. Interest accrues tax free.	No. Interest is not accrued.	There is no requirement that interest accrue. However employers have discretion to credit interest to the HRA accounts funded through a VEBA.
Do 105(h) nondiscrimination rules apply?	The HSA is not subject to the nondiscrimination requirements under Section 105. The underlying high deductible health plan will be subject to the nondiscrimination requirements under Section 105(h) if it is self-insured. However, employer contributions made outside a cafeteria plan - "comparable" contributions.	Yes. Cafeteria plan nondiscrimination requirements under Section 125 also apply.	Yes. If self-insured, the HRA is subject to the 105(h) nondiscrimination requirements. The underlying group medical plan may be subject to additional nondiscrimination requirements – Section 105(h) if self-insured ² and Section 125 if part of a cafeteria plan

Disclaimers

The intent of this analysis report is to provide you with general information regarding the status of, and/or potential concerns related to, your current employee benefits environment. It does not necessarily fully address all of your specific issues. It should not be construed as, nor is it intended to provide, legal advice. Questions regarding specific issues should be addressed by your general counsel or an attorney who specializes in this practice area.

IMPORTANT: This proposal report is an outline of the coverages proposed by the carrier(s), based on information provided by your company. It does not include all of the terms, coverages, exclusions, limitations, and conditions of the actual contract language. The policies and contracts themselves must be read for those details. Policy forms for your reference will be made available upon request.

This analysis is for illustrative purposes only, and is not a guarantee of future expenses, claims costs, managed care savings, etc. There are many variables that can affect future health care costs including utilization patterns, catastrophic claims, changes in plan design, health care trend increases, etc. This analysis does not amend, extend, or alter the coverage provided by the actual insurance policies and contracts. Please see your policy or contact us for specific information or further details in this regard.

While GBS does not guarantee the financial viability of any health insurance carrier or market, it is an area we recommend that clients closely scrutinize when selecting a health insurance carrier or HMO. There are a number of rating agencies that can be referred to including, A.M. Best, Fitch, Moody's, Standard & Poor's, and Weiss Ratings (TheStreet.com). Generally, agencies that provide ratings of U.S. Health Insurers, including traditional insurance companies and other managed care (e.g., HMO) organizations, reflects their opinion based on a comprehensive quantitative and qualitative evaluation of a company's financial strength, operating performance and market profile. However, these ratings are not a warranty of an insurer's current or future ability to meet its contractual obligations.



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