

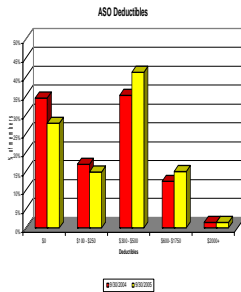
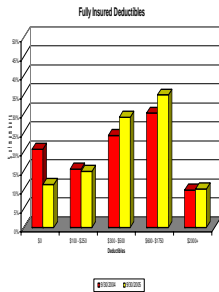
Large Group Issues

Christopher Fitzsimons, IV, FSA, MAAA
Product Innovation Team
BlueCross BlueShield of North Carolina

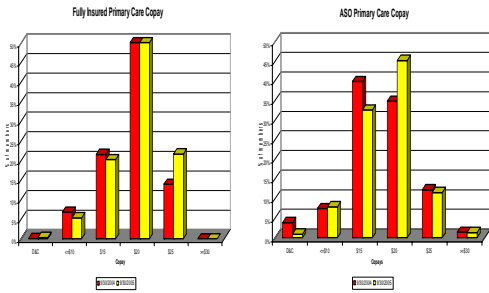
What will this presentation cover?

Current Group Benefit Choices	What's "Hot"
IRS Guidance	Benefit Strategies

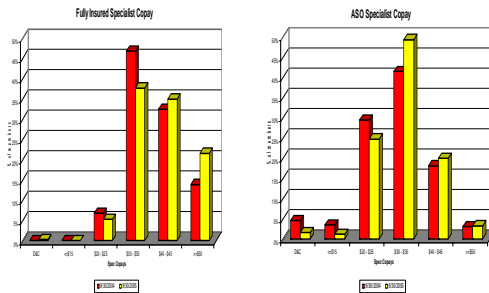
Blue Options: Deductibles



Blue Options: Primary Care Copays



Blue Options: Specialist Copays



Our CDHP portfolio



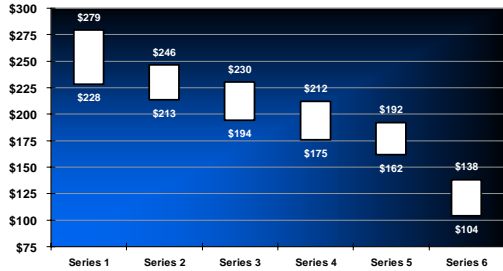
The entire CDHP Blue portfolio is supported by a suite of Consumer Decision Support Tools:

- HEALTHY DIVIDENDS
- The Pharma Advisor
- HEALTHLINE Blue
- HEALTH CARE COST ESTIMATOR
- HOSPITAL COMPARISON TOOL

- MY HSA ACCOUNT
- MY HRA ACCOUNT

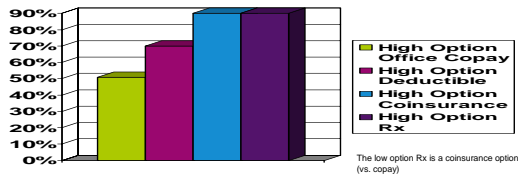
Fixed Contribution Blue:
Employer Selects Series to Match Budget & Benefits Strategy

Fixed Contribution Blue Can Meet Multiple Price Points



Blue Options FC:
Results of Employee Shopping Experience

All series provide a high and low option for office copay, deductible, coinsurance level, and prescription drug coverage.



Employees are more willing to trade off predictable elements like office copays and deductibles than they are medical coinsurance or Rx coinsurance vs. Rx copays.

Blue Options FC:
Which Series did Employers Buy?

•Most employers bought Series whose richest plan was roughly equivalent to their current coverage

–Employees therefore had the option to “buy up” to their current level of benefits

•Assuming an average 10% buy-down, the adjusted benefit level would be in the middle of the selected Series

•The majority of employers funded at or below the lowest plan – using the plan as a “choice” product

•The “shopping experience” generated a high level of awareness and discussion of health insurance choices

Our CDHP portfolio



The entire CDHP Blue portfolio is supported by a suite of Consumer Decision Support Tools:

HEALTHY DIVIDENDS

The Pharma Advisor

HEALTHLINE Blue

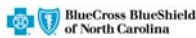
HEALTH CARE COST ESTIMATOR

HOSPITAL COMPARISON TOOL

MY HSA ACCOUNT

MY HRA ACCOUNT

HDHP/HSA: Integrated product offering



We have integrated with a proven, trusted benefits administration partner

HDHP - Design flexibility

Enhanced first dollar preventive care coverage

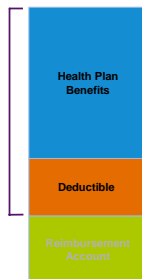
- Waive deductible and choice of 100% or match your coinsurance
- List of predefined preventive services includes annual physicals, well baby/child and immunizations

Integrated Rx

- Members will pay what they owe (based on where they are in their benefit) at the pharmacy

Out-of-pocket maximum

- All member liability for covered services applies to a total out of pocket maximum



HSA fund - Design flexibility



Savings and Investment

- Ability to invest in choice of Dreyfus funds
- Competitive interest rate and fees

Payment Flexibility

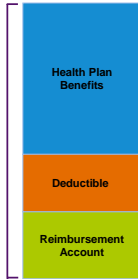
- Branded debit card
- Check book

Administrative Options

- Customizable fee structure
- Support variety of enrollment methods

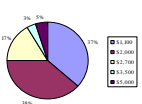
Contributions

- Employers can elect to make contributions via ACH, wire or live checks
- Members can choose to make contributions via payroll deductions or direct payment

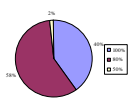


HDHP Quote Characteristics

Single Deductible



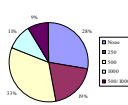
BCBNC Coinsurance



Family Deductible



Employer Fund Contribution



What is an HSA?

- Tax-exempt trust/savings vehicle
 - Similar to Archer MSA and IRA
 - Trustee is bank, insurer or approved by IRS
- "Triple Tax Free"
 - Contributions not taxed
 - Earnings not taxed
 - Distributions not taxed
- Employer and/or employee cash contributions
 - Must be funded
- Belongs to individual
 - Nonforfeitable
 - Portable

What is an HDHP?

- **Deductible**
 - 2006 minimum: \$1,050 Individual / \$2,100 Family*
 - Preventive care may be exempt
 - Rx cannot be exempt
- **Out-of-Pocket**
 - 2006 maximum: \$5,250 Individual / \$10,500 Family*
 - Includes deductible, copays, coinsurance

* Indexed for inflation

Eligibility for HSA's

- **Must be covered under a High Deductible Health Plan (HDHP)**
- **Not covered by non-HDHP***
 - Spouse plan
 - Individual plan
 - FSA
 - HRA
- Cannot be enrolled in Medicare
- Cannot be claimed as dependent on return

***Permitted Exceptions:**

- Coverage for accidents, disability, dental, vision or long-term care
- Workers' compensation, tort or property coverage
- Specified disease/illness (cancer insurance)
- Fixed payments for hospitalization
- FSA or HRA if
 - Cover only permitted non-HDHP services, or
 - Cover only expenses over the HDHP deductible, or
 - Suspended HRA, or
 - Retiree HRA

Contributions into HSA's

- **Maximum annual contribution lesser of**
 - Annual deductible (for in-network services)
 - \$2,700/\$5,450 individual/family — 2006
 - All contributions aggregated
- Can be made under a cafeteria plan
- "Catch-up" contributions for those 55 - 64
 - \$700 additional in 2006
 - Increases \$100 per year to \$1,000 in 2009

Distribution from HSA's

- Tax-Free for qualified medical expenses*
 - Out-of-pocket medical (Sec 213(d))
 - Including OTC drugs
 - COBRA premiums
 - Long-term care insurance
 - For individuals 65 or older
 - Medicare premiums
 - Employer retiree medical premiums
 - Individual health policies (not MediGap)
 - For beneficiary, spouse, dependents
 - Even if not covered under the HDHP!
- Taxable income for other distributions
 - Additional 10% tax, except death, disability or 65+
* No substantiation required

Comparability Rule

- If an employer makes a contribution to any employee's HSA, the employer must make comparable contributions to the HSA's of all comparable participating employees.
 - Categories of coverage: Self-only HDHP & Family HDHP
 - Categories of employees
 - Current full-time employees
 - Current part-time employees
 - Former employees (COBRA exception)
- Same dollar amount or percentage of the deductible

Cafeteria plan exception

- What is a cafeteria plan?
 - A written plan under which all participants are employees and participants may choose among two or more benefits consisting of cash and qualified benefits
- What is cash?
 - Important distinction between "salary deduction" and "salary reduction"

Cafeteria Plan Rules

- **Modified election rules**
 - HSA salary reduction election may be changed prospectively during year
 - Cafeteria plan election allowed mid-year to add HSA
 - Negative elections permitted
- **Non-discrimination rules**
 - Eligibility test – classification, length of service, participation
 - Contributions and benefits test – facts and circumstances
 - Key employee concentration test

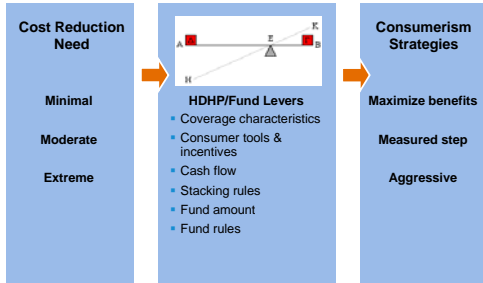
Possible contribution formulas

1. Flat Employer contribution – defined dollar amount or % of deductible
2. Simple match – Employer matches 50% of every \$1 employee contributes up to max of \$X
3. Tiered match – Variable employer match

A couple of caveats

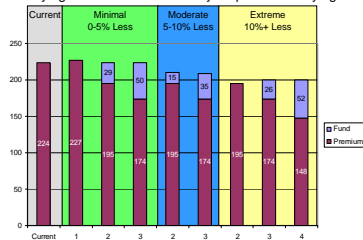
- IRS has requested comments whether the ratio of an employer's matching HSA contributions to an employee's salary reduction HSA contributions should be limited.
- Cafeteria Plan non-discrimination rules are expected to be re-visited by the IRS during 2006

Planning - Addressing the Need



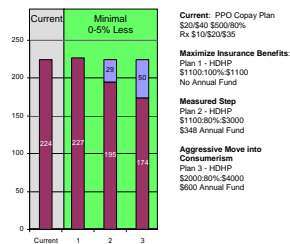
Planning - Flexible Plan Options Enable Various Strategies

- Both plan choice and fund contribution can be used to determine premium reduction
- Buying an HDHP doesn't always equate with buying down benefits



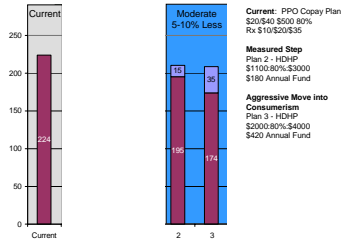
Planning - Flexible Plan Options Enable Various Strategies

- Comparably rich benefits can be achieved through three different strategies



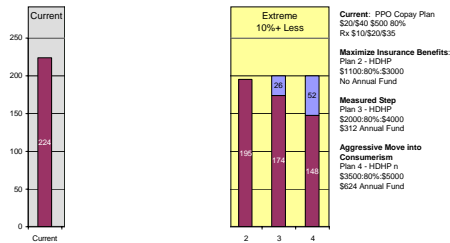
Planning - Flexible Plan Options Enable Various Strategies

- Moderate premium savings can be achieved by using the same strategies with lower fund contributions



Planning - Flexible Plan Options Enable Various Strategies

- Extreme savings can be achieved by using the same strategies, but choosing different plan variables and decreasing fund contributions



Planning - Choosing the Single/Family plan combination

- There is a significant impact on the Family premium due to the Aggregate deductible

- Current Copay
 - \$20/\$40 \$500 80% Rx \$10/\$20/\$35

	Single	Family
Copay	\$224	\$645

- HDHP: lower cost Family
 - Single: \$2000:80%:\$4000
 - Family: \$4000:80%:\$8000

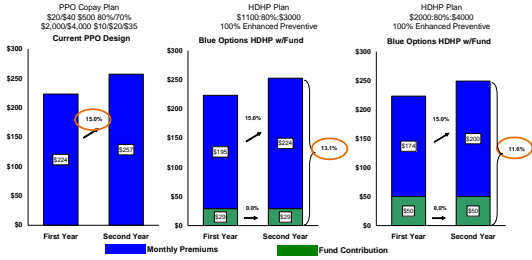
	Single	Family
HDHP	\$174	\$443
Fund	\$50	\$100
Total	\$224	\$543

- HDHP: equal cost Family
 - Single: \$2000:80%:\$4000
 - Family: \$3000:80%:\$6000

	Single	Family
HDHP	\$174	\$499
Fund	\$50	\$100
Total	\$224	\$599

Planning - HDHP with Fund limits trend beyond Year 1

- As the proportion of fund \$ to total expense increases, the more trend is impacted



Planning - Choosing HRA vs. HSA

Measured Step ← → Aggressive Consumerism

	HRA	HSA
Ownership	<ul style="list-style-type: none"> Employer owns the account 	<ul style="list-style-type: none"> Employee ownership
Contributions	<ul style="list-style-type: none"> ONLY employer 	<ul style="list-style-type: none"> Employee and employer, subject to comparability rules
Funding	<ul style="list-style-type: none"> Nominal funding; funded as claims are incurred 	<ul style="list-style-type: none"> Cash! The money is spent
HDHP & Fund Design	<ul style="list-style-type: none"> Limited restrictions; employers set rules for fund features 	<ul style="list-style-type: none"> Limited flexibility; the IRS sets the rules
Contribution \$\$\$	<ul style="list-style-type: none"> Smaller to greater contributions 	<ul style="list-style-type: none"> Smaller to greater contributions

Questions?
