

# Personal Funding Accounts



For Washington groups  
with 51+ employees

# LifeWise's streamlined approach

LifeWise Health Plan of Washington offers an integrated system for implementing and administering personal funding accounts—**Health Savings Account (HSA), Flexible Spending Account (FSA) and Health Reimbursement Arrangement (HRA).**

These products help your group clients manage their healthcare costs by putting healthcare spending decision-making in the hands of the employees. By spending their own money, employees take a greater stake and pay more attention to their health and healthcare.

To provide a smooth and successful personal funding account experience for your clients, LifeWise offers:

- **Claims feed integration**—auto substantiation speeds up the claims payment and reimbursement process, which reduces the number of claims questions to you and your clients' HR department, the amount of lag time and incorrect information
- **Account accessibility**—online "Dashboard" and telephone interactive voice response (IVR) let employers and employees easily access and manage their accounts
- **Healthcare payment card option**—one card does it all.

This material is not intended to be tax or legal advice. The reader should consult with his or her own tax advisor to determine the tax implications of purchasing the products discussed herein. Advice, if any, included in this material was not intended or written by LifeWise to be used, and that it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer.



# Saving you time



LET LIFEWISE BE  
YOUR SOLUTION—  
ONE POINT OF CONTACT!

**Our goal** is to simplify the experience of implementing and using personal funding accounts for your clients. So we seamlessly integrated all the set-up and administration processes involved through one point of contact—LifeWise.

**You'll get** a smooth, one-stop experience that reduces the service time you spend helping clients navigate disparate sources of service and information, and makes your sale easier by eliminating this piecemeal process.

## Personal funding accounts are becoming more and more popular.

The addition of personal funding accounts to health plans is quickly catching on because they provide financial savings for both employers and employees.

### How do personal funding accounts save money for employers?

- **Payroll tax savings**—personal funding accounts present an opportunity for pre-tax payroll deductions
- **Premium reductions**—employers may see a reduction in their monthly premiums by implementing an HSA with a qualified high-deductible health plan, like the PPO HSA 2007 plan or an HRA with an increased deductible PPO plan like PPO 2007 or PPO6 2007.

### How do personal funding accounts benefit employees?

- **Pre-tax contributions to their HSA and FSA**—Every dollar set aside in an FSA and HSA may reduce how much the employee pays in income tax.
- **Grow savings in their HSA**—they earn tax-free interest, if any, and have the option to invest in mutual fund families
- **More control**—employees decide how to spend their healthcare money
- **Better decisions**—employees learn to make more careful and prudent decisions about their health and healthcare

You can trust LifeWise to simplify HRAs, FSAs and HSAs for your clients, while trying to ease your job.

# Health Reimbursement Arrangement

## What it is and how it works

The Health Reimbursement Arrangement (HRA) is an employer-sponsored benefit that reimburses an employee for eligible healthcare expenses incurred by the employee, spouse and eligible dependents. The employer, however, can choose which eligible healthcare expenses are permitted in the HRA.

### LifeWise HRA Plan Designs

LifeWise can configure the HRA in a number of ways and make it work with all our PPO plans. The HRA can also be paired with an FSA or HSA (with limitations). This compatibility gives your clients ample flexibility to craft the right combination of coverage for their employees. Employers should consult with their tax advisors when pairing an HRA with an FSA or HSA. HRAs are available to employers with 51 or more eligible employees.



### HRA QUICK FACTS:

- The HRA must be **funded solely by the employer**; employees cannot contribute funds to their HRA.
- **Eligible healthcare expenses** include deductibles, copays and coinsurance, prescriptions and some over-the-counter medicines.
- **IRS guidelines** require all healthcare expenses paid for with HRA funds be substantiated.
- In general, an HRA **does not have a “use-it-or-lose it” policy**. The employer can specify whether the funds remaining in an employee’s HRA at the end of the plan year roll over or not.



Employers with 51 or more eligible employees can choose from the following options to set up their HRA product:

### Funding

- **What percent of the deductible is covered by the employer?** The employer may select between 10% and 90%, in 10% increments, of the plan deductible per covered member.
- **What are the allocation levels for dependents?** Options, based on family size, include 100%, 125%, 150%, 175%, 200%, 300% and 400% of the employee allocation.
- **How much of the allocation can rollover to the next plan year?** Options include none, 25%, 50%, 100%, 150%, 200%, 300% or 400% of the employee allocation.

- **What is the prorating allocations policy for newly eligible employees?** Employers can prorate allocation based on the number of months or quarters left in the plan year. Or they can offer the employee the full plan year allocation, no matter the employee's start date.

### Payment of Claims

- **Who pays the first part of the deductible?** Employer chooses whether the employee or the HRA pays first.
- **What expenses are covered?** Deductible only; medical plan expenses only including copays; medical and prescription plan expenses including copays; or all IRC Section 213(d) expenses.
- **Is the healthcare payment card available?** If eligible, otherwise LifeWise will streamline claims.

# Flexible Spending Account

## What it is and how it works

A Flexible Spending Account (FSA) is an employee benefit where pre-tax dollars are withheld from their paychecks and deposited into an FSA account. The employee chooses how much money to contribute to an FSA, within plan limits, at the beginning of each plan year. FSA funds are available on a “use it or lose it” basis.

Once an election for the FSA has been made for the plan year, the employee cannot change the amount unless there is a valid change in status.

Employees pay for eligible healthcare and dependent care expenses incurred by themselves, their spouse and eligible dependents by using the funds in their healthcare and dependent care FSAs, respectively.

## FSA Options

- **General FSA**—covers all approved healthcare expenditures under IRC Section 213(d)
- **Limited Purpose FSA**—covers vision and dental expenses only and is usually paired with a Health Savings Account (HSA)
- **Dependent Care FSA**—covers employees’ dependent care expenses



## FSA QUICK FACTS:

- **There is no statutory limit** on the amount of money an employee can contribute to a healthcare FSA. Dependent Care FSAs have limits on contributions.
- **Unused funds do not rollover** for future use and cannot be refunded to the employee.
- **Valid changes in status** include—among other events—legal marital status, number of dependents, employment and residence.
- **Eligible healthcare expenses** may include medical, dental and vision care costs, copays, coinsurance, prescriptions and some over-the-counter medications.
- **Eligible dependent care expenses** may include day care, pre-school and elder care.
- **There are special rules** for the use of an FSA in the same year a contribution is made to an HSA.

# Health Savings Account



## What it is and how it works

The Health Savings Account (HSA) is a triple tax-advantaged savings account that works in conjunction with a qualified high-deductible health plan. The employee has pre-tax money withheld from their paychecks, within IRS limits, and deposited into the HSA. Funds are withdrawn from the account to pay for eligible healthcare expenses incurred by the employee, spouse and eligible dependents at any time in the future without tax or penalty implications.

The HSA participant can seek reimbursement immediately after an expense is incurred. Or the participant leaves the money in the account, earning interest, and accesses the account later for reimbursement.

The HSA presents a big hurdle for many employees because they are asked to incur the risk of paying for first-dollar medical expenses while they build the balance in their account. Therefore, the employer may contribute funds to employee HSAs as an incentive. Since these contributions are subject to special rules, employers should consult with their tax advisor.

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### HSA QUICK FACTS:

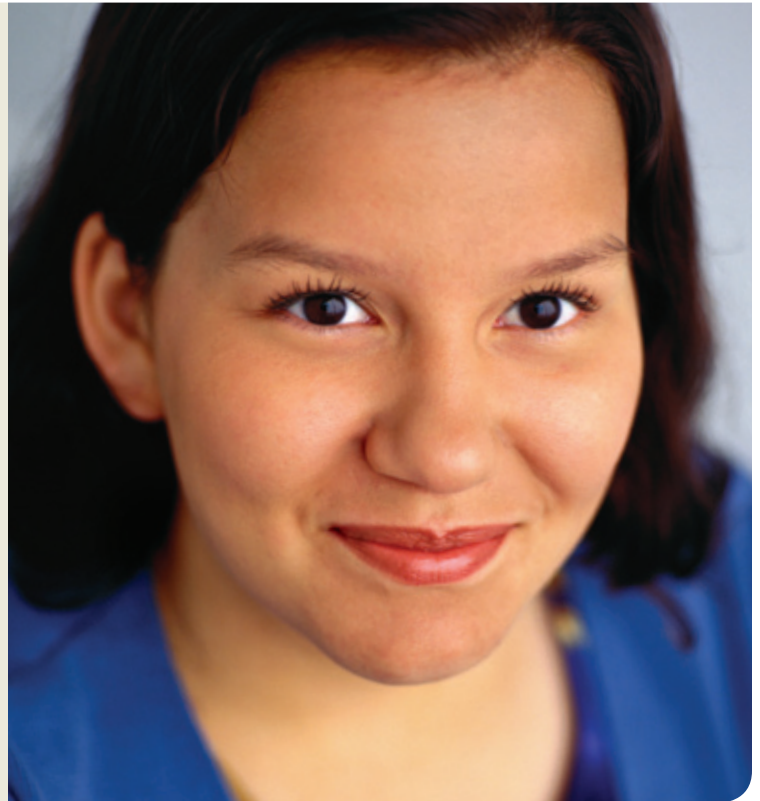
- **Eligible healthcare expenses** include medical, dental and vision care costs, deductible, copays and coinsurance, prescriptions and some over-the-counter medications, and any eligible healthcare expenses not covered by the health plan.
- **An HSA can offer tax savings in three ways.** First, contributions are not taxed; second, both income from investments and interest, if any, are tax-free; and third, eligible healthcare expenditures are not taxed.

## LifeWise HSA-qualified high-deductible health plans

Your clients can combine the PPO HSA 2007 high-deductible health plan with an HSA. The benefit guide has more details about this plan.

# Thank you for representing LifeWise

For more information on Personal Funding Accounts, please consult our Frequently Asked Questions on the producer web pages on [lifewisewa.com](http://lifewisewa.com), or contact your LifeWise sales representative.



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