HEALTH SAVINGS ACCOUNTS and Long-Term Care Insurance:

Consumer Driven Health Care

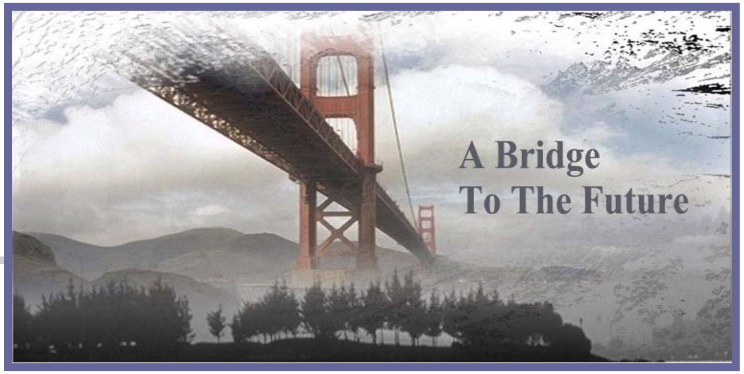
American Health Value

Michael Berry, CEO

LTCI PARTNERS, LLC

Tom Riekse, Jr. CEBS

GOALS



- Overview HSA Benefits
- Define Health Savings Accounts
- Illustrate HSA Marketplace
- Explain LTCI and HSA’s
- Potential Applications

Goal 1: Introduce American Health Value

The Health Savings Account Has Two Parts:

1. Health Savings Account
2. High Deductible Health Plan

Among the many benefits of the HSA legislation is the freedom to choose your HSA administrator or custodian.

American Health Value

Get Informed - Choose Wisely

American Health Value

Provides Leadership:

American Health Value LLC (AHV) located in Boise, ID, is a privately held company. Our custodian has total assets of $531.6 million as of September 30, 2004 and AHV has Errors and Omissions coverage specifically for administering HSAs. Experiencing significant growth since its inception, AHV has positioned itself as the Nation's leader in providing HSAs.

Michael Berry, CEO, holds a Bachelor of Arts, Master of Business Administration, and is a decorated Vietnam veteran. Prior to the healthcare industry, he worked as Executive Director of large law firms, was an Executive Council Agent for New York Life specializing in Estate Planning, and worked for Sedgwick of Idaho as a Property and Casualty Insurance Consultant. Mr. Berry has been licensed in Life, Health, Property, Casualty, and Series 6 and 63 Securities.

AHV is a founding member of CAHI (Council for Affordable Health Insurance). Mr. Berry actively participates in promoting the HSA program as a member of CAHI's National HSA Committee working directly with the IRS and US Treasury for interpretation and implementation of HSAs. Through his involvement with the NRCC (National Republican Congressional Committee), he was appointed to serve as Idaho's member on the New Presidential Business Commission, the National Business Advisory Council, and received the '2003 Businessman of the Year' award. Accomplished author and speaker, Mr. Berry is recognized as one of the experts in HSAs giving numerous presentations and seminars nationwide.

Goal 2: Overview

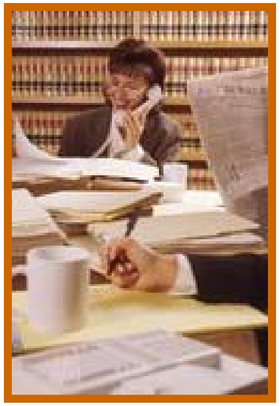
Consumer driven, HSAs address one of America's most serious challenges:

Affordable Healthcare!

Current trends clearly demonstrate the rising cost of healthcare and negative effect on our overall economy.

HSAs Emerge Into The Marketplace

- **Enacted as part of the Medicare Bill**
- **Signed into law on December 8, 2003**
- **Became effective January 2004**



Congressional drafters began with the existing Medical Savings Account legislation and made key improvements offering an impressive list of attractive features.

"This is the beginning of a dramatic change, change that may soon alter the landscape of American healthcare." **Senator Larry Craig - May 19, 2004**

Consider The Facts

It's a fact, lower, more affordable premiums backed with catastrophic coverage produce ripple effects on lowering overall healthcare cost.

Polls have shown 30% reductions in utilization with increasingly higher HSA deposits. Consumers are spending wisely and saving more.

From carriers to administrators to agents, HSAs are placing healthcare choice, responsibility, & accountability into the consumer's hands.

Good for the economy!

Personal Benefits

- Choose Your Personal Healthcare – You Decide
- Private Savings Account – You Own It
- Portable – HSAs Follow You – Not Your Job
- Simple to Use - No Forms – Keep Your Receipts
- Tax Free Current And/Or Future Medical Expenses
- Preventive Coverage & Long Term Care With HSA Tax Free Dollars
- If You Don't Spend It – Save It with Interest
- Tax Deferred Investment Opportunities – Like a Medical IRA
- Provides Tax Benefits & Retirement Options

Economic Benefits

- Lower Qualifying Deductible - Definite Market Appeal
- Lower Insurance Premiums – Typically Bottom Line
- Security with Major Medical Against Catastrophic Loss
- Available To Employers Of All Sizes – A Mainstream Option
- Self Substantiation – Section 105 Claims Review Not Required
- Lower Administrative Costs to Employers
- Improved Healthcare – Doctor to Patient
- Rapidly Growing Market In Momentum
- Encourages Wise Consumer Spending
- Helps Control Rising Healthcare Costs
- Good for The Economy

Goal 3: HSA Defined

Three Basic Considerations:

1. Eligibility
2. Contributions
3. Distributions

SIMPLE AS

Part 1: Eligibility

Any Individual That Is:

- Covered by a Qualified HDHP
- Not Covered by Other Health Insurance
- Not Enrolled in Medicare
- Not Claimed as a Dependent on Someone Else's Tax Return

Other Permitted Healthcare Coverage:

- Specific Disease/Illness, Disability, Dental, Vision, & Long Term Care
- Employee Assistance, Disease Management, or Wellness Programs
- Drug Discount Cards
- Eligible for VA Benefits (Unless received VA health benefits over past 3 months.)

Qualifying HDHP Design

- **Individual Coverage:**

  Annual Deductible Must Be At Least $1,000 with a $5,100 Cap on Out-Of-Pocket Expenses (2005)

  Indexed Annually

- **Family Coverage:**

  Annual Deductible Must Be At Least $2,000 with a $10,200 Cap on Out-Of-Pocket Expenses (2005)

  Indexed Annually

Note: First Dollar Coverage Allowed for Preventive Care

HSA Non-Eligibility

Medical Coverage That Disqualify An HSA:

- Medicare
- Tricare Coverage
- Flexible Spending Arrangement (with exception)
- Health Reimbursement Arrangement (with exception)

HSA, HRA & FSA Work Together

Rule 2004-45 addresses HSA, HRA, and FSA and how they do and do not interact.

- The statue <u>does not</u> permit individuals to contribute to an HSA if covered by a general-purpose health FSA or HRA.
- The ruling <u>allows</u> eligible individuals to contribute to an HSA while also covered by the following types of Health Plans:
  - <u>**Limited purpose FSA and HRA**</u> that restrict reimbursements to permitted benefits such as Dental, Vision or Preventive Care.
  - <u>**Suspended HRA**</u> where the employee has elected to forgo health reimbursements for the HDHP coverage period.
  - <u>**Post-deductible FSA or HRA**</u> that only provide reimbursements after the minimum annual deductible has been satisfied.
  - <u>**Retirement HRA**</u> that only provide reimbursement after retirement.
- Individuals covered by an FSA, HRA or HSA may reimburse expenses from an FSA or HRA before taking distributions from an HSA <u>provided</u> no reimbursements for the same expense. <u>No double-dipping!</u>

HSA, FSA & HRA Comparisons

Eligibility	HSA	FSA	HRA
Small/Large Employers	Yes	Yes	Yes
Self-Employed	Yes	No	No
Requirements	**HSA**	**FSA**	**HRA**
Plan Document	No	Yes	Yes
High Deductible Insurance Required	Yes	No	No
Annual IRS-DOL Form 5500	No	Yes	Yes
COBRA Applies	No	Yes	Yes
HIPAA Certification	No	Generally, No	Yes
Account Retained by Employee Upon Termination of Employment	Yes	No	No, but terminated employees may be covered by plan
Contributions	**HSA**	**FSA**	**HRA**
Employer Contributions	Optional	Optional	Required
Employee Contributions	Optional	Optional	No
Employee Tax	Contributions are deductible “above the line” on IRS Form 1940	Contributions are tax-free	Claim reimbursements are tax-free
Account Pre-Funded by Employer	No	Yes	No
Permitted Uses	**HSA**	**FSA**	**HRA**
Roll Unused Dollars to Next Year	Yes	No	Yes
Reimburse IRC Section 213(d) Medical Expenses	Yes	Yes	Yes
Long Term Care Premiums Paid from Account	Yes	No	Yes
Convert to Taxable Income	Yes	No	No

State Mandates

Transition Relief for State Mandates in place 1/1/2004

- IRS Notice 2004-43 provides transition relief for individuals in states where HDHP are not available because state laws (mandates) require certain benefits be covered without regard to a deductible or below the minimum annual deductible to qualify the HDHP as a HSA qualified plan.
- Before 1/1/2006, a health plan which would otherwise qualify, except that it complies with state mandates, will be treated as an HSA/HDHP qualified plan.
- After 1/1/2006, those plans will loose HSA/HDHP status if such mandates remain in place.

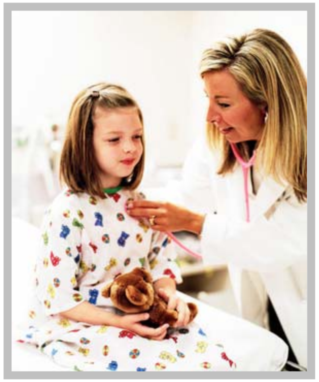
Prescription Drug Relief

- HDHP must apply costs of prescription drugs to annual deductible or the individual may not contribute to an HSA.

- Before 1/1/2006, transition relief is allowed if the individual is covered for prescription drugs by a separate plan or rider from the HDHP.

Preventive Care

- Preventive care generally does not include any service or benefit intended to treat an existing illness, injury or condition.
- Certain drugs and medications can be considered preventive. For example:
  - Drugs taken by a person who has developed risk factors for a disease that has not yet manifested itself or to prevent reoccurrence of a disease. Example: Cholesterol-lowering medication for those with high cholesterol.
- Safe harbor list of preventive care that HDHP can provide first dollar coverage before minimum deductible is satisfied:
  - Periodic health evaluation (e.g., annual physicals)
  - Screening services (e.g., mammograms)
  - Routine pre-natal and well-child care
  - Child and adult immunizations
  - Tobacco cessation program
  - Obesity weight loss programs
- Can also apply co-pays for preventive care services



Part 2: Contributions

CONTRIBUTIONS CAN BE MADE BY:

- **Employer**: If made by employer, it is not taxable to the employee (excluded from income and wages).
- **Individual**: If made by the individual, it is an "above-the line" deduction.
- **Others**: Can come from others & tax deductible by the individual having the HSA (not the person making the contribution).
- **Combined**: Can come from any allowable combination

No Income Limits on Who may Contribute to an HSA
No Earned Income Requirements to Contribute to HSA

Maximum Contributions

Maximum Allowable Contributions From Any Source Are Either:

- Amount of HDHP **[OR]**
- Maximum Specified by Law **[Whichever Is Less]**

Individual Coverage

Maximum Annual Contribution: $2,650 Indexed 2005

Family Coverage

Maximum Annual Contribution: $5,250 Indexed 2005

- Individuals age 55 and older are allowed additional “catch-up” contributions.
- Contributions must stop once an individual is enrolled in Medicare.

Contribution Examples

Individual		Family	
HDHP	HSA	HDHP	HSA
Deductible/Contribution:		Deductible/Contribution:	
$1,000	$1,000	$2,000	$2,000
$2,000	$2,000	$4,000	$4,000
$3,000	$2,650	$6,000	$5,250

- Deposits Allowed Up To April 15 Of Following Year
- Deposit Any Time/Amount (To Maximum)

"Catch-Up" Contributions

2004: $500	**2007:** $ 800
2005: $600	**2008:** $ 900
2006: $700	**2009:** $1000

Pro-rated Contributions

Maximum contributions are based on the number of months covered by HDHP as of first day of month. For example:

- 3 Months of HDHP with Annual High Deductible of $1,200 = $300 Maximum Contribution (3/12ths of $1,200)
- Also Applies to "Catch-up" Contributions - Age 55 for 6 Months in 2005 = $300 (6/12ths of $600)

Contributions in excess of the contribution limits must be withdrawn by the individual or be subject to an excise tax.

- A Pro-rata Portion of Earnings Withdrawn
- Pay Income Tax on Withdrawn Amount – No 10% Penalty

If maximum contribution limits were not reached for the year, any withdrawal for unqualified medical expenses will be subject to both income tax and 10% penalty.

Cafeteria Plan

Employee contributions can be made by a salary reduction arrangement through a cafeteria plan (125 plan).

- Elections to make contributions through a cafeteria plan can change prospectively on a month-by-month basis (unlike salary reduction contribution to an FSA).
- Contributions through a cafeteria plan are "pre-tax" and not subject to individual or employment taxes.
- Employer can automatically make cafeteria plan contributions on individuals' behalf unless the individual affirmatively elects not to have such contributions made (negative elections).

Contributions: Employer

- Are always excluded from employee income (pre-tax).
- Must be “comparable” for all employees participating in an HSA. (if not, there is an excise tax equal to 35% of the amount the employer contributed to employees’ HSA).
- Comparable contributions are contributions to all HSAs of an employer which are the same amount or are the same percentage of the annual deductible.
- Violations of comparability include:
  - Extra contributions to employees who meet a specified age or qualify for the catch-up contributions.
  - Contributions based on length of service.
- Employers count only employees covered under the HSA/HDHP and who have the same category of coverage – self-only or family. No other classification of employees are permitted.

Contributions: Employer

- Employer matching contributions through a cafeteria plan <u>are not</u> subject to the comparability rules; however, cafeteria plan non-discrimination rules apply:
  - Contributions cannot be greater for higher paid employees than they are for lower paid employees.
  - Contributions that favor lower paid employees are allowed.
- Employer contributions based on an employee's participation in health assessments, disease management, or wellness programs - <u>do not</u> have to satisfy comparability rules <u>if</u> the employee elects to receive that contribution in taxable income rather than a non-taxable contribution. Cafeteria plan non-discrimination rules also apply.
- Part-time employees can be tested separately. Part-time customarily means employed less than 30 hours per week.
- Self-employed, partners, and S-Corporation shareholders are generally not considered employees and cannot receive an employer contribution. They are allowed to make deductible contributions as an individual.

Part 3: Distributions

- **Distributions Tax-Free For Qualified Medical Expenses Used By:**
  - Individual Covered by the High Deductible
  - Spouse and/or Dependents of the Individual (even if not covered by the HSA/HDHP)
- **Qualified Medical Expenses Must Occur After HSA Was Established:**
  - Expenses must have occurred after individual enrolled in HDHP and the HSA is established.
  - Distributions can be used to reimburse prior years expenses (back to time HSA was established).
  - No time limit on when distribution must occur; however, sufficient records must be kept to prove the expenses occurred, were not paid or reimbursed by another source, or taken as an itemized deduction.

HSA Distributions

- **HSA Account Holder Responsible For Records And Receipts:**
  - In the event of an IRS Audit
  - Prove to Insurance Company that Deductible was Met
- **When Distributions Are Used For Ineligible Medical Expenses:**
  - Amount of Distribution is Included in Income
  - 10% Tax Penalty (Exception: Death, Disability, or Age 65)
- **Mistaken Distributions Can Be Returned to HSA:**
  - Must show clear, convincing evidence distribution was a mistake of fact.
  - Must be repaid by April 15 of the year following in which individual knew or should have known the distribution was a mistake.

HSA Distributions

Health insurance premiums are not included as qualified medical expenses with these exceptions:

- COBRA Continuation Coverage
- Any Health Plan Coverage While Receiving Unemployment Compensation
- For Individuals drug coverage)
  - Employee share of premiums Enrolled in Medicare:
  - Medicare premiums and out-of-pocket expenses (Part A, Part B, Medicare HMOs, new prescription for employer-based coverage
  - Cannot pay Medigap premiums
- Qualified Long-Term Care Insurance Premiums

HSA Distributions

Estate Treatment of HSA:

- If married, the spouse inheriting the HSA is treated as the owner.
- If not married, the account will no longer be treated as an HSA upon death of the individual. The account becomes taxable to the recipient.
  - Taxable amount will be reduced by any qualified medical expenses incurred by deceased before death and paid by recipient within on year following the death.
  - Taxable amount will also be reduced by amount of estate tax paid due to inclusion of HSA into deceased individual’s estate.

Trustee/Custodian Fees Paid From HSA Are Tax & Penalty Free

Trustee/Custodian Fees Paid Outside The HSA Are Not Tax Deductible

Examples: Eligible Medical & Preventive Expenses

- Alcoholism Treatment
- Ambulance
- Anesthetist
- Annual Physicals
- Blood Tests
- Blood Transfusions
- Child & Adult Immunizations
- Chiropractor
- Contact Lenses
- Dental Treatment
- Dental X-rays
- Dentures
- Dermatologist
- Drugs (Prescription & Non-Prescription)
- Eyeglasses
- Guide Dog
- Gum Treatment
- Hearing Aids/Batteries
- Insulin Treatments
- Obesity Weight-loss
- Ophthalmologist
- Optician
- Optometrist
- Oral Surgery
- Periodic Health Evaluations (Tests & Diagnostics)
- Physician
- Prenatal & Well-child Care
- Psychiatrist
- Psychologist
- Screening Services
- Special School Costs For The Handicapped
- Tobacco Cessation Programs
- Vaccines
- Vasectomy
- Vitamins (Prescription)

Examples: Non-Eligible Medical Expenses

- Athletic Club Membership
- Boarding School Fees
- Bottled Water
- Cosmetic Surgery & Procedures (Voluntary)
- Cosmetics, Hygiene Products & Similar Items
- Funeral, Cremation Or Burial Expenses
- Health Programs Offered By Resort Hotels, Health Clubs & Gyms
- Maternity clothes
- Premiums for life insurance, income protection, disability, loss of limbs, sight or similar benefits
- Travel for general health improvement

For specific tax advice, seek the services of a competent professional.

Goal 4: HSA Marketplace

From initial MSA legislation in 1995, MSAs grew faster than IRAs did in their first five years - while in a market recession.

HSAs have provided unprecedented growth overwhelmingly surpassing MSAs and quickly gaining mainstream approval with 1st year deposits in the millions and 2nd year projections skyrocketing.

- People Want Affordable Insurance.
- People Want Asset Protection Against Catastrophic Illness Or Injury.
- People Want To Save on Future Medical Needs & Long Term Care.
- People Want To Save On Taxes.
- People Want Control Over Their Health Care.
- PEOPLE WANT CHOICE!

Consumers Tell The Real Story

- Consumers come from all socio-economic backgrounds. The HSA benefits everyone – it makes sense.
- Average Annual Healthcare Expenditures:
  - 73% less that $500 a year.
  - 89% spend less that $2000 a year
  - 95% spend $5000 or less a year
  - Consequently, most people will not spend all their HSA funds which roll over tax free and interest bearing year after year.
- According to a a national poll:
  - 80% of employers 20,000 or more will offer HSA by 2006
  - 80% of employers 500 or less will offer HSA by 2006
- 47% of AHV account holders had no previous health insurance coverage.
- Consumers have already contributed over $65,000,000 in deposits with AHV into independent HSAs.

Goal 5: Strategic Alliances

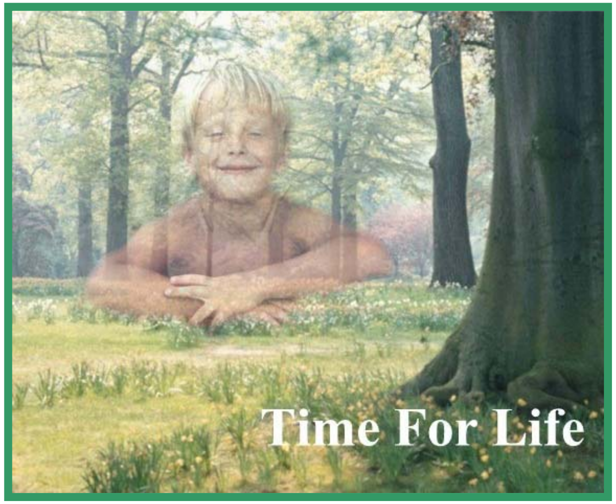
Experience: As the first authorized MSA Administrator transitioning to HSAs in 2004, AHV devotes 100% of their business providing comprehensive HSA consulting, training, product, and service to carriers, agents, employers, and individuals. This is all we do and our emphasis is on doing it best!

Product: AHV provides a straightforward HSA product that is easy and convenient to the account holder. We do not have hidden fees. Through experience and volume, we know this is important in maintaining our members!

Service: AHV is dedicated to providing quality customer service with attention to maintaining the highest performance standards through comprehensive training and monitoring of our staff. We truly offer a personal touch!

Trust: AHV has not undergone any merger/acquisition to expand our business nor do we cross market services to our account holders. AHV has built trusted and secured relationships endorsed across industry by carriers, agents, and associations nationwide – one life at a time!

American Health Value Provides:



- Individual Checking Accounts
- FDIC/SIPC Insured
- 50 Free Checks
- No Fee VISA Debit Card
- Monthly Statements
- Annual Tax Reporting Statement
- 24/7 Web Access with Personal Back Office
- Full Customer Service Support & Training
- Optional Discount Programs & Investment Opportunities

Optional Discount Programs

By taking advantage of the optional discount benefits, account holders can <u>reduce HSA fees to zero</u> with savings on current medical expenditures:

- **Free Discount Prescription Card:** Save at over 45,000 pharmacies including Internet and mail order.
- **Dental:** Save 20-60% on dental care, including cosmetic dentistry and orthodontics. Over 20,000 providers nationwide.
- **Vision:** Savings on eye exams, frames, prescription lenses, contacts, non-prescription sunglasses and surgical procedures including LASIK. Over 10,000 providers nationwide.
- **Chiropractic:** Free initial consultation and up to 50% on other services. Over 12,000 providers nationwide.
- **Alternative Medicine:** Save 20-30% on acupuncture, acupressure, homeopathy, herbology, meditation, massage therapy, aromatherapy, nutritionists, holistic medicine, and yoga. Over 10,000 providers nationwide.
- **Plus More:** Enhanced Pharmacy Network, Nurse on Call, Preferred Provider Network, and National & International Point of Service

Long-Term Care Insurance and HSA's

- What's the relationship?
- What are the rules?
- How can the 2 work together?
- Possible Applications

HSA’s and Long-Term Care Insurance

- Similarities
  - Similar Buyer Demographics – self-sufficient, well-educated, moderately well-off+.
  - Government encouragement of both products as part of the “ownership” society – similar industry and trade group backing.
  - Steep learning curve for both agents and consumers

Similarities

- Both products are available to individuals – but are more attractive through an employer setting.
- Target your market!

LTCI Tax Limits – apply to HSA's

Tax Year 2004		**Tax Year 2005**	
Age		Age	
Under 40	$260	Under 40	$270
41-50	$490	41-50	$510
51-60	$980	51-60	$1,020
61-70	$2,600	61-70	$2,720
Over 70	$3,250	Over 70	$3,400

Per Diem Limitation: 2004 $230/day, 2005 $240/day

Example of Individual HSA Owner

- 55 year old married individual with 52 year old spouse
- Has an HSA with a $6,000 family deductible HDHP
- LTCI premiums are $4000 for couple
- Individual can contribute up to $5,650 into the HSA ($5,150 plus $500 "catch-up")
- Up to $2,040 of the HSA funds can be used for the annual LTCI premium ($1,020 x 2)
- Remaining $1,960 of premium is deductible subject to 7.5% of AGI
- Once individual reaches 61 years of age, entire premium can be paid out of HSA account – which may have sizeable accumulation assuming good health.

Self-Employed, 2% S-corp owners, Partnerships, LLC

- 100% of premium is deductible up to previous schedule amount
- Premiums paid on behalf of employees 100% deductible as health insurance
- Premiums not considered income to employee
- Benefits received Tax-Free

C-Corporations

- 100% deductible to corporation without limits in premium as reasonable compensation
- Not subject to nondiscrimination rules
- Excludable from Income
- Benefits Tax-Free
- Accelerated Pay Plans

HSA with Employer LTCI Core Benefit Plan

- Concept: Employer with HSA plan also provides a “core” benefit LTCI program for employees, while purchasing generous modified guaranteed issue benefits for executive group.

Example

- 50 employee closely held family business
  - 5 employees and spouses get executive-carve out benefits ($200/day, 5 year plan, built-in inflation). Premium Cost - $1,000/month
  - 45 employees get “starter” ltci plan ($100/day, 3 year plan, GPO). Premium Cost - $1,350 per month.

Good Rule of Thumb

- In our practice, we’ve used the age/monthly premium estimate
- For any given $100/day, 3 year, GPO LTCi plan, the monthly premium will be approximately equal to that employees age.

Benefits for Employer

- Generous Modified Guaranteed Issued Benefits – by providing coverage for everyone, group can qualify for easy underwriting even though benefits vary throughout group.

Benefits for Employer

- Can ease conversion to HSA high deductible program. Company switching from normal PPO plan moves to HSA, but includes:
  - Employer contribution to individual employee HSA accounts funded by premium savings
  - Base affordable LTCI benefit funded by premium savings

What If the Math Doesn't add up?

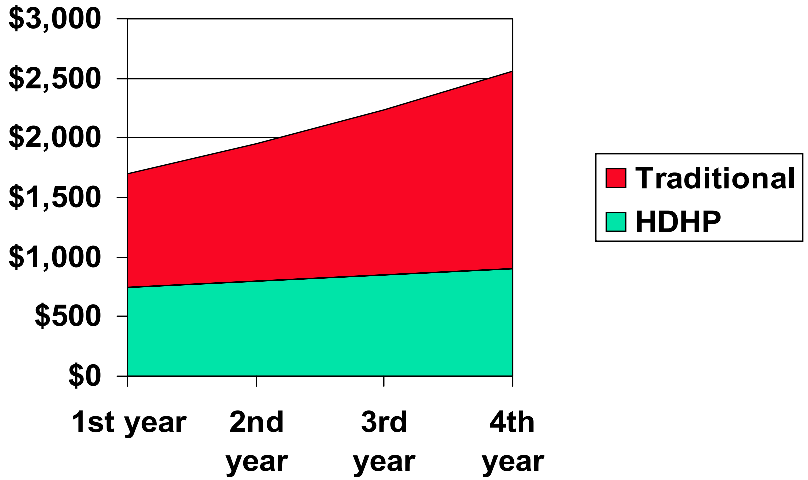
- Perhaps the premium savings the <u>first</u> year won't cover an employer both funding some of the HSA accounts *and* purchasing a core LTC program. Does that mean it shouldn't be done?

Of course not!

- Smart business will look at their benefits plan as an investment – especially companies looking at the HSA accounts.

Premium Savings

- Over time, the experience should be better for a HSA-compatible plan resulting in even greater premium differences in the future.



Benefits for Employees

- Employer Funded Health Savings Accounts
- Core LTCI Plan
- Ability to buy-up additional LTC benefits using pre-tax dollars (LTCI not available as a cafeteria plan).
- Completely Portable

Additional Benefits for Group

- Long-term Health Cost Savings – can increase deductible over time
- Healthy Employees build up additional retirements savings and medical funds for any use.
- Additional Benefit builds loyalty
- LTC Plan Benefits
  - Piece of mind
  - Protection of retirement savings
  - Employer goodwill
  - Care information access

What Is the Future?

- LTCI Carriers are betting on the worksite market place for Sales Growth
- Health Insurers are investing huge resources in HSA programs
- Federal and State Governments are committed to the “consumer driven healthcare” model
- Trusted Advisor can bridge benefit, tax, and personal financial planning issues.

Questions?

Information Resource Center

American Health Value
671 E. Riverpark Lane, Suite 100
Boise, ID 83706

Customer Service: 800-914-3248

Website: www.americanhealthvalue.com

Email: questions@americanhealthvalue.com