London Health Administrators

Administrators of Innovative Healthcare Solutions

CONSUMER SPENDING ACCOUNTS
Overview of Services
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## I. London’s Consumer Spending Accounts Overview:

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<tr>
<th>Health Reimbursement Arrangements (HRA)</th>
<th>Health Savings Accounts (HSA)</th>
<th>Flexible Spending Accounts (FSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funding parties</strong></td>
<td>Employer</td>
<td>Employer and/or Employee</td>
</tr>
<tr>
<td><strong>Funding process</strong></td>
<td>ACH transfer, direct deposit, and/or personal check</td>
<td>ACH transfer, direct deposit, and/or personal check</td>
</tr>
<tr>
<td><strong>Methods to access funds</strong></td>
<td>Debit card or manual claim reimbursement</td>
<td>Debit card or manual claim reimbursement</td>
</tr>
<tr>
<td><strong>Eligible expenses</strong></td>
<td>Qualified healthcare expenses designated by Employer</td>
<td>Qualified healthcare expenses, such as, medical, dental, vision, and prescription deductibles and copays, over the counter drugs, and eyeglasses</td>
</tr>
<tr>
<td><strong>Funds rollover</strong></td>
<td>Determined by Employer</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Funds Portable</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Health plan requirements</strong></td>
<td>None</td>
<td>Minimum Deductible: Individual = $1,150 Family = $2,300 Out-of-Pocket Maximum: Individual = $5,800 Family = $11,600</td>
</tr>
<tr>
<td><strong>Annual contribution max</strong></td>
<td>Determined by Employer</td>
<td>Individual = $3,000 Family = $5,950</td>
</tr>
<tr>
<td><strong>Tax deductions</strong></td>
<td><strong>Employee:</strong> Funds received for reimbursement are not taxable <strong>Employer:</strong> Funds deposited are tax deductible</td>
<td><strong>Employee:</strong> Funds in account are taken out of paycheck before taxes are applied <strong>Employer:</strong> Funds deposited are tax deductible</td>
</tr>
<tr>
<td><strong>Investment options available</strong></td>
<td>None</td>
<td>Money market funds, mutual funds, and equity funds</td>
</tr>
<tr>
<td><strong>Bank offering investments</strong></td>
<td>None</td>
<td>HSA Bank</td>
</tr>
<tr>
<td><strong>Customer service questions</strong></td>
<td>Contact London Health at: Toll-free: 800-343-2236 opt. 3 Local: 401-435-4700 opt. 3 Fax: 401-435-3937</td>
<td>Contact London Health at: Toll-free: 800-343-2236 opt. 3 Local: 401-435-4700 opt. 3 Fax: 401-435-3937</td>
</tr>
</tbody>
</table>

### What Consumer Spending Account Fits Your Company?

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II. London’s Consumer Spending Accounts: HRA

Getting Started…

The main goal of London’s Health Reimbursement Arrangement (HRA) is to allow the employer to control their health insurance costs. Our HRA is implemented with a consumer-driven health plan from Blue Cross & Blue Shield of Rhode Island (BCBSRI), and with the savings from the decreased premium, the employer creates a benefit bank to manage the employees’ deductibles and/or copays. By managing the 1st Dollar benefits, the employer now has the unique control to maximize the amount of savings from their insurance premiums.

The advantage of working with London’s HRA is our ability to adapt our model to your specific group. We can adjust our reimbursement program to pay various amounts of your employees’ deductibles/copays. For example, we can program our HRA to reimburse 100% of the deductible, or to reimburse after your employees have paid a specified portion. Please see scenarios #1 and #2 for further explanation.

London also offers five template plans such as our Traditional HRA, Tailored HRA, Multiple-Choice HRA, Health-Dental HRA, and FSA-HRA Multiple Purse Program. In order to continue our ability to control your healthcare costs, we apply additional helpful resources such as reimbursement risk control and utilization reporting. In the end, by using London’s HRA, the employer has the ability to control their HRA expenditures.
II. London’s Consumer Spending Accounts: HRA

How London’s HRA Works - Scenario #1:

The group is insured through a Blue Cross & Blue Shield of Rhode Island $2,000 Deductible Consumer-Driven Health Plan, in which the Employer agrees to reimburse 100% of the employees deductible through London’s HRA. The Employer uses savings by moving from a low to a higher deductible health plan to fund the HRA. Then as the employees incur deductible services, London reimburses their out-of-pocket expenses. Since London only reimburses services that are incurred, the Employer usually saves more than the HRA pays out.

HRA Reimbursement Process - Scenario #1:

1. Member goes to the hospital for outpatient surgery and shows their BCBSRI ID card. The hospital bills Member for $2,000 deductible.

2. Member uses their HRA debit card to pay for the qualified medical expense at the point of service.

3. London updates online account to reflect payment activity.

4. London provides Employer with monthly account utilization reports.

5. London notifies Member bill is balanced, as well as, produces monthly account utilization reports for the Employer.
How London’s HRA Works - Scenario #2:

The group is insured through a Blue Cross & Blue Shield of Rhode Island $2,000 Deductible Consumer-Driven Health Plan, in which the Employer agrees to reimburse $1,500 of the employees deductible through London’s HRA after the employees have paid the first $500. The Employer uses savings by moving from a low to a higher deductible health plan to fund the HRA. Then as the employees incur deductible services, London reimburses their out-of-pocket expenses. Before London reimburses their out-of-pocket expense, the employees must prove they paid the first $500 of their deductible. Since London only reimburses services that are incurred, the Employer usually saves more than the HRA pays out.

HRA Reimbursement Process - Scenario #2:

1. Member goes to the hospital for out-patient surgery and shows their BCBSRI ID card. The hospital bills Member for $2,000 deductible

2. Before debit card is activated, he/she must prove to London that they paid the first $500 of their deductible

3. When proof of payment is received, London activates debit card

4. Member then can use their HRA debit card to pay for the medical expense up to $1,500

5. London updates online account to reflect payment activity

6. London provides Employer with monthly account utilization reports
II. London’s Consumer Spending Accounts: **HRA**

**HRA Enrollment Process**

**Step #1**
Employer sends HRA group info to London

**Group Info Includes:**
- ER setup form
- Census
- Agreement
- Banking info

**Tasks Include:**
- Create HRA plan
- Setup HRA bank account
- Activate debit cards (if applicable)
- Setup online portals
- Develop welcome packets

**Step #2**
London builds HRA for each member

**Step #3**
London sends Welcome Packets to Employees

**Welcome Packet Includes:**
- Welcome letter
- Member Guide
- Member portal PIN
- Debit cards (if applicable)
- Claim reimbursement form
- Plan Document

**Step #4**
London provides onsite HRA workshop (for 25 or more enrolled EEs)

**Step #5**
London provides ongoing HRA support

**HRA Support Includes:**
- EE/ER customer service
- Utilization reporting
- Risk Management
- HRA Eligibility

Account Setup Takes About 45-60 Days

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**HRA Options:**

- Traditional HRA
- Tailored HRA
- Multiple-Choice HRA
- Health-Dental HRA
- FSA-HRA Multiple Purse Program

**Features:**

- Debit Card or Manual Reimbursement Processing
- Enrollment and EE Communication
- No Pre-funding Required
- Account Specific Utilization Reports
- Section 105 Reporting

**HRA Case Study:**

**Client’s Industry = Manufacturing**

**Headquarters = Rhode Island**

**Plan Year = 2007**

### Enrollment

<table>
<thead>
<tr>
<th>Plan Name</th>
<th>Single</th>
<th>Family</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCBSRI Health Plan</td>
<td>97</td>
<td>49</td>
<td>146</td>
</tr>
</tbody>
</table>

**Savings Results: (from Jan. 1, 2007 to December 31, 2007)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old Plan Design:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BCBSRI</td>
<td>$1,070,374.80</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>$500/$1,000 Deductible Health Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Plan Design:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BCBSRI</td>
<td>$973,068.00</td>
<td>$52,375.02</td>
<td>$6,750.00</td>
<td>$38,181.78</td>
</tr>
<tr>
<td>$2,000/$4,000 Deductible Health Plan + London's HRA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**1st Year Savings:**

*Employer reimbursed $1,500/$3,000 of the employee's deductible after the employee has paid the first $500/$1,000*
London’s HSAs are pre-taxed medical saving accounts that help your employees pay for their medical expenses. These savings accounts are set-up for each employee that go along with a HSA compatible high deductible health plan from Blue Cross & Blue Shield of Rhode Island (BCBSRI), and can be funded by both you and/or employee. The account can be used to pay for medical expenses only according to Section 213 of the IRS code such as deductibles, copays, eyeglasses, over-the-counter drugs, etc.

The most unique component of an HSA is its long-term benefits. If there is still money left in the employee’s HSA at the end of the year then the funds carry over to the next year. The funds in the account can also be invested in interest-earning vehicles such as money market accounts and mutual funds. Therefore, this program can be treated like a 401k that builds funds to be used for future medical expenses.
III. London’s Consumer Spending Accounts: **HSA**

**How London’s HSA Works**

January 1, 2009  

December 31, 2009  

January 1, 2010

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**Short-Term Utilization:**
Funds in the employee’s HSA can be accessed by their debit card or mailing in a claim for reimbursement. They may use the HSA to pay for qualified medical expenses such as deductibles, copays, eyeglasses, over-the-counter drugs, etc.

**Employee’s 2009 Paycheck:**
- Gross Income = $36,000
- Pre-Tax HSA Contribution = $3,000
- Taxable Income = $33,000
- Taxes = $8,794.50
- Take Home Income = $24,205.50

**Employee’s 2009 HSA Plan:**
- $3,000 in bank account

**Employee’s 2010 HSA Plan:**
- $4,000 in bank account
- $1,000 unused funds at end of 2008

**Long-Term Utilization:**
Funds in the employee’s HSA can be invested to plan for their future medical expenses. They have the option of investing in money market accounts, mutual funds, and equity funds offered by HSA Bank.

**Rollover Unused Funds:**
Since the employee did not utilize $1,000 of their 2009 HSA funds, the unused funds carry over to next year’s account. Then in 2010, the employee contributes another $3,000 into their HSA making total funds available of $4,000.

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**IRS Regulations for Health Savings Accounts**

**2009 Requirements:**

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Maximum Annual Contribution to HSA</th>
<th>Minimum Health Plan Deductible</th>
<th>Out-of-Pocket Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>$3,000</td>
<td>$1,150</td>
<td>$5,800</td>
</tr>
<tr>
<td>Family</td>
<td>$5,950</td>
<td>$2,300</td>
<td>$11,600</td>
</tr>
</tbody>
</table>

Source: United States Internal Revenue Service - 2008

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III. London’s Consumer Spending Accounts: HSA

London’s HSA Investments

Employees that enroll in London’s HSA have the opportunity to invest their funds in interest-earning vehicles such as money market funds, mutual funds, and equity funds. They can customize their portfolio to achieve their desired level of long-term earnings. As their HSA funds accumulate, they are able to build up an account to pay for future medical expenses.

Employee’s 2009 HSA Plan:

Employee’s 2009 Investment Account:

$2,000 in account

$1,000 in account

$3,000 Total in Employee’s HSA

Managing the investments is easily accomplished online. Each employee has their own online portal, which they use to view account balances, transfer funds, select investments, and print account statements.
Member goes to the pharmacy for Lipitor and shows BCBSRI ID card.

Member pays BCBSRI allowance with personal funds.

Member sends receipt to London Health Administrators.

London updates online account to reflect payment activity.

London receives receipt, verifies funds in HSA, processes claim, and sends a check to Member for their amount paid.

HSA Fund Utilization

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III. London’s Consumer Spending Accounts: \textit{HSA}

**HSA Enrollment Process**

- **Step #1**
  - Employer sends HSA group info to London
  - Group Info Includes:
    - ER setup form
    - Census
    - Agreement
    - Banking/Payroll info

- **Step #2**
  - London sends HSA enrollment material to members
  - Enrollment Material Includes:
    - Member application
    - ACH/Direct Deposit Authorization
    - HSA Agreement

- **Step #3**
  - Member returns HSA application to London

- **Step #4**
  - London builds HSA for each member
  - Tasks Include:
    - Create HSA plan design
    - Coordinates banking transfers
    - Activate debit cards
    - Setup online portals
    - Develop welcome packets
    - Provide onsite workshop (only for groups with 25+ enrolled employees)

- **Step #5**
  - HSAs are active and members receive Welcome Packets
  - Welcome Packet Includes:
    - Welcome letter
    - Member Guide
    - Member portal PIN
    - Debit cards
    - Claim reimbursement form

**Account Setup Takes About 60-70 Days**
III. London’s Consumer Spending Accounts: *HSA*

**Advantages For Employer:**
1) Maximize healthcare dollars
2) Increase employee satisfaction and decrease turnover
3) Decrease taxes
4) Reduce health insurance premiums
5) Increase employee awareness of true healthcare costs

**Advantages For Employee:**
1) HSA can be used to pay for qualified medical, dental, vision and Rx expenses
2) Rollover unused funds from year to year
3) Investment planning for long-term
4) Funds are portable from job to job

**Features:**
- ✓ HSA funds rollover from year to year
- ✓ Debit card capabilities
- ✓ Access to online account activity
- ✓ Detailed and instant payment reports
- ✓ Group and personal employee communication
- ✓ Convenient banking and funds transfer
- ✓ Investment banks offered = HSA Bank
- ✓ Investment options offered = Money Market, Mutual Funds, and Equity Funds
London’s FSAs are pre-taxed medical savings accounts that are funded by the employee and/or employer. An account is set-up for each employee that chooses to participate. Money in the FSA can be used to help employees pay for qualified medical expenses according to Section 213 of the IRS code such as deductibles, copays, eyeglasses, over-the-counter drugs, dependent care, and transportation services. Since FSAs are funded by pre-taxed dollars, the employee increases their take-home income, and the employer pays less in payroll taxes. The employee has 15 months from the plan’s effective date to use the money in the FSA. Any unused funds do not carry over from year to year.
IV. London’s Consumer Spending Accounts: FSA

How London’s FSA Works

Income Savings Illustration for Employee in 2009:

<table>
<thead>
<tr>
<th></th>
<th>Not Enrolled In a FSA</th>
<th>Enrolled In a FSA</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before-Tax Annual Income:</td>
<td>$38,000</td>
<td>$38,000</td>
<td></td>
</tr>
<tr>
<td>FSA Contribution</td>
<td>$0</td>
<td>-$500</td>
<td>FSA funded by pre-tax dollars</td>
</tr>
<tr>
<td>Taxable Annual Income:</td>
<td>$38,000</td>
<td>$37,500</td>
<td></td>
</tr>
<tr>
<td>Federal Income Tax (15%)</td>
<td>-$5,700</td>
<td>-$5,625</td>
<td>Pay less in Federal Income Tax</td>
</tr>
<tr>
<td>State Income Tax (4%)</td>
<td>-$1,520</td>
<td>-$1,500</td>
<td>Pay less in State Income Tax</td>
</tr>
<tr>
<td>FICA Tax (7.65%)</td>
<td>-$2,907</td>
<td>-$2,869</td>
<td>Pay less in FICA Tax</td>
</tr>
<tr>
<td>Out-of-Pocket Medical Expenses</td>
<td>-$500</td>
<td>$0</td>
<td>Out-of-pocket medical expenses paid by pre-tax dollars in your FSA</td>
</tr>
<tr>
<td>Take-Home Annual Income</td>
<td>$27,373</td>
<td>$27,506</td>
<td>Take-home income increases by $133</td>
</tr>
</tbody>
</table>

*Illustration is just an example. Incomes, contributions, and taxes will vary by individual and state.

Short-Term Utilization:
Funds in the employee’s FSA can be accessed by their debit card or mailing in a claim for reimbursement. They may use the FSA to pay for qualified medical expenses such as deductibles, copays, eyeglasses, over-the-counter drugs, etc.

Employee’s 2009 FSA:
$500 in account

Any unused funds after fifteen months of the plan year effective date will not carry over to the next year.

Flexible Spending Account Options

✓ Health
✓ Dependent Care
✓ Parking
✓ Transportation

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IV. London’s Consumer Spending Accounts:

**FSA Fund Utilization**

1. Member goes to the primary care physician and shows their BCBSRI ID card. Member billed $15 copay

2. Member uses their FSA debit card to pay for the qualified expenses at the point of service

3. London updates online account to reflect payment activity

4. London receives receipt, verifies funds in FSA, processes claim, and sends a check to Member for the amount of the copay.

Member pays copay with personal funds

Member sends receipt to London Health Administrators
IV. London’s Consumer Spending Accounts: FSA

FSA Enrollment Process

Step #1
- Employer sends FSA group info to London

Group Info Includes:
- ER setup form
- Census
- Agreement
- Banking/Payroll info

Step #2
- London sends FSA enrollment material to members

Enrollment Material Includes:
- Member application
- ACH/Direct Deposit Authorization
- FSA Agreement

Step #3
- Member returns FSA application to London

Tasks Include:
- Create FSA plan design
- Coordinates banking transfers
- Activate debit cards
- Setup online portals
- Develop welcome packets
- Provide onsite workshop
  (only for groups with 25+ enrolled employees)

Step #4
- London builds FSA for each member

Step #5
- FSAs are active and members receive Welcome Packets

Welcome Packet Includes:
- Welcome letter
- Member Guide
- Member portal PIN
- Debit cards
- Claim reimbursement form
- Plan Document

Account Setup Takes About 45-60 Days

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IV. London’s Consumer Spending Accounts: \textit{FSA}

\textbf{Features:}

- Debit card capabilities
- FSA can be paired with an HRA program
- Group and personal employee communication
- Detailed and instant payment reports
- Access to online account activity
- Convenient banking and funds transfer
- Enrollment materials
- Personal customer care

\textbf{FSA Can Be Used to Pay For:}

- Medical, Dental, Vision and Rx deductibles & copays
- Over-the-counter drugs
- Eyeglasses
- Chiropractor visits
- Premiums for qualified insurance plans, such as, Long-Term Care and COBRA
- Dependent care services
- Transportation and parking expenses
V. London’s Benefit Debit Cards:

**Easy Access to Funds**
The employee’s debit card can be used to immediately access funds available in their HRA, HSA or FSA to pay for qualified healthcare expenses at the point of sale. As long as sufficient funds are available in their account, paying for approved products and services is as easy as one swipe of their card.

**Control Funds in Account**
Each debit card is specially coded to only accept healthcare related expenses such as deductibles, copays, over-the-counter drugs. If the employee uses the card to purchase non-related healthcare products or services than the sale will be rejected. Acceptance of the debit card may vary by provider or vendor. Also, member is not able to withdraw funds from account via debit card at an ATM machine for cash.

**Online Member Tools**
Immediately after the employee’s debit card transaction, London will update their HRA, HSA or FSA account balance. The employee then has access via the Internet to view the remaining funds available.
VI. London’s Customer Care Center:

London Health Administrators is dedicated to providing you with all the support and assistance you require to maximize your consumer spending account experience. We will assign your group with a personal account representative who will be able to handle all questions regarding enrollments, eligibility, claim reimbursement, banking, member accounts, claim reporting, etc. You will have direct access to your account representative that can be reached by phone or email Monday through Friday from 8am – 4:30pm Eastern Standard Time. Please call us anytime for we are here to help you and your employees.

General Contact Info:

London Health Administrators

40 Commercial Way

East Providence, RI 02914

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Local #: 401-435-4700 option 3

Fax #: 401-435-3937

Website: www.londonhealthusa.com
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Fax#: 401-435-3937

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