

A new, optional high-deductible health plan with health savings account for eligible State of Texas employees and retirees

Beginning September 1, 2016, State of Texas employees and retirees not eligible for Medicare have a new health plan option. Consumer Directed HealthSelect<sup>SM</sup> combines a high-deductible health plan with a tax-free health savings account (HSA). Members do not have to enroll in Consumer Directed HealthSelect. They can stay in HealthSelect<sup>SM</sup> of Texas or a health maintenance organization (HMO).

## A very different plan

Consumer Directed HealthSelect is very different from the existing HealthSelect of Texas plan and the regional HMOs. It has a much higher deductible, which could mean much higher out-of-pocket costs. But it has lower monthly dependent premiums. In addition, every eligible participant can contribute to a tax-free HSA, and the State of Texas also will contribute to every eligible participant's HSA.

Because of the possibility of much higher out-of-pocket costs, members should think carefully before signing up for Consumer Directed HealthSelect. They should understand all the costs and benefits, to know if the plan is right for them and their families. If a member cannot afford thousands of dollars in upfront out-of-pocket costs before the plan starts paying for any covered health services and prescriptions (except preventive care), he or she probably should not enroll in Consumer Directed HealthSelect.

In Plan Year 2017, the high-deductible health plan will be administered by UnitedHealthcare, the current administrator of HealthSelect of Texas. The HSAs will be administered by Optum Bank, a subsidiary of United HealthCare Services, Inc. with more than 10 years of experience managing health savings accounts.

## CONSUMER DIRECTED

# HealthSelect<sup>SM</sup>

## Higher annual deductible

- The deductible is the amount a participant must pay for covered health services and/or prescriptions before the plan begins to pay for anything except preventive services.
- The Consumer Directed HealthSelect deductible for Calendar Years 2016 and 2017 is \$2,100 for an individual or \$4,200 for a family (the member plus at least one family member).
- Until the deductible is met, the participant is responsible for the full costs of non-preventive services and prescriptions, which could be much higher than the copays in HealthSelect of Texas and the HMOs. Some prescriptions could cost hundreds or even thousands of dollars.
- Like with HealthSelect of Texas and the HMOs, preventive services such as annual check-ups, screenings and vaccines will be covered at 100% – even if the deductible hasn't been met.
- Once the deductible is met, the plan pays 80% for eligible, in-network costs, and 60% for eligible, out-of-network costs.
- The annual deductible is based on a calendar year (January through December). The deductible for members who enroll during Summer Enrollment will start on September 1, 2016 and will reset on January 1, 2017. After that, the deductible will reset on January 1 each year.
  - For members who switch from HealthSelect of Texas to Consumer Directed HealthSelect, any eligible out-of-pocket costs members have paid since January 1, 2016 will be applied to the 2016 out-of-pocket maximum, which also will reset on January 1, 2017. Out-of-pocket costs paid by members who switch from any of the HMOs will not be applied to the Consumer Directed HealthSelect out-of-pocket maximum.

## Lower monthly dependent premium

- Like with HealthSelect of Texas and the HMOs, the State of Texas will pay 100% of the Consumer Directed HealthSelect premium for eligible employees and retirees, and 50% for eligible family members.
- The ERS Board of Trustees will decide the premiums at its May 17 meeting. The premiums will be lower than those for HealthSelect of Texas and the HMOs.

## Network benefits

- Consumer Directed HealthSelect will have the same large, provider and pharmacy network as HealthSelect of Texas, including tens of thousands of providers and pharmacies across Texas, as well as Caremark’s prescription mail service.
- Participants can see out-of-network providers if they want, but those providers usually will cost more than in-network providers. And participants will have to meet an even higher annual deductible for out-of-network services – \$4,200 for an

individual and \$8,400 for a family – and pay any costs over the allowable amount (known as balance billing).

- Consumer Directed HealthSelect participants do not have to choose a primary care physician (PCP), and they don’t have to get referrals to see specialists.

## Annual out-of-pocket maximum

- Like with HealthSelect of Texas and the HMOs, there is a limit to how much an individual or family will have to pay out-of-pocket for in-network services in Consumer Directed HealthSelect each year. After a participant meets the out-of-pocket maximum, the plan pays 100% for the rest of the calendar year. The out-of-pocket maximum includes eligible out-of-pocket expenses paid both before and after the deductible is met.
- The chart below shows the out-of-pocket maximums for all health plans. The in-network out-of-pocket maximum is the same in all three plans. There’s no out-of-network maximum in HealthSelect of Texas and the HMOs.

	In-Network Out-of-Pocket Maximum	Out-of-Network Out-of-Pocket Maximum
	Consumer Directed HealthSelect HealthSelect of Texas HMOs	Consumer Directed HealthSelect Only
Calendar Year 2016	Individual: \$6,450 Family: \$12,900	Individual: \$12,900 Family: \$25,800
Calendar Year 2017	Individual: \$6,550 Family: \$13,100	Individual: \$13,100 Family: \$26,200

## HSAs: savings for health expenses, with tax benefits

- Every eligible employee and retiree who participates in Consumer Directed HealthSelect will be able to open an HSA with Optum Bank, to help pay for any qualified out-of-pocket health costs they might have.
- A list of qualified health expenses, defined by the U.S. Internal Revenue Service (IRS), is available on the [Optum Bank website](#).

- HSAs have a triple-tax benefit:
  - Contributions are tax-free, up to a certain amount set by the IRS each year.
  - Withdrawals are not taxed, as long as the money is used for qualified health expenses.
  - Interest and investment earnings are not taxed.
- Anyone thinking about joining Consumer Directed HealthSelect should review IRS guidelines to make sure they are eligible to participate in an HSA.

## State and member contributions to HSAs

- In Plan Year 2017 (September 1, 2016 – August 31, 2017), the State of Texas will contribute to eligible employees' and retirees' Optum Bank HSAs:
  - \$45 per month (\$540 per year) for an eligible individual (full-time employee or retiree), and
  - \$90 per month (\$1,080 per year) for an eligible family account (full-time employee or retiree plus at least one family member).
- A member will receive a state contribution only if he or she opens an HSA with Optum Bank.
- The maximum contribution amounts for Calendar Year 2016 are \$3,350 for an individual account and \$6,750 for a family account. (The maximums are set by the IRS and could change in future years.) The maximums include contributions from all sources, including the State of Texas and any contributions the member makes. It's up to the member to ensure that total contributions stay within the annual limit. If an HSA gets more contributions than the annual maximum, the member could have to pay a penalty or taxes on those contributions.
- The State's contributions to employees' and retirees' HSAs will be made on a pre-tax basis.
- Members also can contribute to their own accounts. Employees can have their contributions taken from their paychecks on a pre-tax basis. Retirees cannot have their contributions taken from their paychecks, but can make direct contributions to their HSAs and deduct those contributions when they file their tax returns.
- Only people participating in a high-deductible health plan, like Consumer Directed HealthSelect, can make or accept contributions to their HSAs. However, people can use the funds in their HSAs even if they're no longer enrolled in a high-deductible health plan.

## Benefits beyond tax savings

- Balances carry over – HSA balances will carry over from one year to the next, so a participant won't lose money in his or her account at the end of the year.

- Funds are portable – If a participant changes health plans or leaves State of Texas employment, he or she can keep all the funds in the HSA, even those contributed by the state.
- Investing is an option for some, and earnings are tax-free – When savings in an HSA reach \$2,000, the participant can decide how to invest the funds. Investment earnings and interest aren't taxed. (It's important to note that participants who invest their funds could lose money on their investments.)
- Approval for withdrawals are not required – Neither Optum Bank nor ERS will approve or deny reimbursements or withdrawals from HSAs. It's up to the participant to make sure the funds are spent on qualified health-related expenses. There could be federal tax penalties for misusing HSA funds.
  - Once an HSA participant enrolls in Medicare, he or she can use funds in an existing HSA for non-health expenses. Only Medicare participants can use HSA funds for non-health expenses; however, Medicare participants cannot make or accept contributions to their HSAs.

## Other HSA rules and limitations

- An HSA participant has access only to the amount of money that has accumulated in his or her account. A participant does not have access to money that has been pledged to be deposited in the future.
  - This is different from the TexFlex<sup>SM</sup> health care flexible spending accounts, in which participants can use money that has been pledged to their accounts, but not yet deposited.
- HSA funds cannot be used to reimburse health expenses incurred before the account was opened. So, it's important to open an HSA as soon as possible after enrolling in Consumer Directed HealthSelect.
- Someone who participates in an HSA cannot participate in a health care flexible spending account. But an HSA participant can enroll in a special type of account called a "limited flexible spending account" (LFSA). Money in an LFSA can be used only on qualified vision and dental expenses, while money in an HSA can be used on any qualified health expenses. If a member enrolls

in Consumer Directed HealthSelect and has \$25 to \$500 left in a TexFlex health care account after Aug. 31, 2016, ERS will roll that money into a TexFlex LFSA.

- Only members enrolled in Consumer Directed HealthSelect can participate in a TexFlex LFSA.

## Eligibility, enrollment and more information

- Employees and retirees not eligible for Medicare can enroll in Consumer Directed HealthSelect during Summer Enrollment 2016, with coverage starting September 1, 2016. Employees and retirees also can enroll during the plan year, with a qualifying life event (QLE).
- Anyone thinking about joining Consumer Directed HealthSelect should review IRS guidelines or talk to a tax advisor to make sure they are eligible to participate in an HSA.

- Employees and retirees eligible for Medicare cannot enroll in Consumer Directed HealthSelect.
- Once enrolled in the plan, each member is responsible for opening an HSA with Optum Bank. Benefits coordinators, ERS, UnitedHealthcare or Optum Bank cannot open HSAs for members. Enrollment forms will be available from Optum Bank – either on its website or by mail.
- The State of Texas will make contributions only to Optum Bank HSAs.
- ERS will provide more information about Consumer Directed HealthSelect as it becomes available. ERS, UnitedHealthcare and Optum Bank will be available to answer questions before and during Summer Enrollment.



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