

UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

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Assembly of the Academic Senate, Academic Council
University of California
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January 12, 2006

DIVISION CHAIRS

Alice Agogino (B)	Roland Winston (M)	Jean-Bernard Minster (SD)	Faye Crosby (SC)
Dan Simmons (D)	Adrienne Lavine (LA)	Deborah Greenspan (SF)	
Kenneth Janda (I)	Walter Yuen (SB)	Manuela Martins-Green (R)	

Re: Academic Council Informational Report on Health Care Reimbursement Accounts and Health Savings Accounts

Dear Division Chairs:

At its December 14, 2005 meeting, the Academic Council approved the enclosed report, *Health Care Reimbursement Accounts and Health Savings Accounts*. The Health Care Task Force of the University Committee on Faculty Welfare (UCFW) authored this report at the urging of UCFW due to repeated inquiries from faculty colleagues concerning the characteristics and availability of Health Care Reimbursement Accounts (HCRAs) among the health care plan options available to UC employees, and the distinction between HCRAs and Health Savings Accounts (HSAs), which are not currently offered to UC employees at this time. The enclosed report addresses these issues, and the Academic Council and UCFW intend for this report to serve as a valuable resource should additional questions arise from concerned individuals in the future.

On behalf of the Academic Council, I respectfully request that you distribute this informational report to your respective faculty welfare committees, interested faculty colleagues, and other appropriate offices and individuals. For future reference, this informational report may also be located on the Academic Senate website at <http://www.universityofcalifornia.edu/senate/reports/>.

Best regards,

A handwritten signature in black ink that reads "Cliff Brunk".

Cliff Brunk, Chair
Academic Council

Enclosure: *Health Care Reimbursement Accounts and Health Savings Accounts*, approved by the Academic Council December 14, 2005

Copy: Academic Council
Maria Bertero-Barceló, Executive Director

Health Care Reimbursement Accounts and Health Savings Accounts

Health Care Task Force of the University Committee on Faculty Welfare

Revised: 13 October 2005

Approved by the Academic Council December 14, 2005

At the urging of the University Committee on Faculty Welfare, starting in 2003 UC employees have been offered access to *Health Care Reimbursement Accounts*, (HCRA; also known as *Health Care Flexible Spending Accounts*), as permitted under Internal Revenue Code section 125. These accounts, which are available as an open enrollment option, permit employees, on a pre-tax payroll deduction basis, to contribute between \$180 and \$5000 which can then be used to reimburse out of pocket health-care expenses. The range of covered expenses is quite extensive, including alternative medical treatments and over the counter medications and devices, as well as other expenses not covered by UC health plans, although employee-paid health-care premiums, long-term care insurance premiums and most cosmetic procedures (those to correct deformities or for health reasons excepted) are explicitly excluded from reimbursement from HCRA funds. (A list of covered expenses is appended.) Given their inherent tax advantages, HCRAs offer a way of substantially saving on health-care expenses.

There is one major limitation of HCRAs, however; it is a “use it or lose it” plan. That is, any contributed funds that are not claimed for reimbursement do not roll over to the next year, and are not recoverable by the contributor. Recent changes announced by the IRS liberalize this policy somewhat and allow funds to be available for use until March 15th of the next calendar year. Claims incurred during a calendar year, and the extended coverage period, may be submitted for reimbursement through June 15th of the next calendar year. (For example, claims for expenses incurred during the period of January 1, 2005 through March 15, 2006 can be submitted until June 15, 2006.)

This aspect of HCRAs requires that prospective contributors very carefully estimate their non-covered medical expenses for the following year during open enrollment in November. Thus, HCRAs are most useful for those with predictable up-coming expenses; they are of no use when unexpected medical expenses arise.

While there have been efforts in Congress to modify the use it or lose it aspect of HCRAs, and such efforts will no doubt surface again, as of now this aspect of HCRAs significantly limits the number of employees that can avail themselves of these accounts. Nevertheless, it has been the opinion of the Health Care Task Force of the University Committee on Faculty Welfare and of the Office of the President of the University of California that such accounts, (along with the similarly structured DepCare accounts), offer a substantial benefit to a sufficiently large number of UC employees at minimal cost to the University. (Reimbursements are administered by an outside concern.)

HCRAs must be distinguished from a kindred sort of account known as a *Health Savings Account* (HSA). These accounts came into being as a provision of the Medicare reform act passed in 2003, and are available to people who are not enrolled in Medicare. Although both types of plans permit health care expenses to be paid on a pre-tax basis, the most salient difference between these accounts and HCRAs is that HSAs (i) allow for roll over of non-used funds without limit and (ii) these funds can be invested,

along the lines of retirement accounts such as a 403(b). Nevertheless, there are strings attached to offering such accounts that in the opinion of the HCTF make them inappropriate for UC, which does not offer employees HSAs at this time.

The primary reason for not offering HSAs is that they must be linked to health plans that offer less coverage than those currently offered by UC. In fact, UC is prohibited by statute from offering HSAs attached to its current health plans, (aside from the Core plan). This is because HSAs can only be offered in conjunction with high-deductible health plans; UC's plans are all low-deductible plans. A high-deductible plan is one with at least a \$1,000 deductible for a single individual, and \$2,000 for family coverage; UC plans currently have deductibles significantly below these limits, (again, aside from the Core plan, which offers a significantly reduced benefit structure).

The issue that arises, given the restrictions and advantages of HSAs is whether it would be advantageous to overhaul current UC health plan offerings to provide one or more high-deductible plans, either replacing or alongside low deductible plans. In terms of out of pocket expenses, the answer is clearly no; having the dollar differential between the high and low deductibles in pocket is better than the amount that would be realized from tax savings on this amount. On the other hand, this could be offset if the premium costs were substantially lower on a high-deductible plan. An additional consideration would be the return that could be made from investment of the HSA funds, especially so for those individuals who would eye such accounts as an additional pre-tax investment vehicle.

The latter issue is of some concern, especially if UC were to offer a mix of high and low deductible plans, as it would have the potential of establishing adverse selection for the latter plans. This could arise because it would be advantageous for healthy individuals to enroll in a lower cost, high deductible plan with pre-tax investment opportunities, whereas those facing significant medical expenses would opt for plans with substantially lower out of pocket expenses. Moreover, there could be migration of those in high deductible plans to low deductible plans when faced with higher medical expenses, while leaving their prior HSA investments intact. Just what impact this would have on the overall range of UC health plans offerings would have to be very carefully investigated.

Besides such financial matters, careful examination would have to be made of the medical benefit structures of any high deductible plans that could be available for the UC community. In general, the Health Care Task Force would look askance at plans that place additional limits on access to medical benefits unless there were significant counterbalancing factors. The Health Care Task Force constantly monitors the ever-changing health care market in order to maintain both quality and choice in the health plans offered to the UC community.

Both HCRAs and HSAs are to be distinguished from yet a third sort of account, a *Personal Care Account*. These accounts are integral to so-called "consumer model" health plans, of which one, offered by Definity Health, currently being offered on a pilot basis at UCSB and UCSF. These accounts, into which funds are deposited by the employer, may be used to cover out of pocket expenses, including deductibles. Like HSA's, unused funds in these accounts may be rolled over from year to year, but unlike HSA's, they may not be invested. The overall role of consumer model health plans in the market place, and their appropriateness for the UC community receives on-going scrutiny from the HCTF.

*Informational Links:**For UC Employees:*

UC information page on HCRAs: <http://atyourservice.ucop.edu/employees/health/hcra/>

SHPS eligible expenses page: <http://www.shps.net/myshps/fsaeligibility.stm>

SHPS reimbursement form: <http://www.shps.net/myshps/documents/NETCLAIM.pdf>

SHPS FAQ page: http://www.shps.net/myshps/documents/fsa_faqs.pdf

UCSB Definity Health information page: <http://hr.ucsb.edu/Benefits/definity.htm>

U.S. Government Information:

U.S. Treasury “All About HSAs”:

<http://www.treas.gov/offices/public-affairs/hsa/pdf/hsa-basics.pdf>

U.S. Treasury HSA brochure:

http://www.treas.gov/offices/public-affairs/hsa/pdf/hsa_tri-fold_brochure.pdf

Office of Personnel Management comparison chart: <http://www.opm.gov/hsa/chart.asp>

HSA Statute: <http://www.treas.gov/offices/public-affairs/hsa/pdf/pl108-173.pdf>

Health Care Eligible Expenses

Typically, eligible health care expenses are expenses incurred for medical care. Medical care expenses include amounts paid for the diagnosis, care, mitigation, treatment, or prevention of disease or illness and for treatments affecting any part or function of the body.

- * Acupuncture
- * Air conditioners *
- * Automobile equipment to assist the physically disabled
- * Birth control pills
- * Braille books and magazines
- * Child birth preparation classes
- * Chiropractic expenses
- * Contact lenses and solutions
- * Co-pay amounts under your insurance plan
- * Co-insurance
- * Cost of guide or guide dogs for persons who are visually or hearing impaired
- * Cost of a note-taker for a hearing impaired child in school
- * Crutches
- * Deductibles for medical, dental, and vision plans
- * Dental cleanings and fillings
- * Detoxification or drug abuse centers
- * Diabetic supplies
- * Expenses in excess of medical, dental, or vision plan limits
- * Expenses for services connected with donating an organ
- * Eye exams
- * Eyeglasses
- * Hearing aids
- * Household visual alert system for hearing impaired persons
- * Laser eye surgery
- * Medically necessary mattresses and boards*
- * Nicotine patches and gum
- * Orthodontia
- * Orthopedic shoes
- * Over-the-counter medicines
- * Physical therapy
- * Postage/handling fees
- * Prescription drugs
- * Psychotherapy
- * Radiation treatments
- * Remedial reading *
- * Respirators
- * Routine physical exams

- * Smoking cessation programs (excluding over-the-counter treatments)
- * Specialized equipment for disabled persons
- * Special devices, such as a tape recorder and typewriter, for persons who are visually impaired
- * Speech therapy
- * Sterilization surgery
- * Transportation expenses related to medical care
- * Water fluoridation devices *
- * Weight reduction program for physician diagnosed obesity
- * Well baby and well child care
- * Wheelchairs
- * Whirlpool baths *
- * Wigs for hair loss due to any disease*
- * X-rays

* Expenses noted by asterisk must be accompanied by a doctor's certification indicating the medical disorder, the specific treatment needed, and how this treatment will cure, mitigate, treat or prevent a specific medical condition. In some cases, additional documentation may also be required to validate the expense for reimbursement.