Basic HSA

Frequently Asked Questions:

The City of Boulder's
$1,500 Deductible Plan with HSA

General Plan Questions

Note: The IRS allows Health Savings Accounts (HSAs) to be used in conjunction with high-deductible health plans (HDHPs). The $1,500 Deductible Plan is a qualified HDHP, which makes it eligible to be paired with an HSA. The other plans offered by COB are not qualified for HSA enrollment.

- *How can I save money with this plan?*
  - Use in-network providers for better discounts
  - Take advantage of your 100% paid preventive care services
  - Visit an urgent care center rather than an emergency room, if appropriate
  - Visit convenience care rather than urgent care or your physician, if appropriate
  - Get a second opinion on major medical treatments
  - Use outpatient facilities rather than inpatient facilities if you have the option
  - Ask your doctor whether expensive diagnostic tests (MRIs, CAT and PET scans) are necessary
  - Research hospital quality
  - Ask your pharmacist or doctor about Tier 1 versions of your Rx
  - Price compare retail Rx – price varies by pharmacy
  - Price compare mail-order Rx to retail

- *Do I need to pay anything when I visit the doctor's office or hospital?*
  - There are no copays under this plan. Your doctor may request up-front payment, or you may receive an Explanation of Benefits / bill after your visit. You can use your HSA funds to pay these bills.

- *What will I owe for my annual exam?*
  - Nothing! Preventive care is 100% paid by the plan and wellness services, like your annual physical exam, will not apply to your deductible. UHC has a list of all preventive care services, but in general they include routine examinations, screening services, and immunizations.

- *How will I know if a doctor's office visit will be considered a preventive visit?*
  - Services received for a current illness, injury, or disability are not considered preventive as there is a diagnosis. Tests to investigate existing symptoms, to follow-up results of screenings, to monitor an ongoing condition, or services to prevent a current condition from becoming worse are not considered preventive care and will be subject to the deductible/coinsurance if applicable.
  - You can ask your doctor or the physician's office billing department how your visit will be coded.

- *What will I pay when I go to the pharmacy?*
  - Your pharmacy costs will be treated the same as your medical costs and are subject to the same deductible and coinsurance. You will not pay a copay. Choose Tier 1 drugs when possible to save money.

Health Savings Account (HSA) Eligibility

- *How do I know if I am eligible to open an HSA?*
  - To be eligible to open your own HSA, you must be:
    - Covered under a qualified plan (the $1,500/3,000 plan offered by COB meets the applicable IRS requirements)
    - **Not covered by a non-qualified plan**
      - Examples of Non-Qualified Coverage:
        - Healthcare FSA
        - HRA
        - Spouse's non-qualified health plan
        - Medicare
        - HMO
        - Non-qualified PPO
      - If your spouse is covered by a non-qualified plan, they cannot participate in an HSA
    - Not enrolled in Medicare
    - Not claimed as tax dependent (i.e., your children cannot open their own HSAs)
  - You are permitted to also be covered by:
    - Specified disease insurance (e.g., cancer)
    - Accident, disability, dental, vision, long term care
    - EAP, disease management, wellness

Health Savings Account (HSA) Contributions

- *How much can I contribute to my HSA?*
  - The IRS regulates the maximum allowed contribution each year. This amount may change from year to year according to fluctuations in the Consumer Price Index. **For 2013, the maximum contribution for an HSA with self-only coverage is $3,250 and for family coverage is $6,450. This limit includes the contribution made by COB.**
  - If you are covered under the employee-only tier, you personally can contribute: $3,250 max - $1,000 COB contribution = $2,250 your maximum contribution
  - If you are covered under the family tier, you personally can contribute: $6,450 max - $2,000 COB contribution = $4,450 your maximum contribution

- *What if my spouse has his/her own HSA?*
  - If either of you has family coverage on a qualified health plan, both spouses are treated as having family coverage and are subject to the family maximum contribution limit.
  - If both of you enroll in single coverage on your qualified health plans, you each will contribute up to the single maximum contribution limit.

- *Are there delayed or catch up contribution provisions for an HSA?*
  - Yes. Employees **over 55** may contribute an additional **$1,000** per year until they are Medicare eligible. This amount may be increased by the IRS for future years.
  - If you turn 55 at any point during the year, and are eligible to make the full regular contribution ($3,250 or $6,450), then you can also make the full catch up contribution. This is regardless of when your 55th birthday occurs during the year.
  - If you are prorating your regular contribution HSA on months of eligibility, you must prorate your catch up contribution.
  - Remember, if you are covered on December 1, you are treated as an eligible individual for the entire year and can make the full catch up contribution. As an example, if you enroll in the COB $1,500 Deductible Plan on July 1, 2013 and are eligible through December 1, then you make the full $1,000 catch up contribution for 2013.

- *My spouse and I are or will be 55 this year. Can we make a double catch up contribution?*
  - Not if you both are included in the same family HSA. You can only make a catch up contribution when the HSA is in your name. In this case, your spouse would need to open his/her own HSA (as long as they qualify and do not have non-HSA plan coverage). Each of you then can contribute up to the maximum and add $1,000.
  - If you are 55 or older and have family coverage, the maximum of $6,250 increases by the same $1,000.

- *When counting months to prorate the catch up contribution, do you begin with the first of the month after you turn 55?*
  - The prorated amount depends on when you are eligible for an HSA, not when you turn 55. If you turn 55 at any point during the year, you are eligible for the catch up contribution. If you are not eligible for an HSA the entire year, then you must prorate total HSA contributions on the number of months you were eligible and covered under the HSA-eligible plan.

- *I am joining the COB HSA Plan mid-year. Does this mean that I have to prorate my contribution for six months?*
  - The IRS "Last Month Rule" states that if you are covered by an HSA-eligible plan on the first day of the last month of your tax year (December 1 for most taxpayers), then you are considered to be eligible for the entire year and may contribute the full annual maximum amount. If you are still covered on the COB HSA plan on December 1, 2013, then you are eligible to contribute up to the full maximum.
  - You must be covered by the HSA-eligible plan for 12 months if you are utilizing the "Last Month Rule". You can contribute 1/12 of the annual maximum for each month you are enrolled in a qualified plan, including COB's contribution.

Health Savings Account (HSA) Distributions

- *If my spouse has other non-qualified coverage such as an HMO or low deductible PPO, can HSA funds be used for their qualified medical expenses?*
  - Yes, you may use your HSA funds to cover the qualified medical expenses of your spouse and dependents even if they are covered by another non-qualified plan. These distributions are still tax-free.
  - However, if the distributions are for expenses **reimbursed by any other health plan** (whether it is an HMO, PPO, or even another HSA-eligible plan), these distributions are included in your taxable income.

- *If my spouse is* not *covered by the HSA-eligible plan because he/she is enrolled in Medicare, can the account holder's HSA funds still be used for Medicare premiums of the spouse?*
  - HSA funds of an account holder under age 65 may not be used for the Medicare premiums of a Medicare-enrolled spouse, according to the IRS. There is no rule stated against using HSA funds for other Medicare expenses such as copays or coinsurance, or for other qualified medical expenses of a Medicare-enrolled spouse.
  - Once you both are Medicare eligible, you will no longer be able to contribute to your HSA, but you can both use the funds for Medicare expenses including premiums.

- *If my child/dependent has other non-qualified coverage such as an HMO or low deductible PPO, can my HSA funds be used for their qualified medical expenses?*
  - Yes, they can.

- *Can I pay my $1,500 Deductible Plan premiums with my HSA?*
  - No, but you can pay for services up to the amount of your deductible and then your coinsurance portion after that. **You can also pay for qualified medical expenses, dental expenses, vision expenses, and prescription drugs.**

- *What happens if I use the money in my HSA for a non-qualified expense?*
  - If you withdraw money from your HSA for a non-qualified expense, the amount of the withdrawal is subject to income taxes and is also subject to a **20%** penalty tax from the IRS.

- *How are medical expenses paid if I use all the money in my HSA?*
  - If you use up your HSA account balance, you are responsible for paying all medical and prescription drug expenses until the annual medical deductible is met. Once the deductible is met, the plan's coinsurance benefit pays 80% of eligible in-network expenses (60% out-of-network) and you pay the remainder up to the annual out-of-pocket maximum.

- *Can I ever use my HSA funds for non-qualified expenses?*
  - Yes, once you turn age 65, you can also use your account to pay for things other than medical expenses. If used for other expenses, the amount withdrawn will be taxable as income but not subject to any other penalty. Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a **20%** penalty on the amount withdrawn.

- *Can HSA distributions be used for the "Other health coverage[s]" listed in Publication 969?*
    - Generally, HSA funds cannot be used to pay insurance premiums. Exceptions include: Long Term Care insurance premiums, COBRA continued coverage premiums, and health insurance premiums while an individual is receiving unemployment compensation.
    - If you are over 65, you can use your HSA for Medicare premiums (Part A, B, C, and D included) as long as your plan is not a “Medigap” or Medicare Supplement plan. At this age, you can also use funds for Medicare premiums of your eligible spouse or dependent.
    - http://www.irs.gov/pub/irs-pdf/p969.pdf

- *What happens to my HSA when I die?*
    - If a spouse is designated beneficiary, the HSA is treated as the spouse's HSA upon death of the participant and can be utilized tax-free for qualified medical expenses.
    - If any other person is designated as beneficiary, the account stops being an HSA when the participant dies, and the fair market value of the HSA becomes taxable to the beneficiary in the year of the participant's death.
    - If the participant's estate is the beneficiary, the value is included on the participant's final income tax return.
    - The amount taxable to a beneficiary (other than the estate) is reduced by the amount of any qualified medical expenses for the decedent which are paid by that beneficiary within one year after the date of death.

Other Accounts

- *Can I still use funds from a healthcare FSA?*
  - Healthcare FSAs will no longer be available to you if you own an HSA. Limited-purpose FSAs are allowed, including the Dependent Care FSA.

- *Can I enroll in the HSA if my spouse is enrolled in an FSA?*
  - You can only enroll in the HSA if your spouse's FSA is a limited-scope FSA (like dependent care only). If you or your spouse covered on **your** HSA-eligible plan are covered by a health care FSA, you cannot contribute to an HSA.

- *Can 401(k) and/or deferred comp contributions be rolled over into an HSA?*
  - You cannot directly roll funds from a 401(k) or other retirement plan into an HSA. You can withdraw funds from one of these accounts, pay applicable taxes and/or penalties on the funds you withdraw, and then use the remaining funds to make a contribution to your HSA within the annual limit.
  - You can make a **one-time** transfer of **IRA** funds to an HSA (this amount is included in your annual contribution). If you fail to remain an eligible individual for 12 months after the month of the transfer, the amount of the transfer is included in income and subject to a 10% additional tax under § 72(t). Please consult with your tax advisor.

- *Can I have my HSA at my own bank, or do I have to have it through Optum Health Bank?*
  - The City has chosen only one bank to handle pre-tax payroll contributions into the HSA. This is Optum Health Bank. If you set up your HSA with Optum prior to 11/30/12 (and have elected the $1,500 Deductible Plan), you will receive the City's contribution to your account in pay period 1 of 2013.
  - Yes, you can choose to have your HSA at another bank. In this case, you could not use pre-tax payroll deductions to contribute to your account and could not receive the City's contribution to your account. You would manually contribute post-tax funds and manage your limits and distributions on your own.

DISCLAIMER

The responsibility for HSA compliance with IRS regulations is solely the account holder's. Given the significant tax advantages of HSAs, there are important rules around their use. A specific situation affecting your use of an HSA may not be listed in this document. Each HSA account holder should consult with a tax advisor to ensure compliance with federal regulations.

IRS Publication 969 on HSAs: http://www.irs.gov/pub/irs-pdf/p969.pdf

IRS Publication 502 on Medical and Dental Expenses: http://www.irs.gov/pub/irs-pdf/p502.pdf