Basic HSA
Frequently Asked Questions:
The City of Boulder's
$1,500/$3,000 Deductible Plan with HSA

Note: The IRS allows Health Savings Accounts (HSAs) to be used in conjunction with high-deductible health plans (HDHPs). The $1,500/$3,000 Deductible Plan is a qualified HDHP, which makes it eligible to be paired with an HSA. The other plans offered by the City are not qualified for HSA enrollment.

The following questions and answers relate to enrollment in the City's qualified HDHP.

General Plan Questions

- *Who can establish an HSA?*
  - IRS guidelines govern HSA eligibility, and not everyone is able to set up an HSA. See the "Eligibility" section below.

- *How can I save money with the HDHP?*
  - 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.

- *What happens to my HSA if I choose to switch to a non-qualified plan for next year?*
  - You can continue to reimburse yourself for eligible expenses from your HSA. However, you are not eligible to contribute new money into your HSA or receive the City's HSA contribution.

- *Do I need to pay anything when I visit the doctor's office or hospital?*
  - There are no copays under the HDHP. 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 HDHP, 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.

- *Are there fees associated with my HSA?*
  - Yes. There are two types of fees.
    - Administration fee that allows your HSA to interface with UHC. This fee is built into our premium costs for the HDHP; thus the City will be paying approximately 80% of those fees.
    - Banking fee charged to each HSA holder. This fee is $1 per month for the default account option and will only be charged for months when your average HSA balance is not above $500. As your HSA balance grows again, the fee goes away. Since the City will deposit the City's contribution into your HSA on the first payroll day of the year, this fee will not apply when you open the HSA.
  - If you expect your balance to be $0 for a long period of time, you can request to close your Optum HSA, with no closing fee or re-opening fee charged to you.
  - If your HSA holds a $0 balance for 90 days, you will be notified by mail that the HSA is at risk for closure. After 120 days, the HSA will be closed. You will have to open a new HSA if you choose to have one again.
  - The City has set the default for every HSA into the lowest-fee account model. However, there are two other options which you can switch to at any time. These options allow more flexibility but also greater fees. You can view these options on the benefits website under the Training tab, and you will also receive a letter reminding you of these options 90 days after enrollment in the HDHP.

- *Must I report my HSA on my tax return?*
  - There are IRS requirements to include information about your HSA on your federal tax forms. There may also be state filing requirements. Please consult with your tax advisor for more information.

Health Savings Account (HSA) Eligibility

- *When am I eligible to open an HSA?*
  - To be eligible to open your own HSA, you must be:
    - Covered by the HDHP.
    - Not covered by a non-qualified plan, such as:
      - Healthcare FSA.
      - HRA.
      - Spouse's non-qualified health plan.
      - HMO.
      - Non-qualified PPO.

        - 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.

- *My spouse and I both have HSAs. Is that a problem?*
    - No, but there are certain IRS rules that apply to eligible individuals who are married and whose spouses have HSAs (the **family maximum contribution limit**). The Internal Revenue Code states that, if either spouse has HDHP family coverage, then both spouses are treated as having that family coverage.
    - The annual maximum contribution limit is a joint limit and is divided equally between you and your spouse – unless you agree on a different division of the funds – up to the annual maximum contribution limit. This applies even if one spouse has family coverage under an HDHP and the other spouse has HDHP individual coverage.
    - If either spouse has family coverage under a non-HDHP plan that covers both spouses, such as an HMO or a general-purpose health FSA or HRA, then both individuals are ineligible for an HSA.

- *Can I use my HSA for my dependents' expenses?*
    - You can pay for eligible expenses from your HSA for yourself, your spouse, or your tax dependents (your qualifying child or qualifying relative), even if the dependent is not covered by your HDHP and even if he/she has other coverage. This includes copays, deductibles, and other eligible expenses for which you will not be reimbursed elsewhere.
    - The IRS defines a qualifying child as:
        - Daughter, son, stepchild, sibling, or step-sibling.
        - Has the same principal place of abode for more than one-half of the taxable year.
        - Is not yet age 19 or not yet age 24, if a student.
        - Or, Is permanently and total disabled.
    - The IRS defines a qualifying relative as someone who:
        - Bears a relationship: daughter, son, step child, sibling, step-sibling, father, mother, ancestor, aunt, uncle, in-laws, or an individual who has his/her principal place of residence the home of the account owner.
        - Receives more than half of his/her support from the account owner.

Health Savings Account (HSA) Contributions

- *How do I set up my HSA? Is it in the normal enrollment process?*
    - Set-up is easy, but not automatic. If you choose the HDHP during open enrollment in Vista, you will need to take an extra step to set up your HSA with Optum Health Bank or the bank of your choosing. You will only get the City's contribution if you utilize an Optum HSA. There is a tab on the benefits web page dedicated to your HSA with Optum. Since this is a bank account, much like your other savings accounts, you will go directly to the bank site to set it up for yourself. The link is: https://bouldercolorado.gov/human-resources/hsa-bank-account

- *Can I set up my HSA at my own bank, or do I have to set it up through Optum Health Bank?*
  - You can choose to set up your HSA at another bank. However, if you do, you cannot use pre-tax payroll deductions to contribute to your HSA and cannot receive the City's contribution to your HSA. You would have to manually contribute post-tax funds and manage your HSA limits and distributions on your own.
  - The City has chosen Optum Health Bank to handle pre-tax payroll contributions into the HSA. If you set up your HSA with Optum prior to November 30, 2014 (and have elected the HDHP), you will receive the City's contribution to your HSA in pay period one of 2015 and you can use pre-tax payroll deductions to contribute to your HSA.

- *Do I need to know during open enrollment how much I want to put into my HSA from my payroll check?*
  - No. Just like with a 401k or 457 plan, you will be able to change your contribution during any payroll by completing a form. However, you should consider putting the premium difference between the $1,000 Deductible Plan and the HDHP into your HSA at least in the first year or two to help build up your emergency cushion.

- *How much can I contribute to my HSA?*
  - The IRS regulates the annual maximum contribution limit. This amount may change from year to year according to fluctuations in the Consumer Price Index. **For 2015, the maximum contribution limit for an HSA with self-only coverage is $3,350 and for family coverage is $6,650. This limit includes the contribution made by the City.**
  - If you are covered under the employee-only tier, you personally can contribute: $3,350 max - $800 City contribution = $2,550 your maximum contribution.
  - If you are covered under the family tier, you personally can contribute: $6,650 max - $1,600 City contribution = $5,050 your maximum contribution.
  - The Maximum contribution limit represents the maximum amount of tax-free savings you can contribute to your HSA each year. If you exceed this amount, you have until the tax-filing deadline to remove excess funds by submitting Excess Contribution Removal Form ($25 fee applies). If excess funds are not removed by the tax-filing deadline, you may be subject to tax penalties and/or IRS fees.

- *What if my spouse has his/her own HSA?*
  - If either of you has family coverage under an HDHP, 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 under your HDHPs, you each can contribute up to the single maximum contribution limit.

- *I am enrolling in the HDHP mid-year. Does this mean that I have to prorate my HSA contribution for the number of months that I am enrolled in the HDHP?*
  - The IRS' **last month rule** states that, if you are covered by the HDHP on the first day of the last month of your tax year (December 1 for most taxpayers), then you are considered to be HSA-eligible for the entire year and may contribute up to the annual maximum contribution limit. You are treated as having the same HDHP coverage for the entire year as you had on the first day of the last month of the year.
  - You must remain covered by the HDHP for the entire following year if you use the last month rule to make the annual maximum contribution. If you do not remain covered by the HDHP, you will owe a tax penalty.

– If you do not use the last month rule to make the annual maximum contribution, you must prorate your HSA contribution by the number of months that you are covered by the HDHP.

- *Are there catch up contribution provisions for an HSA?*
  - Yes. Employees who are **age 55 or older** at the end of the tax year 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 annual maximum contribution ($3,350 or $6,650), 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 annual maximum contribution based on months of eligibility, you must prorate your catch up contribution.
  - If you use the last month rule to make the annual maximum contribution, you can make the full catch up contribution.

- *My spouse and I are or will be age 55 this year. Can we make a double catch up contribution?*
  - Not if only one of you has an HSA. You can only make a catch up contribution when the HSA is in your name. If your spouse opens his/her own HSA (as long as he/she qualifies and does not have non-HSA plan coverage), then each of you can contribute up to the annual maximum contribution limit (subject to the family maximum contribution limit) and add $1,000.
  - If you are 55 or older and have family coverage, the annual maximum contribution limit of $6,650 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 age 55?*
  - The prorated catch-up contribution amount depends on when you are eligible for an HSA, not when you turn age 55. If you are eligible to make the annual maximum contribution and turn age 55 at any point during the year, you are eligible for the full catch up contribution.

Health Savings Account (HSA) Distributions

- *What kind of expenses can I use my HSA funds for?*
  - You may use your HSA funds to cover the qualified medical expenses of you, your spouse, and your other tax dependents.
  - These distributions from your HSA are tax-free.
  - You should consult with your tax advisor if you have questions about eligible expenses.

- *If my spouse and/or other tax dependents have other non-qualified coverage such as an HMO or low deductible PPO, can my 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 other tax 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 HDHP), these distributions are included in your taxable income.

- *If my spouse is* not *covered by the HDHP because he/she is enrolled in Medicare, can my HSA funds be used for the Medicare premiums of my spouse?*
  - If you are under age 65, your HSA funds may not be used for the Medicare <u>premiums</u> of your Medicare-enrolled spouse. However, you may use your HSA funds for other Medicare expenses, such as copays or coinsurance, or for other qualified medical expenses of your Medicare-enrolled spouse.

- Once you and your spouse are both enrolled in Medicare, you will no longer be able to contribute to your HSA, but you can use your HSA funds for Medicare expenses including Medicare premiums.

- *Can I pay my HDHP premiums with my HSA funds?*
  - No, but you can pay for services up to the amount of your HDHP 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 my HSA funds for a non-qualified expense?*
  - If you are under age 65 and 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%** federal tax penalty.

- *Can I ever use my HSA funds for non-qualified expenses?*
  - Yes, once you turn age 65, you can also use your HSA funds to pay for things other than qualified medical expenses. If used for other expenses, the amount withdrawn will be taxable as income but not subject to any other tax penalty.

- *How are medical expenses paid if I use all my HSA funds?*
  - If you use up your HSA balance, you are responsible for paying all medical and prescription drug expenses until your annual HDHP deductible is met. Once the deductible is met, the HDHP'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 HSA funds 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 are 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 funds 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 HSA funds for Medicare premiums of your eligible spouse or dependent.

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

- *What if my health care provider makes me pay upfront for my surgery and then it turns out that I overpaid, while using my HSA debit card?*
  - Always ask your provider to submit your claim to insurance in order to get an accurate amount before you pay. (The provider may not do this, however.)
  - If this does happen to you, and you get pre-tax money returned to you from your provider due to an overpayment, you have options:

- If you have not contributed up to the annual maximum contribution limit and do not intend to, you can re-deposit the pre-tax funds in your HSA and use them for other eligible expenses.
- If you have or intend to contribute up to the annual maximum contribution limit for the year, then you need to track this returned money on your own. You need to make sure that you can prove that you used the returned money for another qualified medical expense, or you can use it for a non-qualified expenses and pay the income tax and the 20% tax penalty.

Other Accounts

- *Can I still use funds from a healthcare FSA?*
  - General-purpose health care FSAs are not available to you if you own an HSA. Limited-purpose health care FSAs are allowed, as is the dependent care FSA.
  - **You may not have any funds in your healthcare FSA when beginning contributions to your HSA.**

- *If I am participating in the 2014 health care FSA and will be enrolling in the HDHP in 2015, do I really have to spend down every last penny in my health care FSA?*
  - Yes! Because the FSA has a grace period, you may have FSA funds from 2014 that are available to you from January 1 – March 15, 2015.
  - If this happens, you will be covered by the FSA during the grace period and not eligible to make HSA contributions until the first pay period in April 2015 (since HSA eligibility is determined on a monthly basis).
  - In addition, the City will not be able to make its 2015 HSA contribution if you have FSA funds available during the grace period.
  - If you need to check your remaining health care FSA balance or find out what you can spend your FSA funds on, please log in to www.wageworks.com or call 1-877-924-3967.

- *Can I contribute to an HSA if my spouse is enrolled in a health care FSA?*
  - If you or your spouse covered by your HDHP are covered by a health care FSA, you cannot contribute to an HSA.
  - You can only contribute to an HSA if your spouse's health care FSA is a limited-purpose FSA (like dependent care only or dental/vision only).

- *Can 401(k) and/or deferred compensation 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 maximum contribution limit.

DISCLAIMER

As the HSA account holder, the responsibility for HSA compliance with federal and state tax regulations is solely yours. 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. You should consult with your tax advisor to ensure compliance with federal and state regulations.

Please review these IRS Publications:

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