Health Savings Accounts: Common Questions and Their Answers

I. General – HSAs

I.1 What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a savings account that can be used to pay current medical expenses, as well as to save for future qualified medical expenses on a tax advantaged basis. Contributions, earnings and distributions are exempt from federal income and Social Security (FICA) taxes when used to pay for qualified medical expenses.

I.2 Who is eligible to open or contribute to an HSA?

To be eligible to open or contribute to an HSA, you must be enrolled in a qualified high deductible health plan (see the HDHP section below). You cannot be:

- Covered by any health plan other than a high-deductible health plan (dental and vision plans are not included in this restriction);
- Enrolled in Medicare benefits; or
- Claimed as a dependent on another individual's tax return.

I.3 What can the HSA be used for on a tax-preferred basis?

The HSA can be used for "qualified medical expenses," as defined by the IRS in section 213(d) of the Internal Revenue Code. Broadly speaking, these are health care expenses for the prevention and treatment of health conditions, including dental and vision expenses. They exclude services that are cosmetic in nature. In addition, you can use the HSA to pay for certain types of health insurance premiums, including: (1) qualified long term care insurance, (2) COBRA health care continuation insurance, (3) health care coverage while receiving unemployment compensation, and (4) if you are over 65, premiums for Medicare Parts A and B, a Medicare HMO, or your share of employer-sponsored health insurance. Note that premiums for Medicare supplemental (Medigap) policies are not qualified expenses. You cannot use the HSA to pay for services already reimbursed elsewhere, such as through your health plan. In other words, you could use it to pay for expenses attributable to your deductible or to your portion of any coinsurance, but not for amounts paid by your health plan after the deductible is met.

I.4 What happens if the HSA is used for non-qualified expenses?

Distributions for expenses that are not qualified expenses are taxable income to the participant, and are also subject to a 10% penalty. The penalty does not apply to distributions at death, disability, or after age 65.

You should save documentation of the source of each of your expenses for which distributions are being made, as you may be asked by the IRS to substantiate that the expenses were qualified medical expenses.

I.5 When does eligibility for an HSA begin and end?

You can establish an HSA on the first day of the month that you have a qualified high deductible health plan (HDHP) and are otherwise an eligible individual. If you obtain an HDHP during the month, you are not eligible to establish or contribute to the HSA until the first day of the following month. You lose eligibility to establish or contribute to an HSA if you become covered by a health plan other than an HDHP, become enrolled in Medicare, or become a dependent on another individual's tax return. However, losing eligibility does not necessarily mean you lose your HSA, if already established. You can keep the HSA and continue to use the funds on a tax-preferred basis for qualified medical expenses. You cannot contribute to the HSA or establish other HSAs unless you become an eligible individual again.

I.6 Does the HSA have to be established as soon as I become eligible? You can establish your HSA any time after becoming eligible; you do not have to open it immediately upon obtaining an HDHP, for example. However, you can only use it to pay for qualified medical expenses incurred after the date that you establish the HSA – i.e., if you open the account on April 1, 2006, you cannot use the HSA to reimburse you for any expenses that happened prior to that date.

I.7 Where do I establish an HSA?

You establish an HSA with a custodian. Typically, these are banks or other financial institutions. Your health plan will recommend our custodian, PNC Global Investment Servicing, to you, but you are not required to use that custodian.

I.8 Whose responsibility is it to ensure that I am eligible for an HSA, to monitor the contribution limits, and to use the funds for qualified medical expenses? As the taxpayer, you are solely responsible. Neither the health plan nor the custodian has any obligation to verify that you are using your HSA in accordance with the law. You should consult your tax advisor to ensure that you understand HSAs and your eligibility.

I.9 What happens to the money in my HSA?

The money is yours and stays in your account until you use it, die or close the account. Money in an HSA can be can be carried over to help save for medical expenses in subsequent years (such as in retirement), and you can continue to contribute up to the maximum amount each year, as long as you remain eligible (as described above).

II. Qualified High-Deductible Health Plan – HDHPs

II.1. What is a "qualified high-deductible health plan" (HDHP)?

A qualified high-deductible health plan is a health insurance plan that meets the following criteria:

- Includes a minimum annual deductible ($1,200 for individuals or $2,400 for families in 2011).

- Annual in-network out-of-pocket expenses (including coinsurance or co-payments, but not including premiums) cannot exceed $5,950 for individuals or $11,900 for families in 2011.
- Deductible and out-of-pocket requirements will be indexed annually for inflation.
- Except for certain preventive care services, the plan may not provide benefits during any calendar year until the deductible for that year is satisfied.

II.2 Do HDHPs cover all types of health care services?
HDHPs typically cover the same medical services you would expect any health plan to cover. They usually would not include coverage for such expenses as dental or vision.

II.3 Do any special restrictions apply to family coverage under a qualified HDHP?
The annual family deductible minimum ($2,400) and out-of-pocket maximum ($11,900) apply to any covered family member, regardless of what the HDHP actual family deductible and out-of-pocket maximums are. For example, if the HDHP has a family deductible of $3,000, but only requires any member of the family to satisfy a $1,500 deductible in order to start receiving benefits, then the plan is not qualified. Similarly, if there are any separate out-of-pocket limits for individuals within the family, the health plan must be structured so that the family cannot exceed the allowed out-of pocket maximum.

II.4 What types of health plans are you allowed to have in conjunction with a qualified HDHP?
If you have a qualified HDHP, you can have other types of “permitted” insurance without losing eligibility for an HSA. These include: auto insurance; workers’ compensation; coverage for accident, dental, vision or long term care; limited benefits coverage (e.g., for a specific disease or that only pays fixed amounts per day). Generally speaking, the other coverage should not pay for services that would be part of your deductible under the qualified HDHP. Note in particular that if your spouse covers you under a health plan that is not also an HDHP, you are not eligible for an HSA.

II.5 Can I have a flexible spending account (FSA) or health reimbursement account (HRA) with an HSA?
Generally speaking, no. Both FSAs and HRAs are considered “non-permitted” health plans for IRS purposes if they will be used to pay for the same types of medical expenses as your HSA. If you have an FSA or HRA, you may not be eligible for an HSA. Your employer can establish FSAs and/or HRAs in ways that allow you to have an HSA as well, but this requires a more restricted use of any amounts in those accounts. For example, the FSA or HRA might be limited to reimbursing your dental or vision expenses, or medical expenses only after your HDHP deductible has been satisfied. The Tax Relief and Health Care Act of 2006 provided some relief to this provision by allowing members to establish an HSA during an FSA grace period provided that the FSA balance at the time of HSA establishment is $0, or the enrollee distributes their FSA balance to their HSA. If your employer offers an FSA or HRA, be sure to ask how they integrate with an HSA.

III. Contributions to an HSA

III.1. How much can be contributed to an HSA?

The maximum amount you may contribute to your HSA each calendar year is limited to 100% of the annual statutory limit as defined by the IRS. In 2011, the IRS maximum is $3,050 for an individual with HDHP coverage only for himself/herself or $6,150 for all persons with HDHP coverage for a family. These IRS amounts will be indexed for inflation. Once you are no longer an eligible individual – e.g., you lose your qualified HDHP or acquire other coverage in addition to your HDHP – you can no longer contribute to your HSA, but you can maintain it and use it for distributions.

III.2. How are the contribution limits determined for an individual?

The Tax Relief and Health Care Act of 2006 provided that mid-year enrollees can now make full year contributions to their HSA. The only restriction is that the enrollee must remain HSA eligible for at least 12 months after the last month in the year. If this restriction is not satisfied, then contributions are taxable and a 10% excise tax will apply.

III.3. Do I have to contribute the maximum?

You can contribute any amount up to the maximum. However, custodians may have minimum requirements for initial and/or ongoing deposits.

III.4. Who may contribute to the HSA?

The contributions may come from many sources: the person who established the HSA, their employer, other family members, or any other person. Note that, regardless of the source of the contribution, the annual contribution limit applies in total, not by source. For example, if both you and your employer contribute, the limit is the same as if only you contributed.

III.5. When can contributions be made?

Contributions can be made at any time during the tax year, up to the filing limit for your federal income tax return. Contributions can be made on a periodic basis (e.g., monthly) or in one lump sum.

III.6. What happens if I contribute more than the maximum amount in a given year?

The excess contributions are not tax deductible and also will incur a 6% excise tax imposed upon them and any net income attributable to them. You can withdraw such excesses prior to the due date of your federal tax return in order to avoid the excise tax; however, the excess contributions would not be tax deductible and the net income attributable to them would be considered taxable income.

III.7. What is the contribution limit if both a husband and wife are eligible individuals?

Both spouses can elect self-only coverage under their respective HDHPs and be subject to the individual HSA contribution limit up to the maximum amount permitted for a family. Note that you can cover your spouse under family coverage with your HDHP even if your spouse is also covered under another health plan that is not a qualified HDHP. Your contribution limit would be the family limit. However, if your spouse also covers you as a dependent under his/her health plan, you would not be eligible for an HSA.

IV. Distributions

IV.1. What can the HSA funds be used for on a tax-preferred basis?

HSA funds can be used for “qualified medical expenses,” as defined by the IRS in section 213(d) of the Internal Revenue Code. Broadly speaking, these are expenses for the prevention and treatment of health conditions, including dental and vision expenses. They exclude services that are purely for cosmetic purposes. In addition, you can use the HSA to pay for certain types of health insurance premiums, including: (1) qualified long term care insurance, (2) COBRA health care continuation insurance, (3) health care coverage while receiving unemployment compensation, and (4) if you are over 65, premiums for Medicare Parts A and B, a Medicare HMO, or your share of employer-sponsored health insurance. Note that premiums for Medicare supplemental (Medigap) policies are not qualified expenses. You cannot use the HSA to pay for services already reimbursed elsewhere, such as through your health plan. In other words, you could use your HSA funds to pay for expenses applicable to your deductible or to your portion of any coinsurance, but not for amounts paid by your health plan after the deductible is met.

IV.2 What happens if the HSA is used for non-qualified expenses?

Distributions for expenses that are not qualified expenses are considered taxable income and are also subject to a 20% penalty. The penalty does not apply to distributions at death, disability or after age 65. You should save documentation of the source of your expenses for which distributions are being made, as you may be asked by the IRS to substantiate that the expenses were qualified medical expenses.

IV.3 When can I use my HSA to pay for qualified medical expenses?

There is no time limit on use of HSA funds for qualified medical expenses, as long as the expenses were incurred after your HSA was established. You should keep appropriate records to demonstrate that you used the funds for qualified expenses that were so incurred.

IV.4 Can HSA funds be used for any qualified medical expenses?

They cannot be used for expenses that were paid or otherwise reimbursed from other sources or taken as an itemized deduction on your income tax return. Again, be sure to keep appropriate documentation.

IV.5 Can my HSA be used to pay for qualified medical expenses of my family members?

Yes. Other family members do not need to be either eligible individuals or covered under your qualified HDHP. Of course, your HSA cannot be used for expenses otherwise reimbursed, such as through the family member’s health plan.

IV.6 Can I pay out-of-pocket medical expenses with after-tax dollars instead of using my HSA funds?

Yes. You have the option not to use your HSA funds for qualified medical expenses. Instead, you may pay out-of-pocket expenses with after-tax dollars and allow your HSA balance to grow tax free.

V. BlueAccount

V.1. What is BlueAccount?

BlueAccount is part of Highmark’s Consumer-Centered Strategy. It helps employers manage rising health care costs and lets you enjoy the benefits of both Highmark health care coverage and a spending or savings accounts to fund your share of costs. A Highmark BlueAccount may be a Health Savings Account (HSA) established and controlled by you, or it may be a flexible spending account (FSA) or health reimbursement account (HRA) offered by your employer. In all cases, BlueAccount provides you with a very convenient way to manage Highmark health care benefits and a spending/savings account.

V.2. What are the features of BlueAccount?

BlueAccount offers two key advantages:

- **Single website:** By logging on to the Highmark member website, you gain access to all of our self-service options and health information resources, and view your HSA account information. You can track reimbursements, your account balance and other necessary functions.
- **Fund requests:** BlueAccount gives you more convenience and control over how you obtain money from your account(s). You can choose from these options: o Use the Highmark website to identify claims you are responsible for paying, then simply click to submit the claims electronically to your account for reimbursement.
  - o Elect to have all claims automatically submitted electronically to your account for reimbursement, with payment directly to your provider of service if you wish – no further action is required on your part.
  - o Use a debit card to withdraw funds from your account to pay for your health care expenses.
  - o Use a Redeem function for reimbursement of non-plan expenses. Note that you cannot select both a debit card and automatic submission, as this could result in duplicate requests.

V.3. Do I still have online access to my BlueAccount HSA if I no longer have Highmark health care coverage?

Yes- if you establish a BlueAccount HSA when you are covered under a Highmark program, you can continue to access your HSA through the Highmark website, as long as you have that HSA.

V.4. Can BlueAccount work with any spending or savings account?

No. You can only use the BlueAccount functionality if you have Highmark health care coverage and a savings account administered by our preferred partners. For BlueAccount HSA, you must establish your HSA with BNY Mellon through the BlueAccount process.

V.5. How do I establish an HSA through BlueAccount?

It's simple:

1 Log on to the Highmark member website.
2 If you do not already have an HSA, you will see a link, "Open a Health Savings Account," on the bottom of the "Your Spending" page. Click the link.
3 Fill out the online application to establish the HSA. You will also be able to see information on fund options, account fees, and other important aspects of the HSA.

V.6. Who provides the HSA?

The HSA associated with BlueAccount HSA is managed by BNY Mellon. It teams one of the most respected financial institutions with one of the most respected health insurance companies to provide you the best value and most convenience.

V.7 What are my investment options?

Your BlueAccount HSA gives you the opportunity to invest in a variety of mutual fund options. This means you'll be able to choose how to invest your account dollars, whether you need ready access to your contributions or want to consider longer-term growth potential. You can view these options either by visiting the Highmark website or by requesting an application kit at 1-877-245-0116.

V.8 Are there any restrictions on the HSA?

Generally, the money in your account is yours to manage as you deem appropriate. Some restrictions do apply to the HSA that is available to Highmark members through BlueAccount HSA:

- You can only invest in specified funds in your HSA. You can obtain the list of funds by logging on to the Highmark website and clicking on, "HSA-PNC Global Investment Servicing" or by calling 1877-245-0116.
- You must have at least $500 in the money market fund before you can invest in additional mutual fund options.
- You are not required to maintain a $500 balance, but distributions can only be made from the money market account. If you have money in other mutual funds, you are responsible for transferring funds to the money market fund if additional amounts are needed to cover your reimbursement request.
- There is a minimum balance of $50 required.
- Deposits to your account must be at least $25 if they are made outside of the payroll deduction process.

V.9 Can I change my investment mix or investment allocations?

Yes. After your HSA is established, and you meet the requirements described above, you can either visit the account website – accessed through the Highmark website – or call our customer service number at 1-877-245-0116.

V.10 How can I deposit money into my HSA?

You have several options:

- You can elect to set up a recurring, automatic electronic funds transfer from your bank account. Funds will be deposited automatically in the amount and with the frequency you specify.
- You can elect to transfer deposits electronically from your bank account. You can decide when and how much to deposit each time.
- You can submit checks.
- If your employer agrees and has made the necessary arrangements, you can use payroll deductions to deposit funds.

V.11. How will I get reimbursements from my HSA?

You can elect to have the reimbursements deposited electronically into your bank account – this is the fastest way for you to get your money – or you may request that a check be sent. Checks will be issued only once a week and only if the amount is $50 or more.

V.12. How will HSA statements be delivered?

Semi-annual statements itemizing your deposits and withdrawals will be delivered by standard mail. All of the statement details can also be accessed via the BNY Mellon website.