Frequently Asked Questions

High-Deductible Health Plans and Health Savings Accounts

THE BASICS OF HEALTH SAVINGS ACCOUNTS

What is a high-deductible health plan (HDHP)?

Sometimes referred to as a catastrophic health insurance plan, an HDHP is a less expensive health insurance plan that generally covers your expenses after the first several thousand dollars of health care expenses (i.e., your deductible) are paid. You must be covered under a qualified HDHP if you want to open a Health Savings Account (HSA). Of course, your HSA is available to help you pay for the expenses your health insurance plan does not cover.

Some HDHPs have first dollar coverage (no deductible) for preventive care and apply higher out-of-pocket limits (deductible and coinsurance) for out-of-network services.

What is a Health Savings Account (HSA)?

An HSA is a savings account that offers a different way for consumers to save and pay for their health care expenses that are not paid for, or reimbursed by, insurance. An HSA enables you to save and pay for current qualified medical expenses and future qualified medical expenses, including retiree medical expenses, on a tax-free basis. You may withdraw funds tax-free to pay for the qualified medical expenses for you, your spouse or dependent children, as defined by applicable federal laws. You should consult with a tax advisor before paying for, or reimbursing, medical care expenses from your HSA to ensure that you, your spouse and/or dependent children qualify. You own and control the money in your HSA. Decisions on how to spend and invest the money in your HSA are made by you.

What federal income tax savings does an HSA provide?

An HSA provides triple tax savings:

- Tax exclusion for contributions to an HSA. This tax exclusion will occur in one of two ways:
  - An individual may take an "above-the-line" deduction on his/her individual federal income tax return (IRS Form 1040)
  - An individual will reduce his/her take home pay, and contribute pre-tax to his/her HSA under his/her employer's cafeteria plan (under Internal Revenue Code Section 125). *Note: The salary reduction will reduce his/her federal income tax (and state and local income taxes in some locales, and Social Security taxes).*
- Tax-free earnings of invested HSA funds
- Tax-free withdrawals for qualified medical expenses for you, your spouse and your dependent children as defined and permitted by applicable federal laws

CONTRIBUTING TO AN HSA

What is the maximum amount I can contribute to my HSA each calendar year?

Your maximum annual contribution limit for each calendar year is based on the statutory limit for your type of coverage, Individual or Family. For calendar year 2011, if you have Individual HDHP coverage, your contribution limit is $3,050; $6,150 for Family HDHP coverage. For calendar year 2012, if you have Individual HDHP coverage, your contribution limit is $3,100; $6,250 for Family HDHP coverage. If you are age 55 or older, you can also make additional "catch-up" contributions.

What is the deadline for contributing to an HSA?

The last day for making a contribution to an HSA for a calendar year is April 15 of the following calendar year. Thus, you have until April 15, 2012, to make an HSA contribution for the 2011 calendar year.

Does my contribution depend upon when I establish my HSA account or when my HDHP coverage begins?

Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. If you are not covered under a qualifying HDHP on December 1 of the current calendar year, your contribution depends on the number of months you have HDHP coverage during the calendar year and is a pro-rata contribution. If you are covered under a qualifying HDHP on December 1, you are treated as an eligible individual for the entire current calendar year. If you cease to be an eligible individual during the following calendar year, the excess contribution amount above the pro-rata contribution is included in income and subject to a 10 percent additional tax. Earnings on the taxable amount are not taxable or subject to a 10 percent additional tax if the earnings remain in the HSA or are used to reimburse qualified medical expenses.

Qualified medical expenses incurred before the date your HSA is established cannot be paid or reimbursed from the account.

I'm over 55 and would like to make catch-up contributions to my HSA, as I've done with my IRA. Is that possible?

Yes, individuals 55 and older who are covered by an HDHP can make additional catch-up contributions for each calendar year (or portion thereof) until the effective date of their Medicare coverage, as long as they remain covered under an HDHP and are otherwise eligible. The additional calendar year HSA catch-up contribution maximum is $1,000.

Note: *The same rules described in the previous question regarding having or not having coverage on December 1, also apply to catch-up contributions.*

Can my employer contribute to my HSA?

Contributions to HSAs can be made by you, your employer, any family member or any other person on your behalf. All contributions are combined to determine whether you have contributed the maximum allowed. If your employer contributes some of the money, you or another person can make up the difference.

WHO CAN HAVE AN HSA?

Who is eligible to open and contribute to a Health Savings Account?

The common eligibility requirements to contribute to an HSA are listed below:

- Maintain coverage under a qualifying HDHP
- Not enrolled in Medicare
- Not eligible to be claimed as a dependent on someone else's tax return
- Did not receive medical benefits from the Department of Veterans Affairs at any time during the previous three months
- Not covered under TRICARE (the health care program for active duty and retired members of the uniformed services, their families and survivors)
- Not covered by any other health plan not permitted by the HSA rules. For example:
  - A general purpose health Flexible Spending Account (health FSA) provided by your or your spouse's employer. *Note: Health FSA rules generally provide that enrollment by an employee in a health FSA permits the employee to be paid or reimbursed for medical expenses incurred by the employee, spouse or dependent children, as defined by applicable federal laws.*
  - Another health plan that is not an HDHP
  - Another health plan that *is* an HDHP, where the application of coordination of benefits rules would result in the payment of benefits under the secondary health plan that would satisfy all or part of the deductible under the primary plan
- Other insurance coverage that is permitted:Insurance coverage under another plan for automobile, disability, worker's compensation, dental care, vision care or long-term care
  - Insurance for a specified disease or illness, such as cancer insurance, as long as the policy pays a specific dollar amount of benefits and as long as the principal health coverage is provided by the qualifying HDHP
  - Insurance that pays a fixed amount per day or other period of hospitalization

I have my own HDHP coverage but I can still be claimed as a dependent by my parents; can I open an HSA?

You are not eligible to open an HSA if you can be claimed as a dependent on someone else's tax return.

Can an individual who is eligible for Medicare contribute to HSA?

An individual who is age 65 or older may contribute to an HSA if all of the following requirements are met:

- The individual is working for an employer with 20 or more employees who is required to provide group health plan coverage as primary insurance and the individual is covered under an HDHP provided by the employer
- The individual has not applied for and is not enrolled in Medicare Part A, B or D
- The individual has not applied for and is not receiving Social Security benefits

The individual will no longer be eligible to contribute to an HSA once he/she stops meeting any of these requirements. These rules also apply to a covered spouse who is age 65 or older, if the spouse is covered under the employee's HDHP and meets the requirements listed above.

USING YOUR HSA

Who decides whether the HSA money I'm spending is for a qualified medical expense?

You are responsible for that decision, and should familiarize yourself with what qualified medical expenses are (see IRS Publication 502 for a partial list). You should also keep your receipts in case you need to justify your expenditures during an audit. You may want to consult with a tax advisor before paying or reimbursing for a medical expense from your HSA to be sure that the medical expense is a qualified medical expense.

Note: *HSAs generally permit payment or reimbursement of qualified medical expenses as defined by Section 213(d) of the Internal Revenue Code. As required by law, HSAs are permitted to pay or reimburse qualified medical expenses incurred by a qualified individual (an employee, spouse and/or dependent children, as defined under applicable federal laws and regulations).*

What happens if I don't use the money in the HSA for qualified medical expenses incurred by a qualified individual?

If the money is used for something other than qualified medical expenses, the withdrawal will be taxed and, for individuals who are not disabled or over age 65, subject to an additional 20 percent penalty tax.

Can I pay my health insurance premiums with an HSA?
You can only use your HSA to pay for health insurance premiums if you are collecting federal or state unemployment benefits, or you have COBRA continuation coverage through a former employer.

I have an HSA but no longer have HDHP coverage. Can I still use the money that is already in the HSA to pay or reimburse for qualified medical expenses incurred by a qualified individual, tax-free?

Once funds are deposited into the HSA, the account can be used to pay or reimburse qualified medical expenses incurred by a qualified individual, tax-free, even if you no longer have HDHP coverage. The funds in your account roll-over automatically each year and remain indefinitely until used. There is no time limit on using the funds.

Do unused funds in an HSA roll-over year after year?

Yes, the unused balance in an HSA automatically rolls-over year after year. You won't lose your money if you don't spend it within the year.

What happens to the money in an HSA after you turn age 65?

You can continue to use your account tax-free for qualified medical expenses that are incurred by you, your spouse and/or your dependent children, as defined by applicable federal laws, and are not paid

or reimbursed by insurance. After you are covered under Medicare, you can use your account to pay for Medicare premiums, deductibles, copays and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums.

The one expense you cannot use your account for is to pay premiums for a Medicare supplemental insurance or Medigap policy.

Once you turn age 65, if you use your account to pay for items other than qualified medical expenses incurred by a qualified individual, you will be required to pay income tax on the amount withdrawn but will not be subject to the 10 percent penalty tax.

For more information on HSAs, visit ***bcbsde.com*** *and click on* **BlueAdvantage** *Consumer-Directed Plans for more information. Additionally, you can visit* ***ustreas.gov*** *for information from the U.S. Treasury and Internal Revenue Service.*

BCBSD DISCLOSURE AND DISCLAIMER STATEMENTS

Blue Cross Blue Shield of Delaware (BCBSD) receives no commissions or other financial incentives from *The Bancorp Bank* or its subsidiaries (collectively *Bancorp*) to encourage enrollment in the Health Savings Accounts (HSAs) offered by *Bancorp*. BCBSD does not guarantee the performance or solvency of *Bancorp*, or the availability of HSA funds on deposit with *Bancorp*. In the event that BCBSD, acting as an agent for an employer, transfers HSA contributions in the form of payroll deductions or otherwise from such employer to *Bancorp*, BCBSD shall not be obligated to pay interest on such contributions held during the transfer process. Neither contributions made to an HSA, nor HSA account balances, constitute, or may be deemed to constitute, the assets of any ERISA plan or other benefit plan. BCBSD is not, and shall not be deemed to be, the fiduciary, custodian or trustee of any HSA, or of any funds held or transferred in connection with an HSA. Each HSA offered by *Bancorp* is the responsibility of *Bancorp* and the respective account holder; all funds on deposit with *Bancorp* are liabilities solely of *Bancorp*.

Effective January 14, 2008, *Bancorp* made available to HSA account holders who have/had a BCBSD qualifying HDHP, the option of investing HSA balances in investment products available by and through National Financial Services LLC, (NFS), (a Fidelity Investments Company, Member NYSE, SIPC), and provided by various investment companies. NFS and the various investment companies are owned and operated independently of BCBSD and *Bancorp*. Neither BCBSD nor *Bancorp* is a registered investment adviser, nor is BCBSD or *Bancorp* acting in the capacity of a registered investment advisor with respect to the offering by, and through, NFS and the various investment companies of HSA investment options. Participation in the investment options is voluntary. Under no circumstances is BCBSD or *Bancorp* offering any of the HSA investment options. Neither BCBSD nor *Bancorp* makes any representations with respect to the investment options offered by, and through, NFS and provided by various investment companies. Each HSA account holder may select the portion (from 0 percent to 100 percent) of his/her account balance to invest and may choose among the investments available by, and through, NFS and from the various investment companies. Each HSA account holder should carefully consider the risks associated with any such investment. Each HSA account holder should understand that any such investment product is: (i) not insured by the FDIC or the NCUA; (ii) not a guaranteed deposit or obligation of BCBSD, *Bancorp*, MyAdvantageHSA®, or any other bank or credit union; and (iii) subject to investment risk, including the possible loss of income or of the principal invested. BCBSD and *Bancorp* disclaim any and all liability, contingent or otherwise, for the selection, appropriateness or performance of any such investment product, including any loss of income or of the principal invested. Each HSA account holder is solely responsible for determining whether any investment, security, strategy, or any other product or service is appropriate or suitable for him/her based on the laws and regulations regarding HSAs; his/her health; and any medical situation of his/her, spouse and dependents; his/her investment objectives; and his/her personal and financial situation. Each HSA account holder should consult a competent attorney or tax professional regarding his/her specific legal or tax situation prior to making any investment decisions.

BCBSD and its employees are **not** registered investment advisors, securities brokers or dealers, and are **not** authorized to sell any securities to you, accept investment instructions from you, or provide investment advice to you in connection with any HSA account balances. BCBSD has **not** authorized licensed insurance producers (agents and brokers) to perform any such investment function or service in connection with HSA account balances, even if those producers are otherwise licensed to sell securities. Neither BCBSD nor its employees will receive commissions or any other forms of compensation based on securities transactions in connection with any investment of HSA account balances. BCBSD has **not** authorized the payment of any such form of investment-related compensation to licensed insurance producers.

These Frequently Asked Questions (FAQs) have been prepared for the information of customers (individuals, employers and other entities) and brokers of Blue Cross Blue Shield of Delaware. They are not intended to provide, and do not provide, legal, tax or financial advice. Readers should not act upon the information in this brochure without obtaining professional legal, tax or financial advice based upon the specific facts of each situation, whether it is that of an individual, employer or other entity. Blue Cross Blue Shield of Delaware disclaims any and all liability with regard to any adverse consequences, whether legal, tax, financial or otherwise, that may occur to any individual(s), employer, other entity or broker due to their reliance, actions or inactions as a result of information contained in or omitted from these FAQs.

BlueCross BlueShield
of Delaware

Working well together.
bcbsde.com