

Health Savings Accounts (HSAs) and Qualified High-Deductible Health Plans (HDHPs) Q&A

Please Note: This information describes some features of Health Savings Accounts (HSAs) and compatible High-Deductible Health Plans (HDHPs). Individuals should make their AccessTN benefit plan choice based on their individual circumstances. More information about HSAs is on the U.S. Department of the Treasury Web site at treas.gov.

Nothing herein should be taken as an endorsement of an HSA or a recommendation of any particular benefit plan offered by AccessTN. It is not financial, tax, or legal advice. Please consult your attorney or financial advisor as needed.

What are qualified High-Deductible Health Plans?

Qualified High-Deductible Health Plans (HDHPs) are plans that meet recent federal guidelines to make them compatible with Health Savings Accounts (HSAs). Plan 2500 is the only AccessTN plan designed to be an HDHP compatible with an HSA. An HDHP has no special tax treatment but is necessary for a person setting up an HSA.

What is a Health Savings Account?

A Health Savings Account (HSA) is like a bank account that is funded with tax-deductible dollars and can be used to pay for qualified medical expenses. Remaining balances roll over from year to year and earn interest tax-free.

How does a person set up a Health Savings Account?

AccessTN does not offer Health Savings Account (HSA) administration, and does not recommend a specific HSA. HSAs can be set up at a variety of banks and institutions.

How do qualified High-Deductible Health Plans and Health Savings Accounts work together?

To participate in a Health Savings Account (HSA), a person must be enrolled in a qualifying High-Deductible Health Plan (HDHP). HSAs may permit an individual covered by an HDHP to deposit tax-deductible contributions into the HSA account, make tax-free payments from the account to spend on IRS-defined, qualified medical expenses, and realize tax-free growth of the funds invested over time.

What are the advantages to using a qualified High-Deductible Health Plan?

Flexibility and informed choice are key goals of the Health Savings Account (HSA) concept. A High-Deductible Health Plan (HDHP) may have a lower premium than plans with a lower deductible or lower coinsurance. A person may use some of the premium savings or other funds to save for out-of-pocket expenses or future medical costs with tax-deductible dollars. Some believe using an HSA may also provide individuals with more information about their health care costs because they are paying for qualified medical expenses themselves.

How does qualified High-Deductible Health Plan coverage differ from other AccessTN health plans?

For all AccessTN plans for 2007, certain preventive services are paid without having to pay a deductible or coinsurance. These preventive services include certain expenses related to an annual physical exam, routine screenings, and immunizations.

Plan 2500 is structured as a High-Deductible Health Plan (HDHP), and all benefits, other than the preventive

services stated earlier, are subject to the \$2,500 deductible. For Plan 2500, this includes prescription drugs. The entire deductible must be met before any non-preventive benefits are paid. Pharmacy for Plan 1000 and Plan 5000 are not subject to the plan's deductible.

Who can establish a Health Savings Account?

Most individuals enrolled in a qualified High-Deductible Health Plan (HDHP) may establish a Health Savings Account (HSA). However, to be eligible, a person cannot be covered by a health plan that provides coverage for a benefit that is covered by the HDHP, except for permitted insurance. In addition, a person:

- Cannot be enrolled in Medicare.
- Cannot be claimed as a dependent on another person's tax return.

Who can contribute to a Health Savings Account?

Individuals or others designated by the individual may contribute to a Health Savings Account (HSA).

In what instances can Health Savings Account funds be accessed?

Account holders may withdraw funds from their Health Savings Accounts (HSAs) at any time and for any purpose, although taxes and some penalties apply if the funds are not used for qualified medical expenses.

What is a "qualified medical expense"?

Qualified medical expenses include the portion of costs associated with services typically covered by a health care plan, such as office visits, emergency room services, and hospitalization that are not reimbursed by insurance. These include medical plan deductibles and coinsurance. Qualified medical expenses also include costs for prescription drugs and many over-the-counter drugs, vision expenses, including eyeglasses and contact lenses, as well as non-cosmetic dental expenses. Qualified medical expenses are defined by IRS code 213(d) and are listed in IRS Publication 502. Only qualified medical expenses that are also services covered by Plan 2500 will count against the Plan 2500 deductible.

How do qualified High-Deductible Health Plan deductibles and out-of-pocket maximums work?

Qualified High-Deductible Health Plans (HDHPs) have a deductible that must be met before any non-preventive benefits are paid. After the deductible is met, coinsurance applies to covered benefits. After the member meets the out-of-pocket maximum, including deductibles and coinsurance, Plan 2500 will pay for all allowed charges for covered services from network providers. There is no out-of-pocket maximum for out-of-network charges.

Can Health Savings Account funds be used to pay medical insurance premiums?

Generally, Health Savings Account (HSA) funds cannot be used to pay premiums for health insurance coverage. Exceptions include COBRA premiums, qualified long-term care premiums, or premium payments that allow the account holder to retain health coverage while he or she is receiving unemployment compensation. Members can also use HSA funds for Medicare premiums, except for Medigap.

Who owns the Health Savings Account?

The individual, as the account holder, owns the Health Savings Account (HSA).

Is there a limit to the amount of Health Savings Account contributions?

Contributions can be made up to the amount of the health plan deductible to a maximum of \$2,850 single/\$5,650 family for 2007. Health Savings Account (HSA) holders age 55 and older may make catch up contributions. The maximum contribution amount is indexed each year, but is always limited by the Plan deductible. Plan 2500 has a deductible of \$2,500. So, that is the maximum annual contribution, except for any catch up contributions permitted. Under recently enacted legislation, if one has High-Deductible Health Plan (HDHP) coverage as of December 1, 2007, then one may be allowed the full, non-pro rated contribution (\$2,500) for the year. However, if you cease to remain an eligible individual throughout 2008, the extra amount over a pro-rated contribution amount may be included in income and subject to an additional 10 percent tax.

Who is responsible for keeping records on the Health Savings Account?

The account holder is responsible for maintaining all the paperwork for eligibility and expenses. Additionally, the account holder is responsible for ensuring funds are used for qualified medical expenses or reporting other uses to the IRS.

Are Health Savings Accounts required in order to offer a qualified High-Deductible Health Plan?

No. High-Deductible Health Plans (HDHPs) may be offered with or without an accompanying Health Savings Account (HSA). With the AccessTN HDHP (Plan 2500), individuals may establish their own HSA at the bank or financial institution of their choice.

Does enrolling in a qualified High-Deductible Health Plan instantly qualify a person for a Health Savings Account?

No. Although qualified High-Deductible Health Plan (HDHP) coverage is required with Health Savings Accounts (HSAs), enrollees must meet certain requirements in order to qualify.

What happens to unused funds in the Health Savings Account?

Unused funds roll over from year to year and may earn interest – tax-free. Individuals may also continue to use funds after High-Deductible Health Plan (HDHP) coverage terminates and/or at retirement.

Do carryover deductible amounts apply?

No. Qualified High-Deductible Health Plans (HDHPs) do not include fourth quarter carryover provisions. The member will have to meet a new deductible each calendar year.

What if Health Savings Account funds are used to pay for items other than qualified medical expenses?

That amount needs to be reported as income when the Health Savings Account (HSA) holder files taxes. It will be taxed as regular income and, if the account holder is less than age 65, it will also be subject to a 10 percent tax penalty.

Will deductible or out-of-pocket maximum amounts change?

Under federal regulation, minimum deductible and maximum out-of-pocket amounts are indexed annually.

When may one change benefit plans in AccessTN?

A new member may change benefit plans for the first 15 days of his or her coverage. After that time, a member in any AccessTN benefit plan may change plans for the next calendar year during the annual open enrollment period each November.

Questions?

Have questions? Call us toll-free at 1-800-636-0080. The hours are Monday through Friday, from 8 a.m. to 6 p.m. Eastern Time. Or visit bcbst.com and go to the AccessTN Member Web page. There is a link from that site to access information about AccessTN Plan 2500 and Health Savings Accounts (HSAs).



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