## Helpful Information

IRS Publication 969 offers an overview of Health Savings Accounts (HSAs) including contributions, distributions, and tax information.

You may call the IRS at the toll-free number listed in your local telephone directory or visit **www.treas.gov** and click on the link to Health Savings Accounts (HSAs) information for a copy of this publication.

BlueCross BlueShield of Alabama

An Independent Licensee of the Blue Cross and Blue Shield Association

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# Preferred Blue HDHP

*High Deductible Health Plan-HSA Qualified*
*Small Group Health Savings Accounts*

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## What is a Health Savings Account?

A Health Savings Account (HSA) is an account you can put money into to save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment.

## What's an HSA-Qualified High Deductible Health Plan?

An HSA-Qualified High Deductible Health Plan (HDHP) is a health plan that satisfies certain government requirements for use in conjunction with a Health Savings Account (HSA). Enrolling in an HDHP allows you and your employer the opportunity to make tax-deductible contributions to an HSA.

An HDHP is similar to a regular health plan, with a few major differences. Before any benefits (except preventive care) are eligible for payment, you must first meet the deductible, which is often higher than traditional health plan deductibles. Also, enrolling in an HSA-Qualified HDHP makes you eligible to establish an HSA.

Blue Cross now offers an HSA-Qualified HDHP. Our HDHP meets all government criteria for use with an HSA. Funds contributed to your HSA can be used to pay your annual deductible, coinsurance, and any qualified medical expenses not covered by your HDHP.

For the most current list of qualified medical expenses eligible for reimbursement through your HSA, please visit **www.treas.gov**.

**Blue Cross and Blue Shield of Alabama does not administer health savings accounts. For more information on how to establish an HSA, please contact your financial institution or www.treas.gov (click on Health Savings Accounts (HSAs) and then select IRS forms and publications).**

Before enrolling in an HDHP or an HSA, we recommend you review the health benefit materials provided by your employer and consult with a tax advisor to understand the tax advantages available to you with this plan.

## What's So Great About an HSA?

- HSA funds can be used to pay your annual deductible, coinsurance and any other qualified medical expenses not covered by your health insurance plan.
- HSAs function similar to a 401(k) or IRA. However, withdrawals from an HSA for qualified medical expenses are not taxed, regardless of your age.
- Funds placed in an HSA, as well as the interest which accrues, may continue to grow without federal taxation over the years.*
- Unused funds in an HSA roll over from year to year.
- Funds in an HSA pass along to a surviving spouse or other beneficiary upon death.

## Who Can Have an HSA?

You can contribute to an HSA if you:

- Are 18 or older;
- Have coverage under an HSA-qualified High Deductible Health Plan (HDHP);
- Have no other first-dollar medical coverage, which means no other comprehensive major medical insurance policy, a health flexible spending account (Health FSA) or a health reimbursement arrangement (HRA) -- unless this coverage is limited to benefits not covered by your health plan. Other types of insurance like specific injury insurance or accident, disability, dental care, vision care, or long-term care insurance are permitted;
- Are not enrolled in Medicare; and
- Cannot be claimed as a dependent on someone else's tax return.

## HSA Contributions

Contributions to your HSA can be made by you, your employer, or both. However, the total contributions are limited annually. You can deduct the contributions (even if you do not itemize deductions) when completing your federal income tax return.

Contribution limitations are set annually by the IRS. These limitations are adjusted for inflation, and thus, may fluctuate from year to year. You can make contributions to your HSA each year that you are eligible. Contributions can be made as late as April 15th of the following year. Additional information is available at **www.treas.gov** (click on Health Savings Accounts (HSAs) and then select HSA indexed amounts.)

Individuals age 55 and older can make additional "catch-up" contributions up to $1000 per year.

When you become enrolled in Medicare, contributions to your HSA must cease. However, funds in your HSA can continue to be used for qualified medical expenses tax-free.

## Determining Your Contribution

Generally, you can contribute to an HSA each month if you have HDHP coverage on the first day of the month. Your maximum contribution for the year is the greater of: (1) the full contribution, or (2) the prorated amount. The full contribution is the maximum annual contribution for the type of coverage you have on December 1.

The prorated amount is 1/12 of the maximum annual contribution for the type of HDHP coverage you have times the number of months you have that type of coverage.
If you contribute more than the prorated amount, and you fail to remain covered by an HDHP for the entire following year, the extra contribution is designated as income and is subject to an additional 20 percent tax.

## Using Your HSA

You can use the money in the account to pay for any "qualified medical expense" permitted under federal tax law. This includes most medical, dental and vision care.

Generally, you cannot use the money to pay for medical insurance premiums, except under specific circumstances, including:

- Any health plan coverage while receiving federal or state unemployment benefits.
- COBRA continuation coverage after leaving employment with a company that offers health insurance coverage.
- Qualified long-term care insurance.
- Medicare premiums and out-of-pocket expenses, including deductibles, copays, and coinsurance for:
  - Part A (hospital and inpatient services)
  - Part B (physician and outpatient services)
  - Part C (Medicare HMO and PPO plans)
  - Part D (prescription drugs)

You can use the money in the account to pay medical expenses for you, your spouse or your dependent children. Even if your spouse and dependent children are not covered by your HDHP, you can pay their expenses.

Any funds used for purposes other than to pay for "qualified medical expenses" are taxable as income and subject to an additional 20 percent tax penalty.

*Examples include:*

- Medical expenses that are not considered "qualified medical expenses" under federal tax law (e.g., cosmetic surgery)
- Other types of health insurance unless specifically described above
- Medicare supplement insurance premiums
- Expenses that are not medical or health-related

After you turn 65, the 20 percent additional tax penalty no longer applies. If you become disabled and/or enroll in Medicare, the account can be used for other purposes without paying the additional 20 percent penalty.

## Advantages of HSAs

**Security -** Your high deductible insurance and HSA protect you against high or unexpected medical bills.

**Affordability** - You may be able to lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

**Flexibility** - You can use the funds in your account to pay for current medical expenses, including expenses that your insurance may not cover, or save the money in your account for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

**Savings** - You can save the money in your account for future medical expenses and grow your account through investment earnings.

**Control** - You make all the decisions about:

- How much money to put into the account
- Whether to save the money for future expenses or pay current medical expenses
- Which medical expenses to pay from the account
- How to invest money in the account

**Portability** - Accounts are completely portable, meaning you can keep your HSA even if you:

- Change jobs
- Change your medical coverage
- Become unemployed
- Move to another state
- Change your marital status

**Ownership** - Funds remain in the account from year to year, just like an IRA. There are no "use it or lose it" rules for HSAs.

**Tax Savings** - An HSA provides you triple tax savings:

(1) Tax deductions when you contribute to your account
(2) Tax-free earnings through investment
(3) Tax-free withdrawals for qualified medical expenses

## What Happens to My Account In the Event of My Death?

If your spouse becomes the owner of the account, they can use it as if it were his/her own HSA. If you are not married, upon your death, the account will no longer be treated as an HSA. The account will pass to your beneficiary or become part of your estate, and be subject to any applicable taxes.

**Alabama state laws currently do not allow you to deduct HSA contributions on your state tax return. Please consult your tax advisor for more information.*