

HEALTH SAVINGS ACCOUNTS (HSA)

Frequently Asked Questions

What is a High Deductible Health Plan (HDHP)?

A High Deductible Health Plan (HDHP) is a plan with a higher annual deductible and a maximum out-of-pocket limit.

What is a Health Savings Account?

A Health Savings Account (HSA) is an account that can be funded with Federal tax exempt dollars, by you, your employer, or both. The money in this account is used to pay for eligible medical expenses not covered by an insurance plan, including the deductibles and coinsurance.

Who is eligible for an HSA?

Anyone who is:

- Covered by a High Deductible Health Plan (HDHP);
- Not covered under another medical plan other than a HDHP;
- Not entitled to Medicare benefits; or
- Not eligible to be claimed on another person's tax return

When do I use my HSA?

Your HSA dollars can be used to pay out-of-pocket expenses (deductibles, coinsurance, and dental/vision expenses) billed by the physician, facility, or pharmacy or you can choose to save your HSA dollars for a future medical expense.

What expenses are eligible for reimbursement from my HSA?

HSA dollars may be used for qualified medical expenses incurred by the account holder and his or her spouse and dependents. Qualified medical expenses are expenses for medical care and are outlined within IRS Section 213(d). In summary the IRS Section 213(d) states that "the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness."

In addition to qualified medical expenses, the following insurance premiums can be reimbursed from an HSA:

- COBRA premiums;
- Health insurance premiums while receiving unemployment benefits;
- Qualified long-term care premiums; and
- Any health insurance premiums paid, other than for a Medicare supplemental policy, by individuals ages 65 and over

What expenses are NOT eligible for reimbursement from my HSA?

The following expenses may not be reimbursed from an HSA:

- Premiums for Medicare supplemental policies;
- Expenses covered by another insurance plan;
- Expenses incurred prior to the date the HSA was established;
- Over-the-Counter (OTC) Drugs and Medicines (require prescription to be eligible)

Can I use the money in my account to pay for my dependents' medical expenses?

You can use the money in the account to pay for medical expenses of yourself, your spouse, or your dependent children. You can pay for expenses of your spouse and dependent children even if they are not covered by your HDHP.

What is a deductible?

It is a set dollar amount, determined by your plan, that you must pay, out-of-pocket or from your HSA account, before insurance coverage for medical expenses can begin.

How much can I contribute to an HSA?

As noted by federal law for the 2011 calendar year, the annual contribution limits are:

- \$3,050 for individual coverage or
- \$6,150 for family coverage

Individuals age 55 or older are eligible to make an additional catch-up contribution of \$1,000 in 2011.

Is the HSA maximum contribution based on just employee deductions?

No, the HSA maximum contribution is the total accumulation of both City's contribution (if any) and Employee's contribution.

What happens if I contribute more than is allowed?

Excess contributions occur when funds added to a HSA exceed the annual maximum limit set by law. Excess contributions must be withdrawn prior to the tax filing deadline or they are subject to a 6% excise tax. Contributions by an employer that exceed the annual HSA limits are taxable as income to the employee. Excess contributions may be reversed; however, First Horizon will charge a \$25 fee to process this request.

What happens when my HSA funds run out?

You may be financially responsible for any eligible medical expenses that fall within the coverage gap.

How do I know how much is in my account?

You can access your account by visiting the website at www.firsthorizonmsaver.com. You will need to enroll in banking online in order to establish your online access. You Customer Care may also be contacted at 866-889-8583. You must have your account number in order to access your personal information.

Can I use my HSA dollars for non-eligible expenses?

Money withdrawn from an HSA account to reimburse non-eligible medical expenses is taxable income to the account holder and is subject to taxes and an excise penalty of 20%, unless over age 65. At age 65, money can be withdrawn from your HSA account for non-eligible medical expenses without penalty.

When can I start using my HSA dollars?

You can use your HSA dollars immediately following your HSA account activation and contributions have been made.

Who will administer my HSA?

First Horizon Msaver will be administering your HSA. First Horizon Msaver is a subsidiary of First Tennessee Bank National Association. The City has selected First Horizon Msaver for the following reasons:

- Free banking online
- Low monthly administrative fee
- No set-up fee
- Free debit card
- Competitive interest rates
- Free monthly statements
- Unlimited check writing and debit card privileges
- Checks available upon request
- Three investment levels

Customer Care can be reached at 866-889-8583 and operates from 7AM-5:30PM CST, Monday-Friday. The First Link telephonic voice response system is also available to meet customers' 24 hour needs.

How much is the administration fee? How is it paid?

The administration fee is \$2.50 per month paid by the employee. This monthly fee is automatically deducted from your HSA account on the last business day of every month.

How do I order checks?

There are two options for ordering checks. First option is available for a charge of \$15.00 for 150 checks by contacting customer care at 866-889-8583 to place your order. The second option is ordering online; however, this option is more expensive and costs \$45.00 for 150 checks. Checks typically arrive within 10 business days.

How do I get reimbursed for eligible medical expenses?

Once the HSA bank account is set up, you will receive a debit card to pay for eligible expenses. You do not have to submit receipts to receive reimbursement. It is your responsibility to maintain eligible receipts for verification to the IRS if audited.

Who is responsible for tracking expenses paid from the HSA?

First Horizon Msaver tracks the total dollar amount spent from the account and provides that information to both you and to the IRS. The form that you will receive reflecting this amount is called a 1099-SA and is sent prior to January 31st. You are required to maintain copies of your medical receipts to verify how you utilized those funds. You are responsible to the IRS for all types of withdrawals made from your HSA.

Will my contribution to my HSA be taken from my paycheck on a pre-tax basis?

Yes, any contribution you make to your HSA will be on a pre-tax basis for Federal taxes, but **not** State.

Can I change my voluntary contribution out of my paycheck at any time?

You may change your contribution amount from your paycheck on a month to month basis. Changes made will be effective the 1st of the following month in which you made the change. You can access a "change form" from the City of Modesto website @ www.modestogov.com or go to Employee Benefits located in Human Resources Department.

What is the difference between a Health Savings Account (HSA) and Unreimbursed Medical (URM) account?

- An HSA can roll-over unused funds from year to year and you must be enrolled in a High Deductible Health Plan (HDHP)
- An URM cannot roll-over unused funds from year to year

Can I contribute to both a HSA and an URM in the same year?

Yes, you can contribute to a HSA and a Limited Expense Unreimbursed Medical Account (LEX URM). Please refer to the Q&A for LEX URM for more details on this program.

Why should I elect an HSA?

1. Cost Savings:

Tax Benefits

- HSA contributions are excluded from federal income tax (taxed State)
- Interest earnings are tax-deferred (except for State Income tax)
- Withdrawals for eligible expenses are exempt from federal income tax

Reduction in medical plan premium

Unused money is held in an interest-bearing savings or investment account

2. Long-Term Financial Benefits:

Save for future medical expenses

Funds roll over year to year

This is your account – you take it with you

3. Choice:

You control and manage your health care expenses

You choose when to use your HSA dollars to pay your health care expenses

You choose when to save your HSA dollars and pay health care expenses out of pocket

What if I have HSA dollars left in my account at year-end?

The money is yours to keep. It will continue to earn interest and will be available for you and your healthcare costs next year.

How do my remaining HSA dollars roll over at year end?

Any dollars left in your HSA account at year-end will automatically roll over into next year's HSA account.

What happens to my HSA dollars if I leave my employer?

The funds are yours to keep. You may elect one of the following options:

- Leave your funds in the current HSA account;
- Transfer your funds to an HSA with your new employer; or
- Transfer your funds to another qualifying account within 60 days