

HEALTH SAVINGS ACCOUNT ENROLLMENT FAQs

For Employees Electing to Enroll in the BCBSM Flexible Blue Plan, a Qualified High Deductible Health Plan.

The following provides a general overview of how a Health Savings Accounts (HSA) works. It is not intended to be a comprehensive description of the laws governing the operation of HSAs.

What is a Health Savings Account?

A Health Savings Account (HSA) is an account that can be funded with your tax-exempt dollars, by your employer's contribution, or both, to help pay for eligible medical expenses not covered by an insurance plan. This includes deductibles, copays and, in some cases, may be used to pay health insurance premiums. Any qualified medical expenses (as defined in Section 125 of the Internal Revenue Code) can also be paid or reimbursed from this account.

Note: Employer contributions into the account shall only be made if required under the terms of the appropriate collective bargaining agreement (CBA) or benefit plan.

Who is Eligible for an HSA?

Anyone who is:

- Covered by a High-Deductible Health Plan (HDHP) as defined by the IRS;
- Not covered under another medical health plan that is not a HDHP;
- Not entitled to Medicare benefits; and
- Not eligible to be claimed on another person's tax return.

Note: Only employees enrolling in the BCBSM Flexible Blue Plan are eligible to elect to contribute to an HSA. However, employees enrolling in Flexible Blue are NOT REQUIRED to make any contributions to an HSA. Electing to initiate an HSA account is strictly at the employee's discretion.

What is a High Deductible Health Plan (HDHP)?

A HDHP is a plan with a minimum annual deductible and a maximum out-of-pocket maximum which are determined annually by the Internal Revenue Service (IRS) and are subject to change. The Flexible Blue Plan being offered by Wayne County through Blue Cross Blue Shield of Michigan (BCBSM) includes a deductible amount of \$1,250 for a one-person contract or a \$2,500 for a family contract in-network and a \$2,500 one-person or \$5,000 family contract out-of-network deductible.

How does an HSA work?

PART 1: Qualifying HDHP

- ➔ Intended to cover serious illness or injury after the deductible has been met.

PART 2: Health Savings Account (HSA)

- ➔ Pays for out-of-pocket expenses incurred before the deductible is met.

How does an HSA work?

Employees and/or employer funds HSA account.

1. Employee seeks medical services.
2. In general, medical services and prescription drugs are paid by the Health Plan (BCBSM Flexible Blue) subject to a deductible and coinsurance.
3. Employee may seek reimbursement from their HSA for amounts paid to health care providers for services subject to deductible and coinsurance.
4. Deductible and out-of-pocket maximums are fulfilled, according to BCBSM's claim records.
5. Once deductible and out-of-pocket maximum is satisfied, employees will be covered by Flexible Blue for all remaining eligible expenses.

When do I use my HSA?

Your medical claim for health care services will be submitted by your health care provider to BCBSM for payment. Since BCBSM has discounts with participating providers, it is in your best interest to wait until BCBSM processes your claims. The amount remaining for you to pay will be the correct amount. Your HSA dollars can be used to pay these out-of-pocket expenses (deductibles and copays) billed by the health care provider or you can choose to save your HSA dollars for a future medical expense.

What is a deductible?

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

How much can I contribute to an HSA?

By federal law, the 2012 annual contribution limits are:

- \$3,100 for individual coverage or
- \$6,200 for family coverage.

Individual who are age 55 or older may be eligible to make additional contributions of up to \$1,000 per year.

When would I contribute to my HSA and how often?

You, your employers or others can contribute to your HSA through payroll deduction(s) or as a lump sum deposit. You can contribute as often as you like, provided the annual contribution limits do not exceed federal limits.

In addition, a law established in 2006 allows a one-time rollover from an IRA account to your HSA account that may be used to fund up to one year's maximum contribution.

When could I start using HSA dollars?

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

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 health care costs next year.

Why should I elect an HSA?

1. Cost Savings

- Tax benefits
- HSA contributions are excluded from federal income tax
- Interest earnings are tax-deferred
- Withdrawals for eligible expenses are exempt from federal income tax
- Reduction in medical plan contribution
- Unused money is held in an interest-bearing savings or investment account

Note: Many states have not passed legislation to provide favorable state tax treatment for HSA's. Therefore, amounts contributed to HSAs and interest earned on HSA accounts may be included on the employee's W-2 for state income tax purposes.

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.

How would I manage an HSA?

The HSA is *your* account. The HSA dollars are *your* dollars. Since you are the account holder or HSA beneficiary, you manage your HSA account. You may choose when to use your HSA dollars or when not to use your HSA dollars.

HSA dollars pay for any eligible expense. Most commonly, the HSA account holder will pay their out-of-pocket expenses (i.e., deductible and copays) associated to their high deductible health plan with their HSA dollars.

How is the Money Invested?

Federal law requires that contributions be deposited with a qualified trustee or custodian. Bancorp Bank has made arrangements to hold your HSA contributions exclusively for your benefit, ready for you to use whenever you have qualified medical expenses to pay.

In the meantime, you have the opportunity to make your HSA grow by investing in your choice of funds offered by Bancorp. A brief overview of available funds will be provided with enrollment.

Bancorp may offer debit cards that you may use to pay for expenses.

What expenses are eligible for reimbursement from an 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 may 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 age 65 and over.

What expenses are NOT eligible for reimbursement under an HSA?

- Premiums for Medicare supplemental policies;
- Expenses covered by another insurance plan;
- Expenses incurred prior to the date the HSA was established; or
- Expenses not considered qualified medical expenses.

What happens when HSA funds run out?

You may be financially responsible for any eligible medical expenses within your plan coverage.

Could I use HSA dollars for non-eligible expenses?

Money withdrawn from an HSA to reimburse non-eligible medical expenses is taxable income to the account holder and is subject to a tax penalty of 10% in 2010 and 20% starting in 2011, unless you are over age 65, disabled, or upon the death of the account holder.

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How would I pay my health care provider at time of service with HSA dollars?

You may request that the health care provider submit your claim to BCBSM. You should make sure that your provider has your most up-to-date insurance information. Once the medical claim has been processed, if applicable, out-of-pocket expenses will be billed.

If available, you may choose to use your HSA debit card to pay for any out-of-pocket expenses or you may choose to write a personal check and receive reimbursement at a later date. You should always ask that your medical claim be submitted to the health plan **before** you seek reimbursement from your HSA. This procedure will ensure that provider discounts are applied.

Also, remember to keep all medical receipts and Explanation of Benefits (EOBs) for your tax records.

How would my remaining HSA dollars roll over at year-end?

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

What happens if I decide not to enroll in a HDHP plan in the future?

You will not be able to contribute to the HSA at the point in which you are no longer enrolled in the Flexible Blue plan or another qualified HDHP. However, the funds remaining in the HSA at that time are yours to use to pay for any qualifying medical expenses you may incur in the future.

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

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

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

Could HSA dollars be used for retirement health care costs?

Yes, for expenses that are eligible for reimbursement.

What happens to the money in my HSA when I die?

If married, your spouse becomes owner of the HSA when you die. If unmarried, the HSA becomes part of your taxable estate.

Are there any negatives that I should know about?

Yes. Because you are not paying any social security tax on that portion of your income that has been set aside, your social security benefits may be slightly reduced. However, most tax advisors would tell you that the benefit of saving taxes now will

be far greater than the potential loss of social security benefits when you retire.

You should check with a qualified tax professional before participation in an HSA to determine whether enrollment in an HSA is the right option for your circumstances.

How Do I Enroll in an HSA?

To enroll in the HSA, you must complete a **Bancorp Bank Health Savings Account Application** and **Request for HSA Payroll Deduction Authorization Form**.

The Bancorp HSA application is available on the Blue Cross Blue Shield of Michigan website located at www.bcbsm.com. The payroll deduction authorization forms are available on the County web sites at <http://intranet.wc/> and www.waynecounty.com. Alternatively, you may contact the Benefit Administration Division either by e-mail, phone or U.S. Mail.