

ConnectYourCare – Employee HSA Frequently Asked Questions

1. What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is an alternative to traditional health insurance; it is a savings product that offers a different way for members to pay for their healthcare. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. You must be covered by a Qualified High Deductible Health Plan (QHDHP) to be able to take advantage of HSAs. Overall premium costs for a QHDHP are generally less than the PPO or Network Only Plans. You own and control the money in your HSA. Decisions on how to spend the money are made by you without relying on a third party or a health insurer. You also decide what types of investments to make with the money in the account in order to make it grow.

2. What is a Qualified High Deductible Health Plan (QHDHP)?

A deductible is the amount of dollars that you must pay for covered healthcare expenses before your health plan will provide coverage. A Qualified High Deductible Health Plan (QHDHP) is an insurance plan that has a higher than average deductible. These types of plans also have annual limits on how much you have to pay out-of-pocket in the form of deductible and coinsurance fees.

3. Am I eligible to participate in a Health Savings Account (HSA)?

According to the IRS Health Savings Accounts (HSAs) Eligibility and Rules you are eligible for an HSA if you are enrolled in a corresponding Qualified High Deductible Health Plan (QHDHP). More specifically, an HSA can be established for any employee that meets all of the following requirements:

- is covered by a Qualified High Deductible Health Plan (QHDHP)
- is not covered by another health plan
- is not eligible to be claimed as a dependent on another person's tax return
- is not entitled to Medicare benefits

The following table provides a summary of AMHIC employee HSA eligibility rules.

AMHIC Employee Eligibility	Eligible – YES or NO
Employee is enrolled in an HSA-compatible health care plan	YES
Employee is enrolled in a traditional Health Flexible Spending Account (FSA)	NO
Employee is enrolled in a limited purpose Health FSA	YES
Employee is enrolled in a Health Reimbursement Account (HRA)	NO
Employee is enrolled in Medicare Part A, Part B, Part D, or any other Medicare benefit	NO
Employee's spouse is enrolled in Medicare	YES
Employee is enrolled in Tricare	NO
Employee's spouse is enrolled in Tricare	YES
Employee can be claimed as a dependent on someone else's tax return	NO
Employee is covered by a spouse's or a domestic partner's Health FSA	NO
Employee is covered by a spouse's or a domestic partner's limited purpose Health FSA	YES
Employee has received VA benefits within the past 3 months	NO
Employee is eligible for VA benefits, but has not received benefits within the past 3 months	YES
Employee is covered by a spouse's HSA-compliant health plan	YES
Employee is covered by a spouse's non-HSA compliant health plan	NO

4. What are the benefits of establishing an HSA?

The benefits include:

- **Tax Savings** – An HSA may provide you with triple tax savings:
 - Tax deductions when you contribute to your account and/or tax free income when your employer contributes to your account;
 - Tax free earnings through investments; and
 - Tax free withdrawals for qualified medical expenses.
- **Flexibility** – You can use the funds in your account to pay for current medical expenses or save the money for future needs. Money saved can be invested and your account can grow through tax free investment earnings. You also have control over how much money to contribute to the account and which medical expenses to pay from the account.
- **Ownership and Portability** – HSAs are owned by you, not your employer. Additionally, accounts are completely portable, meaning you can keep your HSA even if you change jobs or become unemployed.

5. How does an HSA work?

- **Funding** – You and your employer may contribute to your HSA on a pre-determined schedule throughout the year. (Please contact your Human Resources office for a copy of your employer's contribution schedule, if applicable).
- **Accessing Funds** – When you have an eligible healthcare expense you may pay for it with your healthcare payment card, or pay out-of-pocket and request reimbursement online. Remember to always keep your receipts. Even if they are not needed for substantiation, you may need them for an IRS audit.
- **Requesting Reimbursement** – If your payment was out-of-pocket, you will need to submit a request for reimbursement. Log on to your online account at www.connectyourcare.com and visit the Account Claim Center.
- **Reimbursement Processing** – ConnectYourCare will promptly process your request and reimburse you either by check or direct deposit. Please note that you will receive your money sooner if you use direct deposit. See **How to File a Claim for Reimbursement** at www.amhic.com, under the HSA tab of the Benefits Section for more information.
- **Account Management** – Log on to your online account regularly to check your account balance and access health education tools.

6. Who is a good candidate for an HSA and QHDHP?

A good candidate would be someone who:

- **Is in good health** – You and your covered dependents are basically in good health, free of chronic conditions and generally only visit a doctor a few times a year.
- **Is an active decision maker** – You will be responsible for managing the funds in your HSA, so you should be comfortable researching and understanding your investment options and associated fees. You should also be comfortable using online tools to price and estimate your future medical expenses.
- **Is a good record keeper** – You will need to maintain records of your claims and qualified medical expenses.
- **Is good at budgeting and is not averse to risk** – High deductibles and out-of-pocket maximums mean you will have more financial exposure during the year. This can be offset by potential benefits of accumulating tax free money in your HSA. Market volatility can impact HSA funds if you choose to invest them.
- **Understands coinsurance pharmacy plan design** – Prescriptions are subject to the medical deductible until the deductible is met. Once the deductible is met, prescriptions are covered at the coinsurance amount. Prescription drugs count towards the out-of-pocket maximum and are covered 100% once the maximum is met.

7. What if I already contribute to a Health Flexible Savings Account (FSA) and want to open a Health Savings Account (HSA)?

If you enroll in a Health Savings Account (HSA) and a Health Flexible Spending Account (FSA), the Health Flexible Spending Account (FSA) will automatically convert to a Limited Purpose Flexible Spending Account

that reimburses employees for eligible dental and vision care expenses only. This automatic conversion only applies if your employer participates in the ConnectYourCare FSA Plan.

8. What types of medical expenses are not eligible under an HSA?

Examples of expenses that are not HSA eligible include gym memberships, nutritional supplements, cosmetic procedures and surgeries. Please refer to **Eligible HSA Expenses** at www.amhic.com, under the HSA tab of the Benefits Section to find a general list of non-eligible expenses.

9. What happens if I use the account for a non-eligible expense?

If you use the account for a non-eligible expense, the funds used for that expense will be taxed since their initial contribution to the account was tax-free. In addition, if you are under the age of 65, you will also be subject to a 20% tax penalty.

10. Who decides whether the money I'm spending from my HSA is for a "qualified medical expense?"

You are responsible for that decision, and therefore should familiarize yourself with what qualified medical expenses are within the **HSA Eligible Expenses** and/or the **HSA Eligible Over-the-Counter Expenses** section of the AMHIC website, www.amhic.com, under the HSA tab of the Benefits Section. You should also keep your receipts in case you need to defend your expenditures or decisions during an audit. These lists are subject to change. Please see www.connectyourcare.com for updated information.

11. Can I use my HSA to pay for medical expenses incurred before I set up my account?

No. You cannot reimburse qualified medical expenses incurred before your account is established. We recommend you establish your account as soon as you are eligible to do so.

12. Can I withdraw money from my HSA for other purposes?

Although you are capable of withdrawing money from your HSA at any time and for any purpose, if the money is used for an ineligible expense (whether medical or non-medical), the expenditure will be taxed as income. Individuals who are under age 65 and are not disabled are subject to an additional 20% tax penalty on the amount of the withdrawal. If you are age 65 or older or disabled at the time of the withdrawal, then you will have to pay the applicable income tax, but there will be no additional tax penalty.

13. How much can I contribute to my HSA each year?

In 2012, the maximum contribution that can be made for employees with single coverage will be \$3,100, and the maximum contribution for employees with employee + spouse, employee + child(ren) and family coverage will rise to \$6,250. Americans age 55 or older (and not yet enrolled in Medicare) can make additional "catch-up" contributions of up to \$1,000 per person in 2012, which can provide extra help to many early retirees (see #17 below).

Both individuals and employers can contribute to HSAs. Unspent HSA funds rollover into the next year.

14. What happens if I become eligible to contribute to an HSA mid-year (not January 1st)? What is my maximum contribution?

If this is your first year of coverage under a QHDHP and you start mid-year, you can contribute up to the maximum applicable annual federal limit; including the full catch-up amount if between ages 55-65, so long as you start the QHDHP coverage no later than December 1 of that year. However, those who start the QHDHP coverage mid-year (and no later than December 1 of that year) will be subject to a testing period. The testing period requires that you maintain HSA eligibility for a period beginning on December 1 of the year you started, and ending on December 31 of the next year.

If this is not your first year of the HSA and you stop your HSA eligibility mid-year, you may choose to make a partial year contribution, instead of the maximum annual contribution, to avoid taxes and penalties. For example, if you know you will only participate in a QHDHP for the first 6 months of the plan year, you should only make contributions equal to or less than the maximum annual contribution, divided by 12 months, multiplied by the number of months eligible (in this case 6 months). Any contributions over this amount are taxable.

15. Can I make changes to the amount I contribute to my HSA during the plan year?

You can change the amount you contribute to your HSA at any time during the plan year. If you are changing the amount contributed via payroll on a pre-tax basis, check with your employer. You can also make non-payroll contributions changes using the Contribution Center in your online account at www.connectyourcare.com. This option allows you to make or change contributions on a recurring basis or a one-time basis. Note: Contributions made via the Contribution Center are made post-tax and you may deduct them on your income taxes (Check with your tax advisor).

16. Can my employer contribute to my HSA?

Contributions to HSAs can be made by you, your employer, or both. All contributions are aggregated to determine whether you have contributed the maximum allowed amount (see #13 above). If your employer contributes some of the money, you can make up the difference. If your employer makes a contribution to your HSA, the contribution is not taxable to you the employee (the contribution is excluded from your income).

17. What catch-up contribution options are available to me if I am over 55?

- **I'm over 55 – can I make catch-up contributions to my HSA, like I've done with my IRA?**
Yes, individuals 55 and older who are covered by a QHDHP can make additional catch-up contributions each year until they enroll in Medicare. The additional "catch-up" contribution to an HSA allowed for 2012 is \$1,000.
- **I turned 55 this year. Can I make the full "catch-up" contribution?**
If you had QHDHP coverage for the full year, you can make the full catch-up contribution regardless of when your 55th birthday falls during the year. If you did not have QHDHP coverage for the full year, you must pro-rate your "catch-up" contribution for the number of full months you had QHDHP coverage.
- **If both spouses are 55 and older, can both spouses make "catch-up" contributions?**
Yes, if both spouses are eligible individuals and both spouses have established an HSA in their name. If only one spouse has an HSA in their name, only that spouse can make a "catch-up" contribution.

18. What investment options will I have with my HSA?

You may have up to three basic choices if you decide to participate in an HSA: 1) an interest bearing account (\$1,000 minimum balance), 2) a Money Market Account, or 3) a Mutual Funds account.

19. Does an HSA have a mandatory distribution requirement?

No. Unlike 401(K)s and IRAs, there are no mandatory distribution requirements for an HSA.

20. Can I transfer funds from my IRA to my HSA? How much can I transfer?

The IRS allows a one-time transfer of IRA funds to an HSA. This amount, when combined with other HSA contributions for the year, is subject to the annual HSA maximum contribution. In other words, the amount of the rollover cannot exceed the applicable annual HSA contribution limit (which would vary depending on whether the person has individual or family QHDHP coverage) when combined with any other contributions made to your HSA for that year.

If you have employee-only coverage and you transfer amounts from your IRA to an HSA, you may later make an additional transfer if you switch to family coverage. The maximum amount of the additional transfer is equal to the difference between the amount transferred while you had employee-only coverage and the maximum deductible limit for family coverage for the year.

Failure to maintain eligibility for HSA contributions for a period of 13 consecutive months beginning with the month of the IRA transfer for any reason other than death or disability would result in income tax and a 6% additional tax on the transferred amount.

21. How do I initiate a funds transfer from my IRA into my HSA?

If you would like to transfer funds from your IRA to your HSA, please contact ConnectYourCare Customer Service at www.connectyourcare.com or 1-877-292-4040 for the necessary paperwork.

22. What information is reported to the IRS?

The HSA custodian, UMB Bank, is required to report to the IRS the total contributions made to your HSA each year as well as the total amount of funds taken from the account each year. This information is reported on Form 5498 and Form 1099-SA respectively; both forms must be sent to you as the account holder and to the IRS.

23. If I have employee-only insurance coverage; can I use HSA funds for family members' medical expenses?

Yes, as long as they meet the IRS qualifications to be considered a tax dependent. You may use your HSA to pay for the qualified medical expenses of any of your qualified tax dependents so long as their expense is not otherwise reimbursed.

24. I have a domestic partner on my QHDHP with me. Can I use the money in my HSA for my domestic partner's qualified medical expenses?

The law states that money in an HSA can only be used for qualified medical expenses for yourself, your spouse and your tax dependents. If your domestic partner meets the IRS qualifications to be considered a tax dependent, you can legally use your HSA funds for his or her medical expenses. If he or she does not meet this qualification, you cannot.

25. What can I spend my HSA funds on?

In general, you can use your HSA funds to pay for any **qualified** medical expense. "Qualified medical expense" is a defined term created by the IRS and includes: prescribed medicines or drugs, insulin, over-the-counter equipment, supplies, medical devices, dental and vision claims, health insurance deductibles, coinsurance and Long Term Care Insurance premiums (limited based on age and adjusted for inflation each year). For a complete list of approved healthcare expenditures, please refer to **Eligible HSA Expenses** within the AMHIC website at www.amhic.com, under the HSA tab of the Benefits section.

26. What happens to the money in my HSA if I no longer have QHDHP coverage?

Once funds are deposited into the HSA, the account can be used to pay for qualified medical expenses tax-free, even if you no longer have QHDHP coverage. The funds in your account roll over automatically each year and remain in your account indefinitely until used. There is no time limit on using the funds. Once you discontinue coverage under an QHDHP and/or get coverage under another health plan that disqualifies you from an HSA, you can no longer make contributions to your HSA, but since you own the HSA, you can continue to use it for future expenses.

27. How can I find out my account balance and review transactions?

Account Balance and Claims Status information is available three ways:

- Log on to your online account at www.connectyourcare.com any time for balance information. Your online account is secure and updated in real time.
- Call the Customer Service line at 1-877-292-4040 any time for automated balance information.
- Customer Service representatives are available to assist you via phone or email 24 hours a day, seven days a week at 1-877-292-4040 or www.connectyourcare.com.

28. How will I be able to use my HSA funds?

You will receive a healthcare payment card to access your HSA. You can also pay for eligible expenses out-of-pocket and request reimbursement from your account. See **Using Your Healthcare Payment Card** on the AMHIC website www.amhic.com for more information about using your healthcare payment card. (see #5 above)

29. How long do I have to use my HSA for eligible expenses?

You can use your HSA to pay for eligible expenses incurred any time after you opened your HSA. There is no time limit between when you incur the qualified expenses and when you withdraw the corresponding amount from your HSA. Some people, called HSA savers, pay for current expenses out-of-pocket so that they can invest their HSA money and grow the account for future use. You should always save your itemized receipts and other paperwork to verify eligible expenses for when you withdraw funds, whether it is now or at some point in the future.

30. What happens if I leave the company or retire during the plan year?

HSA's are completely portable, which means you retain ownership of the funds after you leave the company. If your employer paid the administrative costs, you may be responsible for them after you terminate your employment. Otherwise, your services remain the same.

31. What happens to the money in my HSA after I turn age 65?

You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, co-pays, and coinsurance under any part of Medicare. You cannot use your account to purchase a Medicare supplemental insurance or "Medigap" policy.

Once you turn age 65, you can also use your account to pay for things other than medical expenses. If used for other expenses, the amount withdrawn will be taxable as income but will not be subject to any other penalties. (Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a 20% penalty on the amount withdrawn.)

32. Can I borrow against my HSA?

No. You cannot borrow against or pledge funds in your HSA.

33. What happens to my HSA when I pass away?

If you are legally married at the time of your death, your spouse becomes the owner of the HSA when you die unless a different beneficiary is specified. If you are not married at the time of your death, the HSA becomes part of your taxable estate.

34. Who do I contact if I have additional questions regarding my HSA?

You can contact ConnectYourCare 24 hours a day, seven days a week by phone at 1-877-292-4040 or go to their website, www.connectyourcare.com.