HSA Road Rules

A Consumer's

Guide to

Health Savings Accounts

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Publisher's Note

Recognized as a valuable resource by millions of Americans since 2004, HSA Road Rules is an easy-to-understand guidebook that provides you with the information you need to know about HSAs. The information contained in HSA Road Rules may not necessarily apply to your specific circumstances or take into account your individual tax or employee benefits situation. For specific tax or legal advice, please consult with your own tax or legal advisor for assistance.

Introduction to Health Savings Accounts (HSAs)

A Health Savings Account (HSA) is like a 401(k) for healthcare. It is a tax-advantaged, personal savings or investment account that individuals can use to save and pay for qualified healthcare expenses, now or in the future. Paired with a qualified HSA-compatible health plan, also referred to as high deductible health plan (HDHP), an HSA is a powerful financial tool that empowers consumers to take more control of their healthcare financial decisions.

Unlike other financial savings vehicles (Roth IRA, Traditional IRA, 401K, etc.), an HSA has the unique potential to offer a triple tax savings through:

- Pre-tax or tax-deductible contributions to the HSA
- Tax-free interest or investment earnings
- Tax-free distributions, when used for qualified medical expenses

Contributions can be made by the employer, the employee/individual, or both. Tax-free withdrawals can be made to pay for qualified healthcare expenses incurred by the accountholder, spouse, child(ren) and other dependents.

HSAs are also portable, which means that individuals keep their HSAs when they change employers, stop working or lose their job. Also, since the account is owned by the individual, there is no “use-it-or-lose-it” provision. Rather, unused contributions roll over each year with interest and/or investment earnings compounding on a tax-free basis, very similar to an IRA or 401(k). HSAs offer the potential for long-term, tax-free savings that can be used for future healthcare expenses, such as out-of-pocket expenses you experience after retirement, Medicare premiums and certain long-term care expenses and insurance.

Any adult who is not already enrolled in Medicare and is covered by an HDHP (and has no other first dollar coverage under any other plan) may establish an HSA. There are no income limitations.

Universal HSA Principles for Consumers

1. You must be enrolled in a qualified HSA-compatible health plan to open or contribute to a Health Savings Account (HSA) in your own name.

2. Switching to a qualified HSA-compatible health plan from a traditional health plan will substantially lower your health plan premiums. The money you save in premiums can then be deposited into your HSA.

3. The money in your HSA is yours to keep. Even if your employer makes contributions to your HSA, those contributions are yours. Since it is your money, it also stays with you when you change employers or are no longer working.

4. You are in charge of your HSA funds, making you the decision maker. Spending your own money also means that you will likely inquire more about the cost of your healthcare, thereby helping to make you a savvy healthcare consumer.

5. There is no time limit as to when you can reimburse yourself for your healthcare expenses. You are required to keep legible receipts and records in the event that you need to reproduce if you are audited by the IRS.

6. You decide if, when, and how much to spend from your account for your medical expenses, and whether to spend out-of-pocket or to save your HSA funds for the future. Just like a 401(k), earnings that compound tax-free for several years have the potential to grow exponentially into a retirement healthcare nest egg. After age 65 or if you're disabled, funds can be withdrawn from your HSA for non-qualified expenses, without being subject to the standard penalty, which is now 20%. In this case, ordinary income taxes still apply.

7. Anyone can contribute to another person's HSA. The tax benefit from such a contribution is gained by the person receiving the contribution, not the person giving the contribution.

8. You decide which company will hold your HSA funds (your trustee or custodian), and what type of investments you make. Any investment allowed for IRAs is allowed for HSAs (please refer to Table A).

IRS Publication 502 provides a list of most allowable HSA expenditures.

Please see Table D and E of this document for a partial and summary list of allowable (tax-free) and non allowable (not tax-free) expenditures using your HSA.

HSA Eligibility Road Rules

1. The account holder must be enrolled in an HSA-compatible health plan, also referred to as a high deductible health plan (HDHP).

2. An HSA-compatible health plan has the following characteristics:

a.

Minimum Annual Deductible	2013	2014
Self-only coverage	$ 1,250	$ 1,250
Family coverage	$ 2,500	$ 2,500

The minimum deductible is indexed annually for inflation; this information is released no later than June 1st of the preceding year.

Self-only coverage is an HSA-compatible health plan that covers only an eligible individual. Family coverage is an HSA-compatible health plan that covers an eligible individual and at least one other individual (whether or not that individual is an eligible individual).

b.

Maximum Out-of-Pocket Limit	2013	2014
Self-only coverage	$ 6,250	$ 6,250
Family coverage	$ 12,500	$ 12,500

The maximum out-of-pocket limit includes deductibles, co-pays and co-insurance. These values are indexed annually for inflation; expenses not covered by the health plan do not count towards the out-of-pocket limit.

Self-only coverage is an HSA-compatible health plan that covers only an eligible individual. Family coverage is an HSA-compatible health plan covering an eligible individual and at least one other individual (whether or not that individual is an eligible individual).

c. An HSA-compatible health plan typically offers first dollar coverage for many preventive care services, meaning that these services are not subject to the deductible. Preventive care services may include: periodic health evaluations such as annual physicals, screening services like mammograms, routine prenatal and well-child care, child and adult immunizations, tobacco cessation programs, obesity weight loss programs. Check with your health plan provider for specifics.
d. Prescription drugs that are taken to prevent the onset of a condition for which a person has developed risk factors may be considered preventive care, thus potentially being paid with a co-pay rather than being subject to the deductible.
e. As a general rule of thumb, if you are treating an existing illness or condition with either a drug or a procedure, that drug or procedure is not considered preventive care (an already existing condition cannot be prevented). If you are trying to prevent an illness or condition by taking a drug or with a procedure, that may be considered preventive care. Some drugs, such as those to lower cholesterol, can be either preventive or non-preventive under HSA rules, depending on your own health situation and health plan.
f. Higher out-of-pocket (co-pays and co-insurance) may be incurred for out-of-network care. Consider this when selecting your HSA-compatible health plan.

3. You cannot be covered by any other health insurance that reimburses you for health expenses you incur, unless it is another HSA-compatible health plan. If a family member has all its members covered under two HSA-compatible health plans, or some family members are on one qualified plan and the other family members are under another qualified plan, the maximum annual contribution remains in force. In other words, coverage by more than one HSA-compatible plan does not allow you to contribute more than the maximum annual HSA contribution.
4. If you or your dependents are covered by more than one HSA-compatible plan, it is a violation of the coordination of benefit rules to be reimbursed from more than one plan for the same expense.
5. Enrolling in a Flexible Spending Account (FSA) or Health Reimbursement Arrangement (HRA) may make you ineligible for an HSA unless they are: (1) “limited purpose” (limited to dental, vision, child care, or preventive care) or (2) “post-deductible” (pays for medical expenses after the plan deductible is met). HRAs that set aside money only for retiree health expenses are acceptable as are ones that are suspended (provide coverage in some other year).
6. An employer can restrict the type of expenses an employee uses their FSA funds for during the two and a half month “grace period” that some employers offer. If an employer restricts the FSA expenditures to non-medical items (such as vision and dental expenses) during this grace period, then you are eligible for an HSA, provided you have enrolled in a high deductible health plan. In addition, if your FSA account balance is $0 as of the last day of the plan year and you have enrolled in an HSA-compatible health plan, you are eligible for an HSA.
7. If you are enrolled in Medicare or Medicaid, you cannot open an HSA but you can use one that you already have.
8. Tricare (military healthcare) does not currently offer an HSA-compatible HDHP. Therefore, if you are on Tricare, you cannot have an HSA.
9. If you have received any Veterans Administration health benefits in the last three months, you cannot have an HSA.
10. If you are Medicare eligible and are not enrolled in Medicare, you can open or contribute to an HSA if you have an HSA-compatible HDHP (please refer to Table B).
11. You cannot establish separate HSA accounts for your minor dependent children.
12. You do not have to have earned income from employment to have an HSA.
13. Unlike an IRA, there are no income limitations to having an HSA.
14. You do not have to itemize your deductions on your federal income taxes to deduct your contributions to an HSA. HSA deductions are “above-the-line” before Adjusted Gross Income (AGI) is calculated.
15. You can open an HSA and also have insurance for a specific disease or illness, accident, disability, dental care, vision care, and long-term care, and can also be enrolled in Employee Assistance, disease management, drug discount, and wellness programs.

NOTE: Reasonable benefit designs (lifetime limits on benefits, limits to usual, customary and reasonable amounts, limits on specific benefits, pre-certification requirements) are not counted toward the out-of-pocket maximum.

HSA Contribution Road Rules

1. You must have an HSA-compatible health plan to contribute to an HSA.
2. If you no longer have an HSA-compatible health plan, you cannot continue to contribute to your HSA, but you can maintain and spend the previously deposited funds for healthcare needs as stipulated by law.
3. The maximum amount you can contribute per year is indexed annually for inflation and excludes "catch-up" contributions for those age 55 years and older.

Maximum Contribution Per Year	2013	2014
Self-only coverage	$ 3,250	$ 3,350
Family coverage	$ 6,450	$ 6,550

4. As long as you are enrolled in an HSA-compatible health plan for at least the last full month of the year, you are eligible to make the maximum annual HSA contribution for that year, provided that you remain enrolled in an HSA-compatible health plan for the entire following calendar year. If you do not have coverage for the entire following calendar year, the maximum contribution amount is prorated based on the number of full months you had the HSA-compatible health plan.

   For example, let's say you become eligible on December 1, 2012. Even though you were not covered by an HDHP for the first 11 months of the year, you are still eligible to make a full-year HSA contribution of $3,050, provided that you remain covered under an HSA-compatible health plan from December 1, 2012 through December 31, 2013.

   If you change your HSA-compatible health plan coverage level (eg. change from family to single coverage), the maximum for that year must be prorated based on the annual maximums associated with each coverage level.

   For example, if you have family coverage from January 1 through September 30, 2012 and due to a qualified change of family status, you switch to single coverage for October 1 through December 31, 2012. The amount of tax-free contributions that you can make for 2012, including any employer contribution, is approximately $5,374.50. The annual maximum contribution is based on nine months of family coverage (($6,150/12) x 9 =$4,612.50) and three months of single coverage (($3,050/12) x 3 = $762.49).

5. If you become covered by an HSA-compatible health plan in a month later than January, you can "back load" or make full contributions for the preceding months up to January. If, however, you fall out of qualifying insurance coverage (for reasons other than death or disability), all HSA contributions and any earnings on those contributions for the months in which they are not eligible will then be included in your gross income and will be subject to a 10% tax penalty. The amount included in income and subject to the 10% additional tax is the difference between the actual amount contributed (i.e., the full contribution amount) and the contribution amount for which you were eligible (based on months of actual HSA-eligibility during the prior taxable year). Unlike excess contributions (see Question 18), this amount does not have to be withdrawn and, if left in the HSA, will continue to grow on a tax-free basis and may be used for your medical expenses without incurring further taxes.
6. Deposits to an HSA must be made in cash or through a rollover from a Flexible Spending Account (FSA), Health Reimbursement Arrangement (HRA), Individual Retirement Account (IRA) or another HSA.

7. ~~For rollovers from an FSA or an HRA, the rollover must be the lesser of the amount in the FSA and/or HRA as of September 21, 2006, or the amount in the account at the time of distribution. This means only employees who had the HRA or Healthcare FSA on September 21, 2006, and through the time of distribution, may make a rollover to their HSA. As a result, if you did not have a FSA or HRA on September 21, 2006, this does not apply to you. The rollover must occur before January 1, 2012. Your employer must send the rollover directly to your Custodian. You must have coverage under an HDHP for 12 months after the rollover. Otherwise, the funds transferred will be treated as taxable income and subject to a 20% tax.~~

8. For IRA rollovers, a direct trustee-to-trustee transfer can be made only once per lifetime (the only exception is if a contributing individual changes from self-only coverage to family coverage during the tax year). The amount that can be distributed from the IRA and contributed to an HSA is limited to the otherwise maximum deductible annual contribution amount to the HSA based on the type of coverage under the HDHP at the time of the contribution. Amounts distributed from an IRA under the provision are not allowed to be included in income to the extent they would otherwise be included in income and are not subject to the 10% additional tax on early distributions. The provision does not apply to simplified employee pensions (SEPs) or to SIMPLE retirement accounts.

9. Individuals 55 and older can make additional "catch-up" contributions until they enroll in Medicare. The catch-up contribution maximum for 2012 is $1,000.

10. In the year you enroll in Medicare, you must pro-rate your "catch-up" contribution for the number of months you were covered under an HSA-compatible health plan, prior to the month your Medicare enrollment became effective.

11. If your spouse is enrolled in Medicare but you are not, you may contribute the maximum amount permitted for family coverage under the HSA contribution rules. You may pay for your spouse's non-reimbursable medical expenses from your HSA.

12. If you have a family plan with multiple per-person deductibles, you cannot deposit more into the HSA than the maximum annual amount allowed for family coverage. For example, a family of two with a $4,000 per person deductible cannot deposit $8,000 into their 2011 family HSA; rather, the maximum annual contribution is $6,150.

13. You can "front load" or fully fund your HSA on day one of your HSA being in effect, provided you do not exceed the annual maximum amount. You can make the deposit anytime after your HSA is opened.

14. You can deposit funds into your HSA in any amount or frequency you wish up to the annual maximum allowed. However, your account trustee/custodian can impose minimum deposit and balance requirements.

15. Rollovers from an Archer Medical Savings Account (MSA) into a HSA are allowed if completed within 60 days of withdrawing the funds from your Archer MSA.

16. The term "rollover" has several meanings. Rollover of HSA funds from year to year of unspent balances is straightforward. However, IRA and HSA rollovers have another meaning to the IRS. You are allowed to take any amount of your HSA funds out of your account once a year, and there is no limitation on what those funds can be spent on. If the funds are returned to the HSA within 60 days, there is no tax or penalty. However, if those funds are not returned to the HSA within 60 days, then you must pay the income taxes due on those funds, and the 20% penalty.

17. Unlimited HSA trustee to HSA trustee transfers are allowed, meaning you can move your HSA account to any other trustee any number of times in a given year.

18. If you have contributed an amount into your HSA which exceeds your maximum allowable deposit, you may withdraw the excess amount and any earnings on the excess amount prior to April 15th of the following year without paying a tax penalty. However, you must pay income tax on your excess contributions as well as on any earnings from the excess contribution.

19. If you do not withdraw the excess contribution to your HSA prior to the tax filing deadline, you must pay a 6% excise tax on the excess contribution and on any earnings from the excess contribution. If, in the next year, you decreased your maximum contribution by the amount of your excess contribution made the year before, you do not have to pay the 6% excise tax again. If, however, you leave the excess contribution in, and do not decrease your maximum contribution by the amount of your excess contribution made the year before, you will have to pay the 6% excise tax each year the excess contributions and earnings remain in the HSA.

20. If your employer is paying COBRA premiums on your behalf, your employer does not have to continue making deposits into your HSA. However, your employer does have to pay the continuing premium for your HSA-compatible health plan.

HSA Spending Road Rules

1. There is a wide range of allowable tax-free HSA expenditures, including vision and dental expenses. A description of eligible HSA expenditures can be found in IRS Publication 502, and is located via the web at: www.irs.gov/pub/irs-pdf/ p502.pdf. Publication 502 has great examples, but it is not the definitive list (please see Table D for a partial list of allowable tax-free expenditures and Table E for a listing of non-allowable expenditures).
2. If a distribution from your HSA is used for purposes other than a qualified medical expense as defined in IRS Publication 502, then the amount withdrawn is subject to both income tax and a 20% penalty, unless the person who makes such a withdrawal is 65 years old or older. If 65 years old or older, the amount withdrawn for non-medical purposes is treated as retirement income, and is subject to normal income tax, but is not subject to the 20% penalty.
3. Withdrawals that were made for what were thought to be qualified medical expenses, but were actually not qualified medical expenses, can be returned to the HSA if there is clear and convincing evidence that the expenditure was a mistake of fact. Such repayment to the HSA must be made on or before April 15th of the calendar year following when the individual knew, or should have known, the expenditure was a mistake.
4. Other qualified expenses from an HSA include out-of-pocket healthcare expenses while enrolled in Medicare (including Medicare premiums, deductibles, coinsurance and co-pays but not “Medigap”), your share of health insurance premiums for employer-based coverage (only if you are age 65or over), premiums for COBRA continuation health insurance coverage from a former employer, premiums for qualified long-term care insurance coverage subject to the age limits in the Internal Revenue Code (please see Table C), and medical services provided in other countries.
5. Everyone with an HSA must maintain all their receipts showing their expenditures from their account. There are two key reasons to do this: (1) if you exceed your deductible, you may need the receipts to send to your insurer, and (2) in case you are audited by the IRS, you need to explain your HSA expenditures.
6. You may use funds from your HSA to reimburse expenses from a previous year, but only if you had an HSA at the time the expenses were incurred.
7. Your spouse will inherit your HSA upon your death, unless you designate otherwise.
8. Should you as the HSA owner have no spouse, the funds in the account shall no longer be treated as an HSA but part of your estate and will be subject to estate taxes.
9. HSA funds cannot be used to pay for health insurance premiums unless the individual is receiving federal or state unemployment benefits or is age 65 or over.

Why HSAs Were Designed this Way

1. **Why can't the maximum contribution be consistent with the out-of-pocket maximum?**
   Tying the maximum contribution rate to the out-of-pocket maximum is a viable argument, but the cost to the Federal government in lost taxable income made that idea politically unviable when the law was passed.

2. **Why can't prescription drugs be covered with copays under an HDHP?**
   Including prescription drugs as a benefit below the deductible would drive up the low cost of HSA-qualified HDHPs, and, as a result, reduce the amount of savings derived from switching to an HDHP. Likewise, tiered co-pays, or any other benefit that is paid outside the deductible, greatly diminishes the effect of consumers spending their own money. When you spend your own money, you spend it more frugally than if you are spending someone else's money.

3. **Why can't early retirees pay their HSA-qualified health insurance premium from their HSA?**
   This change in the law was suggested but the objection is that given that there are millions of people in the individual market who have health insurance but receive no tax break for their purchase, why should insured early retirees get special treatment?

4. **Why can't seniors use their HSA to pay for Medigap coverage?**
   The guiding principle of HSAs is for people to use their own money to meet a substantial deductible, thereby providing a financial incentive to spend the funds wisely and not to over consume. The main purpose of a Medigap policy is to insure the Medicare deductible. Allowing HSA funds to pay for Medigap insurance would be akin to allowing HSA funds to buy insurance to cover the HSA deductible. In other words, it would be using HSA funds to defeat the entire purpose of an HSA.

5. **Why are the long-term care premium amounts that can be paid out of an HSA limited?**
   During the HSA legislation drafting process, there were other issues being negotiated that needed political capital more than allowing for unlimited amounts to be spent on long-term care premiums.

6. **Why can't HSA distributions be tax-free upon your death?**
   The revenue loss to the Federal government made the impact for that suggestion too high.

7. **Why can't my spouse and I have one joint HSA and still make "catch-up" contributions?**
   There can be only one primary account holder of the HSA. Both spouses may contribute. The practical effect of this restriction is not significant.

8. **If I am self-employed, can I contribute on a pre-tax basis? How about for partnerships, S corporation owners who own more than 2%, or for LLC owners?**
   Self-employed individuals can only take an above-the-line deduction for their HSA contribution. Regardless of how the S corporation or LLC is structured, your HSA contributions are required to be an above-the-line deduction. The HSA legislation simply cited current law in this regard. It was a political impossibility in the HSA legislation to make the necessary change in law to allow pre-tax contributions for LLC owners, S corporation owners or the self-employed. For further guidance for partnerships and S corporations, see IRS Guidance 2005-8 at www.treas.gov/press/releases/reports/notice%2020058.pdf.

9. **What is an "above-the-line" deduction?**
   An above-the-line deduction reduces your Federal taxable income dollar for dollar by the amount you contribute. You do not have to itemize your tax return to claim this deduction. For example, if you contribute $1,000 to your HSA, you reduce your Federal taxable income by $1,000.

10. **Why can't I pay my health insurance premiums with my HSA?**
The money in your HSA is designed to meet your healthcare expenses below your deductible, not to meet your health insurance premiums. The only time you are allowed to use your HSA funds to pay health insurance premiums is if you are collecting Federal or State unemployment benefits or are on COBRA or are age 65 or older.

11. **Can you provide a list of qualified medical expenses?**
See Tables D and E for a list of allowable and non allowable medical expenses. Please also see IRS Publication 502, which can be found in the U.S. Treasury section of this website, or at www.irs.gov/pub/irs-pdf/p502.pdf.

HSA Tax Road Rules

Tax reporting is required if you have a health savings account (HSA). Contributions to and distributions from your HSA are reported to the IRS by your custodian. If you have made any contributions or distributions during the tax year, you must file IRS Form 8889 along with your Form 1040.

Who	What	When	Why
HSA Account Owner	• Completes Form 8889 and submits with income tax return • May need to complete Form 5329 for excess contributions	• Prior to the annual tax filing deadline • Prior to the annual tax filing deadline	• Documents contributions and distributions for tax reporting purposes • Only needed if excess contributions have been made
Employers	Sends W-2 statement that includes HSA contribution information. HSA contributions made through a Cafeteria Plan are included in Box 12 using a code of “W”	In January	Employee contributions made pre-tax through a cafeteria plan are considered employer contributions. These pre-tax cafeteria plan contributions should be combined with any contributions made by your company. **Note:** Some employers do not offer pre-tax contributions via payroll or employer contributions
Custodians	• Send 1099-SA form to account owners (and a copy to the IRS) • Send 5498-SA form to account owners (and a copy to the IRS)	• In January • No later than the end of May	Reports annualized information for use in tax filing/preparation **Note:** Many custodians do not send 5498-SA forms until the end of May as contributions can be made to the HSA through the tax filing deadline.

1. HSA Custodians are required to report HSA contributions as well as the Fair Market Value (FMV) of the HSA as of December 31 of the tax year. Your Custodian has until May 31st following the end of the tax year to report this to you. Many custodians do not send this form until May because you can contribute to your HSA until the tax filing deadline (typically April 15th).

2. HSA Custodians are required to report distributions from the HSA to the IRS. Distributions include:
   a. Withdrawals
   b. Debit card purchases
   c. Checks
   d. Bill payment transactions
   e. Return of net income on excess contributions

   Custodians are required to mail IRS Forms 1099-SA to accountholders by January 31 of the calendar year immediately following the last day of the prior calendar year.

3. Employers are required to report employer HSA contributions on Form W-2. Employers report all employer contributions (including any pre-tax contributions made pursuant to a cafeteria plan) on the Employee's Form W-2 [Box 12, Code W]. The employer must also report any taxable HSA contributions on the W-2, [Boxes 1, 3, and 5].

4. HSA accountholders are required to report HSA contributions and distributions made by or on behalf of the accountholder on Form 8889 and any excess contributions on Form 5329. These forms are filed with the IRS as an attachment to the accountholder's federal income tax filing (Form 1040).

5. Copies of Form 8889 and 5329 and their accompanying instructions can be found on the IRS website (www.irs.gov). Forms may also be obtained by contacting the IRS directly at 1-800-TAX-FORM or by visiting an appropriate IRS office in person.

6. Not all states provide favorable income tax treatment for HSAs. HSA accountholders should research tax reporting rules and requirements of the state in which they file their state income tax return.

7. Excess contributions are reported by the Custodian on Form 5498-SA, even if returned to the accountholder. The return of an excess contribution is considered a distribution from the HSA and is reported by the Custodian on Form 1099-SA.

8. If excess contributions are not corrected in a timely manner, then the accountholder must calculate the amount of the excess contribution, using information from Form 8889, and report that amount and any excise tax on the excess contribution on Form 5329.

9. If the excess contribution is corrected in a timely manner, then it does not need to be reported by the accountholder, but the amount of the excess contribution, plus any net income attributable to the excess contribution, must be reported as "Other Income" by the accountholder on his/her Form 1040.

10. Contributions to an employee's account by an employer or by you through a cafeteria plan are treated as employer contributions. In other words, if you are making contributions from your pay on a tax-free basis, the IRS considers these employer contributions and therefore you should include those amounts in the employer contribution total on Form 8889.

11. A trustee-to-trustee transfer is not required to be reported to the IRS. In order for the transfer to be considered a trustee-to-trustee transfer, the funds must pass directly from one custodian to the other. If the payment is made to the accountholder and then directed to another custodian, it is considered a rollover. Accountholders are permitted one rollover per year.

Tips on Being a Smart Healthcare Consumer

This section of the Road Rules is dedicated to helping you, as an HSA-Compatible Health Plan participant and an HSA owner, understand how to educate yourself, participate in decisions about your care and work effectively with your caregivers to improve your health and save money along the way. A smart healthcare consumer receives care when needed. A smart consumer explores options, pays close attention to expenses, takes responsibility for good health and makes well informed healthcare decisions.

Top 10 Ways to Save

1. Take care of yourself, get plenty of rest, reduce stress and eat a healthy diet. These are the best ways to avoid costly health problems now and in the future.

2. Carefully consider the health benefits and insurance coverage available to you. Choosing health benefits can be a complex process, but planning well can make a big difference. In most cases your decisions last for a full year, so making a well-informed selection is important. You should examine your own personal situation carefully when making your benefit plan election.

3. Ask for generic prescriptions and take advantage of discount programs offered by pharmacies. Asking your doctor or pharmacist if there is a generic alternative can save you money. While the doctor may not always prescribe one, most of the time if a generic alternative is available, they will change their prescription. Also, many retailers offer discounts, coupons and rebates on certain medications. Checking mailers, advertisements and the weekend paper for these offers can save you money.

4. Ask questions and do your own research. When you go to the doctor, make sure you come prepared with questions about your condition, available treatment options and costs. Here are some questions to help you get started.

   Why am I feeling this way? Make sure you understand your symptoms and why you feel the way to do. If you or your family has common conditions it would be a good idea to communicate this to your doctor frequently.

   What do I have? If you don't fully understand your diagnosis, ask your doctor to explain it and always take notes if you are able. It also helps to have a loved one or friend go along to hear what the doctor says.

   What steps do I need to take? Make sure you understand your doctor's recommended treatment and what it will cost.

   Why is it important for me to do this? Make sure you understand the reasons why you require treatment and follow the doctor's orders.

   Are there other treatment options to consider? Discuss the pros and cons, and the potential short-term and long-term effects of different options.

   When do I need to follow up? Know when your doctor needs to see you again, and the danger signs that may require a visit sooner.

   If you are being treated by more than one doctor, make sure that each doctor knows all the medications you are taking and the associated dosages. It is also a good idea to confirm regularly that your doctors are communicating with each other and sharing information.

5. Don’t wait too long to see a doctor or avoid seeking treatment. Putting these things off can have lasting effects on your health and increase the cost of care for you. Your employer or health plan may offer a nurse help line or health coach. If offered, use these services if you are unsure how and where you should seek treatment.

6. Consider urgent care facilities instead of the emergency room at the hospital and convenience clinics for a minor illness rather than your doctor. When you can’t make a doctor’s appointment, or require immediate care but your condition is not serious enough to rush to the emergency room, these facilities are typically lower cost alternatives.

7. Keep up with your coverage and stay “In-network” when possible. Before you go in for a scheduled procedure, check with your insurance company to verify if it will be covered, how much will be covered or if there are any other limitations. Before you go to a specialist, or are referred to another doctor, make sure the new doctor or specialist is in your health plan’s network, or you could risk coverage being denied.

8. Read and review your medical bills and insurance company Explanation of Benefits (EOB) Statements carefully. Checking for errors, tracking your out-of-pocket costs and asking questions when you do not understand, can save you money.

9. Focus on preventive care and be sure to schedule regular check-ups and comply with recommended screenings. The information you obtain from these visits can help identify chronic health issues that are treatable before they become serious, and can keep small health problems from turning into bigger ones. Many insurance plans, including HSA-Compatible plans, pay for preventive care at 100% before your deductible has been met. Review your plan to see if you can take advantage of free preventive care.

10. Use a personal tax-advantaged health care account to pay out-of-pocket expenses with tax-free dollars. If you have a flexible spending account (FSA), health reimbursement account (HRA) or health savings account (HSA) option at work, take advantage of tax-free spending on your health related items including co-pays, prescriptions, deductibles and coinsurance. Using tax-free dollars can save you as much as 30-40% on your out-of-pocket costs.

Choosing and Using a Health Plan

Understanding and thinking about how health care costs and benefit needs differ based on personal health, health care priorities and anticipated health needs is important when evaluating your health plan options. Choosing health benefits can be a complex process, but planning well can make a big difference. In most cases your decisions last for a year, so making a well-informed selection is important. You should examine your own personal situation carefully when making your benefit plan election. You should consider the following:

1. How much you spent in health care expenses the previous year
2. The amount you expect to spend in health care expenses in the coming year
3. How much the health plan costs (your contribution)
4. The deductible you can afford to fund before the plan begins covering some of the out-of-pocket costs
5. Which plans include preventive care and screenings at no cost, and
6. Any contributions your employer may be making to the premiums or personal health care accounts on your behalf

Using your HSA-Compatible Health Plan

First, make sure you track to your plan's deductible, co-insurance and out-of-pocket maximums using the statements, Explanations of Benefits (EOBs) and online accounts provided by your health plan or administrator. Most HSA-Compatible Health Plans operate in a similar manner. Please see your plan specific materials for the process followed by your plan provider. When seeking treatment, know what you can expect.

When you visit a provider that is "In-Network":

1. In most cases, the provider will not ask you to pay anything at the time of the visit. This is because the doctor may not know where you stand relative to meeting your health plan deductible and therefore is not sure how much of the payment will be your responsibility.
2. Your doctor submits a claim to your health plan.
3. Your health plan processes the claim using the discounted rate your provider has agreed to with the health plan for their members.
4. If your medical expenses fall below your deductible, your health plan will notify the provider that you are responsible for paying the discounted rate for your visit.
5. If you have exceeded your deductible, your health plan will typically cover a portion of the expense. For example, if your plan requires that you pay 20% of office visits once your deductible has been met, then your plan will pay the remaining 80%.
6. Your provider will then send you a bill for the amount your health plan says you owe.
7. Your health plan sends you an Explanation of Benefits (EOB) that summarizes how the claim was processed. You compare it to the bill from the doctor to make sure the amount billed matches what the plan says you owe.
8. You pay the bill.

When you visit a provider or pharmacy that is <u>not</u> "In-Network":

If you go to a provider or pharmacy that is not "in-network", you may receive a bill directly and/or get charged the full amount at the time of service. In which case, your health plan may require that you complete a claim form in order to initiate the claims process.

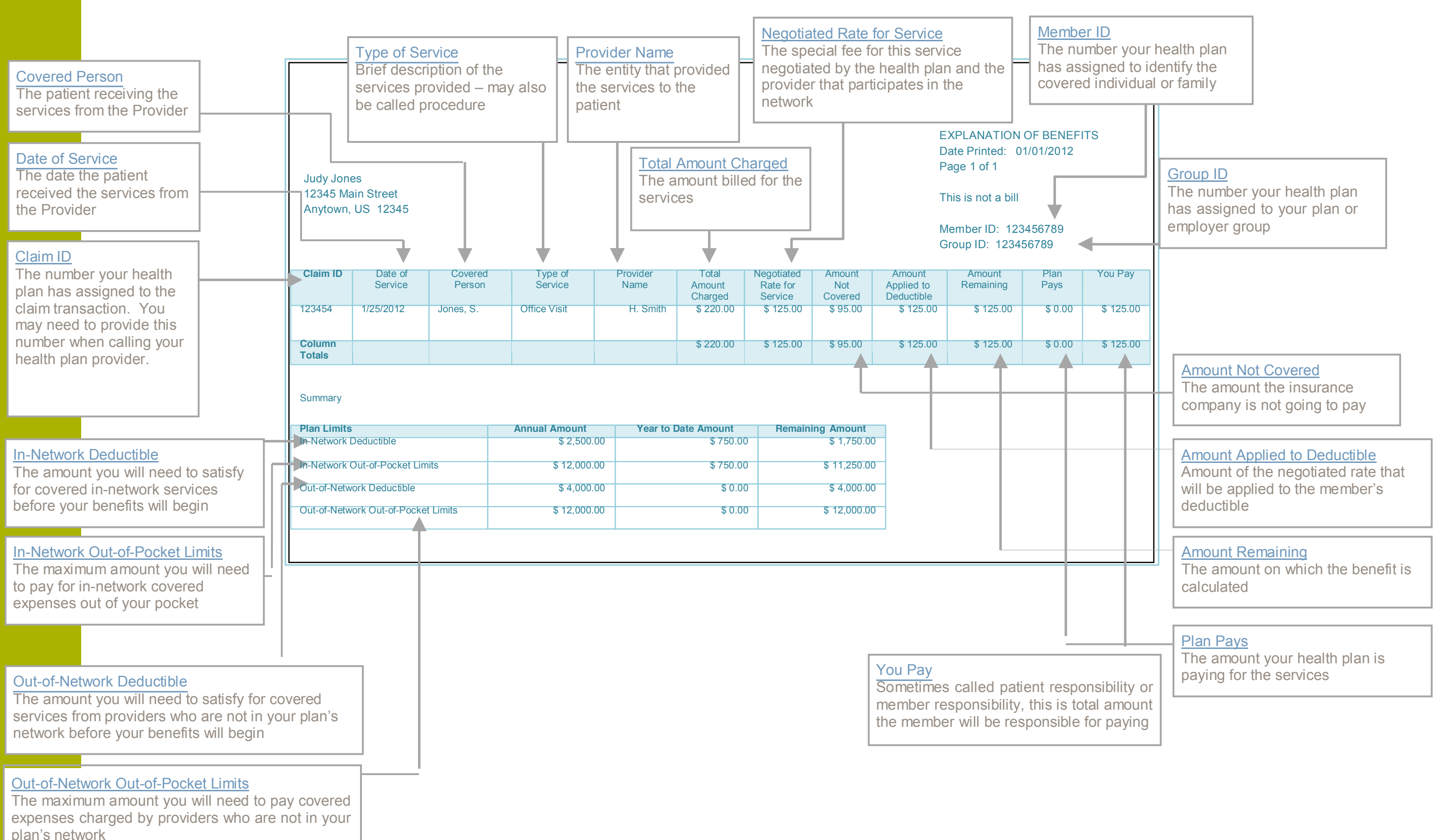
When you go to a network pharmacy:

1. You provide the pharmacy with your insurance information.
2. When you drop off or pick up your prescription the pharmacy will submit a claim to your insurance company to determine if the medicine is covered and whether or not your deductible has been satisfied.
3. If you have not satisfied your deductible, you pay the negotiated rate for the prescription based on your health plan.
4. If you have met your deductible, you pay your co-payment and/or co-insurance for that particular medicine.

Note: If you have funds in a Health Savings Account, Health Reimbursement Account or Flexible Spending Account, you may use those funds to pay your share of the costs for any of the qualified out-of-pocket expenses for the transactions specified above.

Understanding your EOB

After you receive medical services, your health plan should provide you with a paper or electronic explanation of benefits (EOB). It is important to understand the information on your EOBs and track your treatments, associated costs, expenses applied to your deductible and your total out of pocket limits. Please note, the EOB is the end or final result of the claims process used by your specific health plan. Therefore, the actual EOB you receive may be different than the sample we provided below.



Resources

The right questions to ask your doctor

1. How does my family health history affect me?
2. What should I be doing that I'm not already doing?
3. How do you keep up to date on medical advancements?
4. What experience do you have with my medical needs?
5. What do you expect from your patients?

Websites to help evaluate your symptoms

1. WebMD (www.webmd.com)
2. Mayo Clinic (www.mayoclinic.com)
3. Health (www.health.com)
4. Centers for Disease Control and Prevention (www.cdc.gov)
5. Health Line (www.healthline.com)

Websites available to assist in assessing the quality of care

1. Physician Reports (www.physicianreports.com)
2. Health Care (www.healthcare.gov/compare/)
3. Health and Human Services (www.hospitalcompare.hhs.gov)
4. The Official U.S. Government Site for Medicare (www.medicare.gov)
5. Healthfinder.gov (http://www.healthfinder.gov/)

Talking to your doctor

1. Tips for talking to your doctor (www.familydoctor.org)
2. Consumer Reports Health.org (www.consumerreports.org)
3. Quick tips – When talking with your doctor (http://www.ahrq.gov/consumer/quicktips/doctalk.pdf)

Free apps accessible on your smartphone

1. WebMD
2. Medscape
3. Symptom Checker .MD

Table A

Allowable HSA Investments

Allowable HSA Investments
Bank Accounts
Annuities
Certificates of Deposit
Stocks
Bonds
Mutual Funds

NOTE: Your HSA custodian or trustee may limit or restrict certain types of investments

Not Allowable HSA Investments
Collectables: including any work of art, antique, metal, gem, stamp, coin, alcoholic beverage or other personal property as described in Section 408(m)(3) of the Internal Revenue Code
Life Insurance Contracts

Table B

Allowable Expenditures on Long-Term Care Insurance

In order to spend money from your HSA on long-term care, your long-term care insurance contract must:

1. Be guaranteed and renewable;
2. Not provide for cash surrender value or other money that can be paid, assigned, pledged, or borrowed;
3. Provide that refunds, other than refunds on the death of the insured or complete surrender of cancellation of the contract, and dividends under the contract, must be used only to reduce future premiums or increase future benefits;
4. Generally may not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

The amount of qualified long-term care premiums that can be paid from an HSA is limited. These amounts may be adjusted annually for inflation. For 2011, these inflation adjusted amounts, as published in IRS Publication 502, are:

2012 Allowable Long-Term Care Premium Amounts	
Age 40 or Under	Up to $340
Age 41 to 50	Up to $640
Age 51 to 60	Up to $1,270
Age 61 to 70	Up to $3,390
Age 71 or Over	Up to $4,240

Table C

Allowable Expenditures from Your HSA

There have been thousands of cases involving the many nuances of what constitutes “medical care” for the purposes of section 213(d) of the Internal Revenue Code. A determination of whether an expense is for “medical care” is based on all the relevant facts and circumstances. Generally speaking, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. The determination often relies on the word “primarily”. See IRS Pub 502 for more detailed explanation.

NOTE: If you are receiving federal or state unemployment insurance, you may pay for your health insurance premiums with your HSA.

Allowable Expenditures from Your HSA	
Acupuncture	Alcoholism Treatment
Ambulance	Artificial Limb
Artificial Teeth	Bandages
Birth Control Pills (by prescription)	Breast Reconstruction Surgery (mastectomy)
Car Special Hand Controls (for disability)	Certain Capital Expenses (for the disabled)
Chiropractors	Christian Science Practitioners
COBRA premiums	Contact Lenses
Cosmetic Surgery (if due to trauma or disease)	Crutches
Dental Treatment	Dermatologist
Diagnostic Devices	Disabled Dependent Care Expenses
Drug Addiction Treatment (inpatient)	Drugs (prescription)
Eyeglasses	Fertility Enhancement
Guide Dog	Gynecologist
Health Institute (if prescribed by physician)	Hospital Services
Hearing Aids	Home Care
Insulin	Laboratory Fees
Lasik Surgery	Lead-Based Paint Removal
Learning Disability Fees (prescription)	Legal Fees (if for mental illness)
Life-Care Fees	Lodging (for out-patient treatment)
Long-Term Care (medical expenses)	Long-Term Care Insurance (up to allowable limits)
Meals (associated with receiving treatments)	Medical Conferences (for ill spouse/dependent)
Medicare Premiums	Medicare Deductibles
Nursing Care	Mentally Retarded (specialized homes)
Obstetrician	Nursing Homes
Operations -Surgical	Operating Room Costs
Optician	Ophthalmologist
Organ Transplant (including donor’s expenses)	Optometrist
Orthopedic Shoes	Orthodonture
Osteopath	Orthopedist
Over-the-Counter Medicines or Drugs for which you obtain a prescription	Out-of-pocket expenses while enrolled in Medicare
Pediatrician	Oxygen and Equipment
Podiatrist	Personal Care Services (for chronically ill)
Prenatal Care	Post-Nasal Treatments
Prosthesis	Prescription Medicines
Psychiatric Care	PSA Test
Psychoanalysis	Psychiatrist
Psychologist	Psychoanalyst
Radium Treatment	Qualified Long-Term Care Services
Special Education for Children (ill or disabled)	Smoking Cessation Programs
Spinal Tests	Specialists
Sterilization	Splints
Telephones and Television for the Hearing Impaired	Surgery
Therapy	Transportation Expenses for Health Care

Tranplants	Vaccines
Vitamins (if prescribed)	Weight Loss Programs
Wheelchair	Wig (hair loss from disease)
X-Rays	

Table D

Non-Allowable Expenditures from Your HSA

Non-Allowable Expenditures from Your HSA	
Advance Payment for Future Medical Expenses	Athletic Club Membership
Over-the-Counter Medicines or Drugs for which you do not have a prescription	Babysitting (for healthy children)
Boarding School Fees	Bottled Water
Commuting Expenses for the Disabled	Controlled Substances
Cosmetics and Hygiene Products	Dancing Lessons
Diaper Service	Domestic Help
Electrolysis or Hair Removal	Funeral Expenses
Hair Transplant	Health Programs at Resorts, Health Clubs, & Gyms
Household Help	Illegal Operations and Treatments
Illegally Procured Drugs	Maternity Clothes
Medigap premiums	Nutritional Supplements
Premiums for Life or Disability Insurance	Premiums for Accident Insurance
Premiums for your HSA-qualified health plan	Scientology Counseling
Social Activities	Special Foods/Beverages
Swimming Lessons	Teeth Whitening
Travel for General Health Improvement	Tuition in a Particular School for Problem Children