



# Frequently Asked Questions High-Deductible Health Plan (HDHP) with Health Savings Account (HSA)

## **BASICS OF A HIGH-DEDUCTIBLE HEALTH PLAN (HDHP)**

### *What is a high-deductible health plan (HDHP)?*

An HDHP is a health insurance plan that has higher deductibles and out-of-pocket maximum limits compared to a traditional health plan. Being covered by a “qualified” HDHP is also a requirement for having a health savings account (HSA), which allows you to make pre-tax contributions to help pay for your medical costs before the annual deductible and other out-of-pocket costs. An HDHP, often referred to as a “consumer directed health plan,” can provide you more control and responsibility over how to spend your health care dollars and potentially save for future medical expenses.

### *How does a HDHP differ from a traditional health plan?*

- They have higher annual deductibles and out-of-pocket limits compared to a traditional health plan.

2018	Regence PPO Plan	Regence HDHP
Annual Deductible	\$250 Individual \$500 Family	<b>\$1,500 Self-Only</b> <b>\$3,000 Family</b>
Out-of-Pocket Maximum	\$1,500 Individual \$3,000 Family	<b>\$3,000 Self-Only</b> <b>\$6,000 Family</b>

- The annual deductible must be paid by the employee before the health plan will begin to share in the cost of the member’s health claims. Claims from a network provider will be discounted, however, the member will be responsible for the full discounted provider and facility charges and full cost of prescription medications until the annual deductible is satisfied for the year. **As an example, a physician visit of \$120 may be discounted to \$80 and this is the amount an employee would be responsible for paying to the provider until the annual deductible has been satisfied. Another example might be a brand-formulary medication that costs \$240 a month. Instead of paying a \$25 or \$35 co-pay for the medication, the employee would be responsible for the full \$240 expense until the annual deductible has been satisfied.**

*Note: There is some first-dollar coverage with HDHPs. The annual deductible will not apply toward in-network preventive care services and preventive coverage on certain prescriptions that fall under the insurance carrier’s special listing of therapeutic drug categories. The carrier listing includes generic medications and formulary brand-name medications specifically designated for treatment of chronic diseases. The listing is subject to change and available on the respective carrier’s website.*

- Eligible employees who enroll in one of the City’s HDHPs will automatically be enrolled in a health savings account (HSA) and provided an employer contribution, which will be prorated per pay period throughout the plan year.

### *What steps can I take to make an informed decision about whether to sign up for an HDHP with an HSA?*

- Determine the monthly premium you will pay. The premium is the same as the traditional health plan options, however, if you participate in the Tacoma Employee Wellness Program and earned the wellness incentive, you will receive a higher monthly premium credit.
- Review the health plan design: deductible, out-of-pocket limits, the amount the City will contribute to the HSA plan on your behalf.

- Subtract the amount of the City contributions to the HSA from the annual plan deductible to determine your true out-of-pocket cost for the plan year.
- Review the eligibility considerations for an HSA. Do you qualify for the HSA? Do your dependents qualify for their medical expenses to be paid from your HSA? (See “Who can establish an HSA?” and “Which dependents do not qualify for distributions from an HSA?”)
- **Ask yourself if you are in a financial position to be able to pay the annual deductible amount required (depending on the Self-Only deductible or Family deductible) should you or a family member have claims expenses at the beginning of the plan year before your HSA balance is built up. The City contributions to an employee’s HSA are prorated per pay period across the plan year.**
- Determine if your financial resources allow you to make additional pre-tax voluntary contributions toward the HSA which can help reduce your taxable income as well as build up your HSA balance.

## **COVERAGE**

### ***How do annual deductibles and out-of-pocket maximum limits differ from a traditional health plan option?***

Claims are processed differently under a HDHP when it comes to “**family coverage.**”

With a **traditional health plan** (Regence PPO and Group Health POS), each person in the family will be subject to an individual annual deductible until eventually the family deductible is satisfied. As soon as one individual meets their annual deductible, the plan will begin to share in the cost of that individual’s claims until they satisfy their out-of-pocket maximum limit. At that point, the individual will have their claims paid at 100% by the insurance plan for the remainder of the plan year.\*This same process will apply to each family member until the family out-of-pocket maximum is met and then the remainder of the family’s health claims will be paid at 100% by the insurance plan for the rest of the plan year.\*

With an **HDHP** (Regence HDHP and Group Health HDHP), the plan will require the entire family annual deductible be met before the plan will begin to share in the cost of any of the family’s health claims (except for qualifying preventive care expenses).

### ***What are the HDHP options available to City of Tacoma employees?***

The City will be offering 3 health plan options in 2018. There will be 2 traditional health plans (Regence PPO plan and the Kaiser Permanente HMO plan) and 1 HDHP (Regence HDHP). See the summary health plan design comparison for more details:

<b>REGENCE MEDICAL</b>	<b>2016</b>		<b>2017/2018</b>	
<b>Medical Benefit</b>	<b>PPO</b>	<b>HDHP/HSA</b>	<b>PPO</b>	<b>HDHP/HSA</b>
<b>Red indicates changes</b>	Preferred Network/ Participating Network/ Out-of-Network	Preferred Network/ Participating Network/ Out-of-Network	Preferred Network/ Participating Network/ Out-of-Network	Preferred Network/ Participating Network/ Out-of-Network
<b>Deductible</b> (Amount the employee pays)	\$250 Individual (waived for office visits) \$500 Family (waived for office visits)	\$1,500 Individual \$3,000 Family	\$250 Individual (waived for office visits) \$500 Family (waived for office visits)	\$1,500 Individual \$3,000 Family
<b>Coinsurance</b> (Employee share of the cost of a covered service unless specified otherwise)	10%/40%/100%	20%/40%/100%	10%/40%/100%	20%/40%/100%
<b>Copay</b> (Amount the employee pays)	\$20 office visit copay	N/A	\$20 office visit copay	N/A
<b>Out-of-Pocket Maximum</b> Includes deductible Coinsurance and Copays (Amount the employee pays)	\$1,500 Individual \$3,000 Family	\$5,000 Individual \$10,000 Family * Note: Limited to \$6,850 per individual on family coverage	\$1,500 Individual \$3,000 Family	<b>\$3,000 Individual</b> <b>\$6,000 Family</b>
<b>Preventive Care</b> (Amount the employee pays)	0%/0%/100% Not Subject to Deductible Non-Network Providers are not covered	0%/0%/100% Not Subject to Deductible Non-Network Providers are not covered	0%/0%/100% Not Subject to Deductible Non-Network Providers are not covered	0%/0%/100% Not Subject to Deductible Non-Network Providers are not covered
<b>Professional</b> (Amount the employee pays)	After Deductible 0% / After Deductible 40%/ 100%	After Deductible 20% / After Deductible 40%/ 100%	After Deductible 0% / After Deductible 40%/ 100%	After Deductible 20% / After Deductible 40%/ 100%
<b>Emergency Room Copay</b> (Amount the employee pays)	After \$150 copay and Deductible 10%/10%/10% (Facility) After Deductible 0%/0%/0% (Professional)	After Deductible 20%/20%/20% (Facility) After Deductible 20%/20%/20% (Professional)	After \$150 copay and Deductible 10%/10%/10% (Facility) After Deductible 0%/0%/0% (Professional)	After Deductible 20%/20%/20% (Facility) After Deductible 20%/20%/20% (Professional)
<b>Hospital Stay</b> (Amount the employee pays)	After Deductible 10%/40%/100% (Facility) After Deductible 0%/40%/100% (Professional)	After Deductible 20%/40%/100% (Facility) After Deductible 20%/40%/100% (Professional)	After Deductible 10%/40%/100% (Facility) After Deductible 0%/40%/100% (Professional)	After Deductible 20%/40%/100% (Facility) After Deductible 20%/40%/100% (Professional)
<b>Outpatient Surgery</b> (Amount the employee pays)	After Deductible 10%/40%/100% (Facility) After Deductible 0%/40%/100% (Professional)	After Deductible 20%/40%/100% (Facility) After Deductible 20%/40%/100% (Professional)	After Deductible 10%/40%/100% (Facility) After Deductible 0%/40%/100% (Professional)	After Deductible 20%/40%/100% (Facility) After Deductible 20%/40%/100% (Professional)
<b>Lab/X-Ray</b> (Amount the employee pays)	After Deductible 0%/40%/100%	After Deductible 20%/40%/100%	After Deductible 0%/40%/100%	After Deductible 20%/40%/100%
<b>Vision Exam/Schedule</b>	No hardware	No hardware	No hardware	No hardware

**Red text indicates changes for plan design in 2017/2018**

REGENCE MEDICAL	2016		2017/2018	
Medical Benefit	PPO	HDHP/HSA	PPO	HDHP/HSA
Red indicates changes	Preferred Network/ Participating Network/ Out-of-Network	Preferred Network/ Participating Network/ Out-of-Network	Preferred Network/ Participating Network/ Out-of-Network	Preferred Network/ Participating Network/ Out-of-Network
Pharmacy (Amount the employee pays)	100% coinsurance up to the following for a 30-day supply  Generic: \$5 Max  Brand: Formulary \$35 Max Non-Formulary \$60 Max  Specialty: Formulary \$75 Max Non-Formulary \$150 Max  Mail Order: 90-days for 2 copays	Retail or Mail Order: Up to 90-day supply and up to 30-day supply for covered self-administrable injectable medication.  After Deductible 20% - member may be balance-billed when non-participating pharmacy is used.  *Rx list includes drugs in certain categories that will not be subject to the plan deductible. It includes generic medications and formulary brand-name medications specifically designated for treatment of chronic diseases.	100% coinsurance up to the following for a 30-day supply  Generic: \$5 Max  Brand: Formulary \$35 Max Non-Formulary \$60 Max  Specialty: Formulary \$75 Max Non-Formulary \$150 Max  Mail Order: 90-days for 2 copays	Retail or Mail Order: Up to 90-day supply and up to 30-day supply for covered self-administrable injectable medication.  After Deductible 20% - member may be balance-billed when non-participating pharmacy is used.  *Rx list includes drugs in certain categories that will not be subject to the plan deductible. It includes generic medications and formulary brand-name medications specifically designated for treatment of chronic diseases.
HSA IRS Annual Contribution Limits	N/A	\$3,350/\$6,750 (Employee/Family)	N/A	\$3,450/\$6,900** (Employee/Family)
City Annual Contributions to Health Savings Account (prorated per pay period)		EE Only \$500 w/o Wellness \$1,250 with Wellness	EE+Family \$1,000 w/o Wellness \$2,500 with Wellness	EE Only \$500 w/o Wellness \$1,250 with Wellness
Other Plan Changes			Add coverage for ABA Therapy and remove neurodevelopmental therapy limits.	Add coverage for ABA Therapy and remove neurodevelopmental therapy limits.
Monthly Employee Premium Contributions (Single/Family)	\$40/ \$80	\$40/ \$80	\$40/ \$80	\$40/ \$80

\*\*Annual limits are subject to change by the IRS. Individuals age 55 and over can make an additional annual \$1,000 catch-up contribution.

Red text indicates changes for plan design in 2017/2018

## ***How will my provider visits and health care services be paid under an HDHP?***

The carrier (Regence) will provide you with an insurance identification card and the HSA administrator will provide you with a debit card to access your HSA account.

### **Doctor Visits:**

- Doctor and facility visits with a contracted provider will not require a copay be made at the time of appointment. Provide your insurance identification card so they can bill the insurance.
- The insurance carrier will process your claim and apply any discounts and you will be notified of your responsibility.
- At that time, pay the carrier with your HSA funds or you can pay the provider with other funds and later request reimbursement from your HSA account.

### **Prescription:**

- Show the pharmacy your insurance identification card so they can apply appropriate plan discounts.
- Pay with your HSA debit card if the funds are available or pay out-of-pocket and reimburse yourself later from your HSA account.

## ***How can I get the most value out of my HDHP?***

You can get the most value from your HDHP by understanding your plan and actively working with your physician to manage your health care needs:

- Make sure you understand your health plan design and how it works as well as how you use your medical care. If you know how your plan works and keep track of your medical expenses each plan year, you will have some key information to help you use your plan wisely.
- Use preventive care. Take advantage of your 100% in-network preventive care benefits so you can stay healthy and detect problems before they become serious.
- Review the special insurance carrier listing for prescription medications in certain therapeutic categories that will not be subject to the plan's annual deductible. The listing includes generic medications and formulary brand-name medications specifically designated for treatment of chronic diseases. Are you on a prescription medication that applies or can your provider switch you over to a comparable prescription that applies and therefore is covered at 100% by the health plan?
- Look for appropriate alternatives to care to stretch your HSA dollars. Taking financial responsibility is another part of using the plan. You can save money by using in-network providers and budgeting so you can set aside enough money in your HSA with pre-tax dollars to assist with your health care expenses. Consider alternative means of care and discuss them with your provider (e.g. generic instead of brand drugs, an X-ray instead of an MRI, contacting the plan's Nurse line or going to your primary care physician or an urgent care facility rather than going to the emergency room for non-life threatening issues).

## **ELIGIBILITY**

### ***Who is eligible to enroll in the HDHP?***

Any City of Tacoma employee who has satisfied the requirement to have City health insurance is eligible to enroll in the HDHP. However, the City has designed the HDHP to automatically provide a City contribution to an HSA for any employee who elects this plan. Therefore, if the employee does not meet the requirements to establish and contribute to an HSA, they are not eligible for the City's HDHP. It is the employee's responsibility to review the eligibility

requirements for establishing an HSA to determine if they qualify before enrolling in the HDHP to avoid any tax penalties. *(See “Who can establish an HSA?”)*

### ***Can I enroll my dependents on my HDHP?***

Yes, you can enroll the same qualifying dependents for one of the traditional health plans on the HDHP. **However, you may not be able to pay for their health expenses out of your HSA account unless you are able to claim them on your tax return and they meet the requirements of Internal Revenue Code (IRC) Sec 152.** *(See “Which dependents do not qualify for distributions from an HSA?” for more details and to help you determine if the HDHP is the right choice for you and your family.)*

### ***Can I continue the HDHP if I leave City of Tacoma employment?***

Yes. If you retire from the City and wish to have retiree health insurance through the City, the HDHP is offered as a retiree health plan option. However, if you retire or separate for some other reason and choose to take COBRA to continue your health insurance, you are required to take COBRA through the plan choice you were enrolled in at the time of your separation. No matter the reason for separation from City service, City contributions to your HSA would end that month of separation and as long as you continue to have the HDHP through the retiree insurance option or COBRA, you can continue to make HSA contributions on your own directly with the HSA administrator. There is no requirement to continue your HSA contributions on your own after separation but if you do, the contributions are tax deductible. Additionally, your HSA funds can be used to pay for COBRA premiums or Medicare and other health care coverage. *(See “Can I use my HSA to pay for health insurance premiums?”)*

## **BASICS OF A HEALTH SAVINGS ACCOUNT (HSA)**

### ***What is a health savings account (HSA)?***

An HSA is a tax-advantaged savings account that is connected to a qualified high-deductible health plan (HDHP). Funds in the HSA allow an individual to pay for current health expenses and save for future qualified medical expenses on a pre-tax basis.

### ***What are the general features of an HSA?***

An HSA is a savings account that is designed to assist with current and future medical plans that comes with many tax advantages:

- Contributions to an HSA are made on a pre-tax basis.
- Employers can contribute toward an employee’s HSA account and the money is not considered taxable income.
- An HSA saving account earns interest, which is tax-free.
- The money in an HSA can be invested and the earnings accumulated are tax-free.
- You can withdraw money from your account for qualified medical expenses tax-free.
- Unused funds in your HSA carry over from year-to-year, without any limit.
- You own the HSA not your employer. So you keep the money in your account if you switch plan options, retire or separate employment.
- Your HSA is administered by a trustee/custodian. The City’s administrator is HealthEquity.

### ***What is the difference between an HSA and a Health Flexible Spending Account (FSA)?***

- Even though an HSA and a Health FSA serve a similar purpose, to help pay for qualified medical expenses with tax-free dollars, an HSA is restricted to individuals enrolled in a HDHP.

- HSAs allow for a much higher annual contribution limit, which varies for single/family coverage and allows for catch-up contributions for individuals age 55 - 65.
- Additionally, HSAs are an individual savings account, which rolls over from year-to-year, is portable, and earns tax-free interest and investment income to pay for current and future medical expenses. Whereas, an FSA is subject to the “lose-it-or-use it rule” and funds are forfeited if not used within the plan’s deadline.
- With an FSA, once the coverage starts the full annual elected amount is available for access immediately even if the funds have not been contributed to the account. The opposite is true of an HSA, which will only allow you to use the money that has been deposited into your account.

## **ELIGIBILITY**

### ***Who can establish an HSA account?***

The Internal Revenue Service has established rules for HSAs that restrict who can establish an account and make contributions:

- The individual must be enrolled in a qualified high-deductible health plan (HDHP).
- The individual cannot be covered by another health insurance plan unless it is a qualified HDHP.
- The individual cannot be enrolled in a general purpose flexible spending account (FSA) or have coverage through a spouse’s FSA.\*
- The individual cannot be enrolled in health reimbursement arrangement (HRA) or have coverage through a spouse’s HRA.\*
- The individual cannot be covered by other health insurance through Medicare, TRICARE, or Indian Health Services.
- The individual cannot be claimed as a dependent on someone else’s tax return. They can be listed as a spouse filing jointly.

***\*Individuals can be enrolled in or covered through a spouse’s limited purpose FSA or HRA. The City of Tacoma currently offers a general purpose FSA. Employees who sign up for the HDHP will not be able to sign up for the Health Care FSA benefit.***

### ***My spouse has a health insurance policy through his/her employer; does this disqualify me from establishing an HSA account and signing up for the City’s HDHP?***

If your spouse does not provide coverage for you under their health insurance policy (they have single coverage or employee plus child/ren coverage), and you otherwise meet the requirements to establish and contribute to an HSA as listed above, you are eligible to have an HSA. However, if your spouse participates in a Health Flexible Spending Account (FSA), you would not be eligible for an HSA if your spouse can use the FSA for your general health expenses. This is because you are not eligible for an HSA if you are covered by “other health insurance”. Even though you are not covered by your spouse’s health insurance, the IRS has determined that your spouse’s FSA is considered “other health insurance” which results in your ineligibility for an HSA. An exception to this rule exists for limited purpose FSAs (those that cover vision and dental expenses only).

### ***My spouse is enrolled in Medicare; does this disqualify me from establishing an HSA account and signing up for one of the City’s HDHPs?***

You are eligible to sign up for the HDHP with an HSA even though you have a spouse on Medicare. You can cover your spouse on your health plan and contribute up to the annual IRS family coverage limit for the HSA. Additionally, you can use your HSA to pay for your spouse’s non-reimbursable expenses through Medicare.

## CONTRIBUTIONS

### *What are the maximum annual IRS HSA contribution limits for 2018?*

Coverage Level	Annual Election
Self-Only	\$3,450
Family	\$6,900
Catch-Up Contribution (Age 55 – 65)	\$1,000

### *How much will the City contribute to my HSA if I elect the HDHP?*

The City contribution to the HSA will depend on what level of coverage you sign up for on your HDHP and whether you participated in the City of Tacoma Employee Wellness Program and met the requirements to earn the 2018 wellness incentive. The contribution amounts listed below are annual figures that are prorated per pay period throughout the plan year while the active employee is enrolled on the HDHP:

Coverage Level	With Wellness	Without Wellness
Self-Only	\$1,250/year	\$500/year
Family	\$2,500/year	\$1,000/year

### *What is the maximum contribution I can make to my HSA?*

1. Determine the maximum allowable contribution to the HSA for you based on your level of coverage (Self-Only or Family) and if you are age 55-65 and can make an additional catch-up contribution annually of \$1,000.
2. Subtract the amount the City will contribute to your HSA based on whether you participated in the City of Tacoma Employee Wellness Program and earned the 2018 wellness incentive.

*Example: During Open Enrollment an employee, under age 55, elects the HDHP for family coverage and they did participate in the City's Wellness Program and therefore earned the wellness incentive. **The employee will be able to contribute \$4,400 pre-tax into their HSA account for the 2018 plan year (\$6,900 IRS Maximum Annual Limit Family Coverage - \$2,500 City HSA Contribution for Family Coverage).***

### *What are catch-up contributions?*

Catch-up contributions are only available to employees ages 55 – 65. The IRS will allow these employees in 2018 to contribute an additional \$1,000 per year to their HSA account. If you are covered by your HSA for the entire year, you may deposit the entire catch-up contribution amount starting with the year you turn 55, regardless of when your 55<sup>th</sup> birthday falls within the year. If you enroll in Medicare at age 65, you must prorate your catch-up contribution for the number of months you had your HSA, prior to the month your Medicare enrollment is effective.

### *If I started my employment with the City after the beginning of the plan year and sign up for the HDHP, can I make voluntary contributions so I receive the full IRS annual contribution limit?*

Technically, yes. If an employee comes onto the HDHP midyear and no later than December 1st, they can elect to make larger voluntary contributions to allow their HSA to be funded up to the full IRS annual limit. However, the IRS does have some rules around this issue called a "testing period". The federal government created this testing period to prevent individuals from receiving a greater tax benefit than was intended with the creation of health savings accounts. The testing period requires an individual in this situation maintain their HSA contributions throughout the entire next plan year. Individuals who fail to maintain their HSA eligibility during the testing period face taxes and a 10% penalty on the amount they over contributed (except for failure due to death or disability). **A good rule of thumb in this scenario is to divide the annual IRS contribution limit by the number of months you will be participating on the plan that year**



and subtract the City contributions that will be made on your behalf to determine the maximum voluntary contributions you should make. If an employee does not follow this recommendation, then they will be subject to an HSA testing period.

Testing Period Example:

Sue hired with XYZ Company March 2018 and elects their HDHP/HSA as her plan option, which is effective April 2018. Her employer makes monthly \$100 contributions to their employees’ HSA accounts. This will total \$900 in employer contributions to her account that plan year. Sue, **57 years old** and **single**, decides she wants to take advantage of the pre-tax feature of the HSA and fully funded her account for 2018. Sue will contribute \$2,550 in employee contributions to her account plus another **\$1,000 catch-up contribution** that plan year. Unfortunately, Sue doesn’t end up staying with the XYZ Company for the entire next calendar year and her HSA contributions end May 2018. **Sue has failed the federal testing period by not keeping up her HSA contributions the entire following plan year and uses the chart below to determine the amount of her tax and penalty on her 2018 tax return of \$1,062.53 plus a 10% penalty on this amount:**

Calculation Process		Self-Only	Family
A	Enter Total Amount Actually Contributed to HSA for Tax Year (Employer + Employee)	\$4,400	\$
B	Federal Annual Contribution Limit	\$3,450 (2018)	\$6,900 (2018)
C	Catch-Up Contribution (age 55-65 can add up to an additional \$1,000)	\$1,000	\$
D	Add B + C = Total Federal Annual Contribution Limit	\$4,450	\$
E	Divide D by 12 = Monthly Contribution Eligibility	\$370.83	\$
F	Input the # of Months Eligible in the Year	9 months	months
G	Multiply E x F = Total Eligible Amount Based on Number of Months	\$3,337.47	\$
H	Subtract G from A = Base for Taxes & Penalty	<b>\$1,062.53</b>	\$

***How often will contributions be deposited into the HSA account and deducted from my pay advice if I elect to make voluntary contributions to an HSA?***

The City will be depositing contributions to employee HSA accounts each pay period throughout the plan year. The funds will be accessible the week after payday.

***If I sign up for the HDHP, do I have to make voluntary contributions to my HSA?***

No. If you sign up for the HDHP the City will automatically make contributions to your HSA account. Employees are not required to make any voluntary contributions. You can change your mind later in the plan year and decide to make contributions or you can change the amount of your contribution election as often as each pay cycle, as long as your contributions and the City’s contributions combined are not greater than the IRS Annual Limits.

***What happens if someone is covered under the HDHP/HSA plan and has a qualifying event take place that changes their coverage level from self-only to family or vice versa?***

Their monthly employee premium deduction and City HSA contribution would change to reflect their new coverage level. The amount the employee will be permitted to contribute voluntarily to their HSA will change and be prorated according to the IRS annual limits.

***If I’m still working and turn age 65 and qualify for Medicare, but do not elect to take it, can I continue to receive City contributions and make voluntary contributions to my HSA?***

Yes. You are eligible to make and receive HSA contributions into your account after age 65 until you enroll in any part of Medicare (Part A, Part B, Part C, Part D).

*Note: There are some consequences to waiving Medicare coverage when it is first available and later signing up for Medicare, especially if you were enrolled in an HSA. If you are considering not taking Medicare coverage and signing up for a high-deductible health plan with an HSA, contact Medicare at 1-800-Medicare or visit [www.medicare.gov](http://www.medicare.gov).*

***I am currently enrolled on the City's Health Flexible Spending Account (FSA) and want to sign up for the HDHP/HSA plan during Open Enrollment for the 2018 plan year. If I don't spend down my FSA by the end of 2017, could this affect my enrollment for the HDHP/HSA health plan?***

Yes. It can affect the funding date of your HSA account for the next plan year. If an employee is currently signed up for the FSA through the City and wants to sign up for the HDHP/HSA plan for 2018, they should spend down their FSA funds by 12/31/17. ***If these funds are not spent by this deadline, then the HSA account cannot be funded for the employee until April 1, 2018.*** This is due to the design of the City's FSA plan, which has a grace period and allows an employee to incur health claims in the new plan year (1/1 -3/15) which can be applied toward the prior year's FSA funds. This would result in the employee being signed up for an HDHP but not being able to accumulate City or employee voluntary contributions until April. However, any claims incurred prior to April that were not already reimbursed by your FSA can be submitted against the HSA for reimbursement.

## **DISTRIBUTIONS OR WITHDRAWALS**

### ***When can I use my HSA?***

You can use the money in your HSA immediately, or you can allow the money to accumulate for future use. However, you can only use the money that is currently deposited into your account.

### ***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 expenses are a defined term created by the IRS. Some common expenses include: medical care, prescription drugs, dental and vision expenses. Generally, health insurance premiums are not qualified medical expenses however, in certain circumstances they can be qualified (e.g. certain amounts of Long Term Care Insurance or Medicare Part A or Part B for qualifying individuals). Refer to "**IRS Publication 502 Medical and Dental Expenses**" and Section 213(d) of the Internal Revenue Code (IRC) for more details.

*Note: the qualified medical expenses must be incurred after the HSA account was established.*

### ***Can I use my HSA to pay for health insurance premiums?***

While an active employee with the City of Tacoma, you cannot use your HSA to pay for your City of Tacoma monthly HDHP premiums. Those will be deducted directly from your pay advice once a month pre-tax. You cannot pay for other health insurance premiums with your HSA funds unless the funds are used for the following:

- Long-term care insurance – there are IRS limits based on age and adjusted annually. Refer to IRS Publication 502: Long-Term Care for more details.
- Health care continuation coverage (e.g. COBRA) for you and your qualified dependents – Refer to IRS Publication 502: COBRA Premium Assistance for more details.
- Health care coverage while receiving unemployment compensation under federal or state law for you and your qualified dependents.
- Medicare and other health care coverage if you are 65 or older (other than premiums for a Medicare supplemental policy such as Medigap).

### ***What can I do if I mistakenly withdraw money from my HSA for an expense I thought was qualified and find out later it was not?***

You can return the money to the HSA if there is clear evidence the withdrawal was made by mistake. You will contact the HSA Administrator, HealthEquity, to return the funds to your account which will require completing a “Mistake of Fact” form. In order to avoid a potential tax penalty if you were audited, you must repay the money prior to April 15<sup>th</sup> of the following plan year when you knew or should have known that the withdrawal made was a mistake.

### ***Can I use my HSA to pay for non-health related expenses?***

Yes. You may withdraw money from your HSA for non-qualified medical expenses, but the amount withdrawn will be subject to income tax and if you are under 65 years old, an additional 20% tax penalty will apply.

### ***Is there a difference in how I use my HSA funds after I turn age 65?***

Yes. Once you reach age 65, you are able to withdraw funds from your HSA account for non-health related expenses without paying a tax penalty. The monies withdrawn are only subject to ordinary income tax. However, if you wish to avoid any taxes, you can continue to use the funds for your out-of-pocket qualified health related expenses. Additionally, you can begin to use your funds for Medicare premiums Part A, B, C, and D for you or your spouse.

### ***I elected Self-Only coverage for my HDHP. Can I pay for my spouse’s unreimbursed medical expenses from my HSA?***

Yes, you may use the money in your HSA to pay for your spouse’s or other qualifying family members’ unreimbursed medical expenses.

*\*Note: for making qualified distributions from an HSA, a dependent is defined by the Internal Revenue Code (IRC), Section 152. Therefore, even though some of your dependents are eligible to be covered by your HDHP, you cannot use your HSA to pay for their unreimbursed qualifying medical expenses. (See “Which dependents do not qualify for distributions from an HSA?”)*

### ***Which dependents do not qualify for distributions from an HSA?***

The word “dependent” is used differently in health reform legislation and in the IRS tax code. For making qualified distributions from an HSA, a dependent is defined by the Internal Revenue Code (IRC), Section 152.

#### **Adult children up to age 26**

Health reform requires that health plans offer coverage for adult children up to the age of 26 under the parent’s family health plan. While these children may qualify as a dependent for insurance purposes, adult children might not qualify as tax dependents on the parent’s tax return. The tax code has requirements related to the amount of time the child lives with the parents during the year and that the child be under age 19 (or under 24 if a full-time student). If that is the case, their medical expenses cannot be covered by a parent’s HSA. **Refer to (IRC), Section 152 for more details.**

*\*Note: An adult child, who is covered under a parent’s qualified HDHP but is not a tax dependent, can open their own HSA to be used to assist with out-of-pocket qualified medical expenses.*

#### **Domestic partner**

For federal tax purposes, domestic partners are not considered spouses.

### ***What if I contribute more than the IRS maximum allowable annual contribution to my HSA?***

The IRS imposes a 20% tax penalty on excess contributions. In order to avoid a tax penalty, you may withdraw the excess amount and any earnings on the excess amount prior to April 15<sup>th</sup> of the following year. However, you must pay income tax on the excess contributions and income tax on any earnings that came from the excess contributions.

### ***Do I need to maintain documentation on what I withdrew from my HSA account and track my expenditures?***

Yes, you should keep all your receipts. If you exceed your annual deductible, you may need the receipts to send to your HDHP insurance carrier. If you are audited by the IRS, you may need to demonstrate that the distributions were for qualified medical expenses. HealthEquity's member portal will house any claims processed through the insurance carriers and you have the ability to upload other receipts to maintain them in the same location for your records.

### ***Is the City of Tacoma responsible for reviewing my medical expenses and how I'm using my HSA funds?***

No. The City will not have access to our employees' HSA account distribution details. You, the HSA account holder, are responsible for determining that your account funds are being properly used and you would be required to provide supporting evidence on the use of the funds if requested under an IRS audit. Remember, your HSA Administrator, HealthEquity, is always available to assist with questions.

### ***Is there a deadline to reimburse myself for qualifying medical expenses?***

No. You have your entire lifetime to reimburse yourself. As long as you had your HSA established at the time the expense was incurred, you save the receipt and it was not otherwise reimbursed, you can reimburse yourself for the expense from your HSA, even years later.

### ***How do I access my HSA funds to pay for a qualified health expense?***

Once your HSA account is established you will have multiple ways to access your funds to pay providers directly or reimburse yourself for qualifying medical expenses. The plan administrator, HealthEquity, will issue you a debit card that you can use for some of your providers to make a payment directly at time of service (e.g. when you are purchasing a prescription at a retail pharmacy). Another option is to have your claims paid by phone or online through the HealthEquity website portal or mobile app. The health insurance carriers will feed your claims information directly into the HealthEquity website for you to access and refer to. You also have the option to request from HealthEquity that a paper check be issued. For more information on HealthEquity's member portal or mobile app please visit <http://healthequity.com/members/new-tools>.

### ***What happens to my HSA account if I switch back to a traditional health plan option the following plan year?***

If you remain an active employee with the City of Tacoma but change back to a traditional health plan option, the money in your HSA account will remain yours to keep. An HSA is your own personal savings account. However, once you are not covered by a HDHP, you lose your ability to make contributions to your HSA account. You can use the money in your account to assist with any out-of-pocket health expenses you and your qualified dependents may incur in the future through another health plan (even if it's not a HDHP). Additionally, as long as your HSA account remains open with a fund balance, you will be required to take on the monthly administrative fee paid to the plan administrator, HealthEquity. The monthly fee will be automatically withdrawn from your HSA account each month.

## **ACCOUNT ADMINISTRATION**

### ***What is the process for setting up my HSA account?***

Once you enroll in the HDHP, the City of Tacoma will notify the appropriate insurance carrier (Regence or Group Health) of your election and effective date. The carrier will in turn notify the HSA Administrator, HealthEquity so they can set up

your HSA account and mail you a “Welcome Kit”. Once you receive this kit, you are required to follow the instructions provided to activate your debit card and log-in to the member portal to access your account information.

### ***Are there any fees associated with my HSA account?***

Yes. The City of Tacoma will pay a monthly administrative fee to the HSA Administrator each month for your account as long as you are an active employee and enrolled on one of the HDHPs. If you switch to a traditional health plan or separate from the City and maintain a balance in your HSA account, you will be required to take over this monthly administrative fee, which the HSA Administrator will deduct directly from your HSA account. Otherwise there are some other nominal fees an employee could be subject to if they request a certain service (e.g. a paper reimbursement check, paper statement, stop payment request, excess contribution refund request, overdraft, return deposited item, account closing). Employees are provided up to 3 free debit cards if they lose their card, but after this they will be charged for each additional card.

### ***What happens if I lose my HSA debit card?***

If you lose your debit card, you need to immediately report the loss to HealthEquity, the HSA Administrator so the card can be deactivated and they can re-issue you a new card. Employees are allowed to receive up to 3 free cards before they are charged a fee.

### ***Are the funds in my HSA protected like they are with my savings account with my bank?***

Yes. An HSA is a tax-advantaged savings account. The cash balance of your HSA, which is not invested, is FDIC insured like you would find with a banking institution. *(See “How do I invest the funds in my HSA account?”)*

### ***How do I update my address with the HSA Administrator?***

You are required to update your address directly with HealthEquity. Since your HSA is like a personal savings account, the City of Tacoma cannot do this for you. You can contact their customer service department or logon to the HealthEquity member portal to make any necessary changes to your account information.

### ***Do I need to report any activity associated with my HSA account on my federal tax return?***

Yes. After the end of plan year, the HSA Administrator, HealthEquity, will issue you a 1099-SA tax form which you will need to complete IRS form 8889 with your income tax return. This form communicates to the IRS what your total withdrawals and deposits were from your account during the prior year.

### ***If I have an existing HSA account with another trustee/custodian, can I transfer my account balance into my new HSA set up with my City HDHP?***

Yes, if you wish to consolidate your HSA funds under one account and trustee/custodian, you can submit to the HSA Administrator, HealthEquity, a Transfer/Rollover form. HealthEquity will contact your prior HSA custodian to have the funds transferred to your HealthEquity administered account. Note there could be closing costs incurred with the prior custodian and this process can take up to 8 weeks to complete once the form is submitted to HealthEquity.

*Note: The IRS additionally allows for a Medical Savings Account (MSA) to be transferred into an HSA account and allows for a one-time transfer of an IRA into an HSA. Contact the HSA Administrator, HealthEquity, for more details.*

### ***How do I invest the funds in my HSA account?***

You must maintain a cash balance of \$2,000 in your HSA account in order to start investing your funds. Anything above the \$2,000 can be invested in the series of mutual funds that HealthEquity, the HSA Administrator, makes available to

their clients. Reminder: There are risks that come with investments, only the cash balance of funds in your HSA account are FDIC insured.

### ***How do I contact the HSA Administrator, HealthEquity?***

The HSA Administrator, HealthEquity is available 24/7, 365 days a year to assist their customers. Customer representatives are available to assist with any questions you might have related to establishing an HSA 866-346-5800 (toll-free). You can also visit their website which has many resources available at [www.healthequity.com/HSAlearn](http://www.healthequity.com/HSAlearn).

## **SEPARATION FROM EMPLOYMENT/ DEATH OF AN EMPLOYEE**

### ***What happens to my HSA if I separate from the City of Tacoma?***

If you retire from the City and wish to have retiree health insurance through the City, the HDHP is offered as a retiree health plan option. However, if you retire or separate for some other reason and choose to take COBRA to continue your health insurance, you are required to take COBRA through the plan choice you were enrolled in at the time of your separation. No matter the reason for separation from City service, City contributions to your HSA would end that month of separation and as long as you continue to have the HDHP through the retiree insurance option or COBRA, you can continue to make HSA contributions on your own directly with the HSA administrator. There is no requirement to continue your HSA contributions on your own after separation but if you do, the contributions are tax deductible. Additionally, your HSA funds can be used to pay for COBRA premiums or Medicare and other health care coverage. **(See “Can I use my HSA to pay for health insurance premiums?”)**

### ***What are the survivor benefits associated with my HSA?***

Your HSA would pass to your surviving spouse or named beneficiary tax-free. If you are unmarried and do not have a named beneficiary, the money is disbursed to your estate, and is subject to any applicable taxes. It is recommended that all employees after receiving their Welcome Kit from HealthEquity, log-in to the online member portal and add a beneficiary to their account record.

## **HEALTH PLAN CLAIMS SCENARIOS (TRADITIONAL VS. HDHP/HSA)**

### ***Regence PPO Plan compared to the Regence HDHP/HSA Plan***

#### **REGENCE**

#### **PLAN COMPARISON EXAMPLES**

In each of these examples, the individual is making a decision whether to enroll on the **Regence PPO Traditional Plan or the Regence High-Deductible/HSA Plan**. They are looking back at their prior year’s claims activity to help them make a comparison. *(Note: In all of these cases, the High-Deductible/HSA Plan is based on the final outcome for the plan year. Employer contributions into the HSA will be prorated per month.)*

## Example 1: Family Coverage – Some Chronic Illness Claims

In this example, you have a couple who are over 55 with chronic illnesses (e.g. high cholesterol and diabetes). They are each on maintenance medications for their chronic illnesses which they purchase through the mail order option to save on their costs. They had regular doctor visits to manage their chronic conditions as well as their annual preventive screenings. They also had one trip to urgent care for an ear infection.

	With Wellness		Without Wellness	
	PPO PLAN	HDHP/HSA PLAN	PPO PLAN	HDHP/HSA PLAN
<b>Money Coming In</b>				
<b>Employer HSA Contributions</b>	\$0	\$2,500	\$0	\$1,000
<b>Money Going Out</b>				
<b>Annual Premiums</b>	\$720	\$480	\$960	\$960
<b>Total Medical/RX Coinsurance*</b>	\$1,060	\$3,000	\$1,060	\$3,000
<b>Money Out Subtotal</b>	\$1,780	\$3,480	\$2,020	\$3,960
<b>Less the HSA Employer Contribution</b>	\$0	(\$2,500)	\$0	(\$1,000)
<b>Total Money Out</b>	\$1,780	\$980	\$2,020	\$2,960
<b>Difference between PPO and HDHP/HSA Money Going Out</b>		<b>\$800 Savings</b>		<b>(\$940) Extra Spending</b>
<b>HSA Remaining Balance</b>	\$0	\$0	\$0	\$0

\*Costs are variable based on number of encounters/utilization.

<b>Maximum Employee HSA Contributions (Age 55+) – IRS Annual Limit</b>		\$4,400		\$6,900
<b>HSA Remaining Balance</b>	\$0	\$4,900		\$4,900

- This comparison of the claims activity run through the two plan options demonstrates if the HDHP/HSA plan was chosen, the employee would have out-of-pocket costs and depleted their HSA contributions provided by the City.
- In the wellness participation example, the out-of-pocket costs are less under the HDHP/HSA plan.
- If the employee chose to make voluntary contributions to the HSA up to the IRS annual limit (with the additional \$1,000 catch up contribution), they would have the ability to cover all of their out-of-pocket costs with tax-free dollars and have money left over in their account.

✓ ***The HDHP/HSA Plan may be a good plan choice, based on the couple's prior year's claim activity and personal financial situation.***

## Example 2: Single Coverage - Excellent Health Claims

In this example, you have a single individual in their late 20s who rarely needs to see the doctor and does not take any maintenance medications. They take advantage of preventive screenings under the health insurance and had one trip to the urgent care for a sinus infection, which resulted in needing an antibiotic prescription.

	With Wellness		Without Wellness	
	PPO PLAN	HDHP/HSA PLAN	PPO PLAN	HDHP/HSA PLAN
<b>Money Coming In</b>				
Employer HSA Contributions	\$0	\$1,250	\$0	\$500
<b>Money Going Out</b>				
Annual Premiums	\$240	\$0	\$480	\$480
Total Medical/RX Coinsurance*	\$180	\$240	\$180	\$240
Total Money Out	\$420	\$240	\$660	\$720
Difference between PPO and HDHP/HSA Money Going Out		\$180 Savings		(\$60) Extra Spending
HSA Remaining Balance	\$0	\$1,010	\$0	\$260

\*Costs are variable based on number of encounters/utilization.

Maximum Employee HSA Contributions – IRS Annual Limit		\$2,200		\$2,950
HSA Remaining Balance	\$0	\$3,210		\$3,210

- This comparison of the claims activity run through the two plan options, demonstrates if the HDHP/HSA plan was chosen, the employee would have a savings in their out-of-pocket costs in the wellness participation example.
- Whether the employee participated in wellness or not, they would have HSA contributions remaining in their account provided by the City.
- If the employee chose to make voluntary contributions to the HSA up to the IRS annual limit, they would have the ability to build up their account with additional tax-free dollars for future use.

✓ ***The HDHP/HSA Plan appears to be a good plan choice based on the individual's prior year's claim activity and personal financial situation.***



### Example 3: Family Coverage – Accidents Will Happen

In this example, you have a couple in their mid-30s with three children. Everyone in the family took advantage of their preventive screenings. Two of the children had urgent care visits one for stiches when they fell off the jungle gym at the park and required follow-up care to remove the stiches. The other had developed an ear infection following the flu that resulted in getting an antibiotic prescription. The dad was injured while on a family ski trip, which resulted in extensive hospitalization, surgery, lab work, prescriptions, and follow up physical therapy and doctor visits.

	With Wellness		Without Wellness	
	PPO PLAN	HDHP/HSA PLAN	PPO PLAN	HDHP/HSA PLAN
<b>Money Coming In</b>				
Employer HSA Contributions	\$0	\$2,500	\$0	\$1,000
<b>Money Going Out</b>				
Annual Premiums	\$720	\$480	\$960	\$960
Total Medical/RX Coinsurance*	\$3,000	\$6,000	\$3,000	\$6,000
Money Out Subtotal	\$3,720	\$6,480	\$3,960	\$6,960
Less the HSA Employer Contribution	\$0	(\$2,500)	\$0	(\$1,000)
Total Money Out	\$3,720	\$3,980	\$3,960	\$5,960
Difference between PPO and HDHP/HSA Money Going Out		(\$260) Extra Spending		(\$2,000) Extra Spending
HSA Remaining Balance	\$0	\$0	\$0	\$0

\*Costs are variable based on number of encounters/utilization.

Maximum Employee HSA Contributions – IRS Annual Limit		\$4,400		\$5,900
HSA Remaining Balance	\$0	\$900		\$900

- This comparison of the claims activity run through the two plan options, demonstrates if the HDHP/HSA plan was chosen, the employee would have out-of-pocket costs and depleted their HSA contributions provided by the City.
- If the employee chose to make voluntary contributions to the HSA up to the IRS annual limit, they would have the ability to cover all of their out-of-pocket costs with tax-free dollars and have money left over in their account.

✓ ***The HDHP/HSA Plan does not look like a good plan choice based on the family's prior year's health claim activity. However, this was a very unusual claims year for this family. With that taken into consideration, if they are interested in building up money into an HSA account, and based on their personal financial situation, this might be an attractive plan choice.***