Indiana University Health
Frequently Asked Questions
2012 Employee Health Plan
Open Enrollment
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High Deductible Health Plan with Health Savings Account

What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a special tax-advantaged savings account similar to a traditional Individual Retirement Account (IRA) but designated for medical expenses. An HSA allows you to pay for current covered healthcare expenses and save for future qualified medical and retiree healthcare expenses on a tax-favored basis.

HSAs provide triple-tax advantages: contributions, investment earnings and qualified distributions are all exempt from federal income tax, FICA (Social Security and Medicare) tax and state income taxes (for most states). Consult your financial advisor or State Department of Revenue for more information on how these rules may apply to your personal tax situation.

Unused HSA dollars roll over from year to year, making HSAs a convenient and easy way to save and invest for future medical expenses. You own your HSA at all times and can take it with you when you change medical plans, change jobs or retire. This means the funds in the account (both yours and IU Health's) are non-forfeitable and are portable.

Funds in the account not needed for near-term expenses may be invested, providing the opportunity for funds to grow. Investment options include money market accounts, mutual funds, etc.

To be eligible to set up an HSA and to make annual contributions, you must be covered by a qualified High Deductible Health Plan (HDHP) and meet other eligibility requirements as defined by the IRS.

How does an HSA work?

Basic Overview:

-- To be eligible to contribute to an HSA, you must be covered by a qualified High Deductible Health Plan (HDHP) and have no other first-dollar coverage.
-- You may use your HSA to help pay for medical expenses covered under a High Deductible Health Plan, as well as for other common qualified medical expenses.
-- Unused HSA funds remain in your account for later use, and can be invested in a choice of investment options, providing the opportunity for funds to grow.

HSAs work in conjunction with an HDHP. All the money you (or IU Health) deposit into your HSA up to the maximum annual contribution limit is 100 percent tax-deductible for federal income tax, FICA (Social Security and Medicare) tax, and state income tax. This makes HSA dollars tax-free.

Consult your financial advisor or State Department of Revenue for more information about how these rules may apply to your personal tax situation.

You can use these tax-free dollars to pay for expenses covered under your HDHP until you meet your deductible. The insurance company pays covered medical expenses above your deductible, except for any coinsurance; you can pay coinsurance costs with tax-free money from your HSA. In addition, you can use tax-free dollars for qualified medical expenses not covered by the HDHP, such as dental, vision and alternative medicines.

The funds in the account also can be used for other, non-medical expenses, but then your dollars are subject to ordinary taxes, plus a 20 percent penalty if you are under age 65. The penalty does not apply if the distribution occurs after you reach age 65, become disabled or die; however, ordinary income tax may still apply.

Funds remaining in your account at year-end cannot be forfeited; they roll over and accumulate for your future healthcare expenses. You may choose not to spend your HSA dollars on small expenses, instead using after-tax dollars to meet these expenses, and leaving your HSA dollars to grow for future needs. Choosing which expenses to spend your HSA dollars on and which to pay out-of-pocket with after-tax dollars is entirely up to you.

Who is eligible to open an HSA?
If you meet all the criteria listed below you are eligible to open and contribute to an HSA. The Medicare Act of 2003, which established HSAs, defines "eligible individuals" as those who:

-- are covered by a qualified High Deductible Health Plan (HDHP);
-- are not covered by another healthcare plan, such as a health plan sponsored by your spouse's employer, Medicare or TriCare; and
-- cannot be claimed as a dependent on another individual's tax return.

You may still open and contribute to an HSA if you have certain limited coverages approved by the IRS, such as dental, vision and long-term care insurance. And you are still eligible to establish an HSA if you are entitled to benefits under an Employee Assistance Plan (EAP), disease management or wellness program or have a discount card for prescriptions.

You are not eligible to open and contribute to an HSA if your spouse has a general purpose FSA account and your medical expenses are eligible for reimbursement from that FSA account.

How is money deposited to my HSA?
Money may be deposited to your HSA through payroll deduction or you may make deposits directly to your account. Deposits may be made periodically or in a lump sum.

Payroll deductions: You may specify a regular contribution to be deducted from your paycheck. This contribution will be made before Social Security, federal and state income taxes are deducted.

After-tax contributions: You may choose to make all or part of your annual account contributions to your HSA by making "after-tax" contributions to your account. These contributions, which you can make by writing a personal check, may be deducted on your income tax return, using IRS Form 1040 and Form 8889.

IU Health will make contributions to your account as well (total annual contribution of $500 per individual/$1,000 per family contributed over 24 pays). While you do not take a deduction for these contributions, they are excluded from your gross income.

Contributions from all sources including employer and personal contributions must be added together for purposes of determining whether you are within the IRS maximum contribution limits for the year.

Note: You will use IRS Form 1040 for your HSA contributions, not the short Form 1040A or 1040EZ. This deduction is taken "above the line" -- you do not need to itemize contributions on Schedule A to claim the deduction for HSA contributions.

A tip: You can contribute up to the maximum allowed for the year at any time up to Apr. 15 of the following year. (For example, you can deduct an additional after-tax contribution on your 2011 income tax return when you file your 2011 tax return in 2012.)

Why establish an HSA? What are the advantages?
There are many advantages to establishing and funding an HSA account including:
-- Contributions through payroll deposits are usually made with pre-tax dollars, meaning they are not subject to federal income taxes (or state income taxes in most states).
-- Contributions to your HSA made with after-tax dollars can be deducted from your gross income, meaning you pay less income tax at the end of the year.
-- Employers may make contributions to your account; these contributions are excluded from your gross income.
-- Withdrawals from your HSA for qualified medical expenses are not subject to federal income tax. As long as you use your HSA funds for qualified medical expenses, you will not have to pay federal (or state, for most states) income taxes.
-- Unused funds accumulate over time and remain available for future medical expenses.
-- Contributions can come from multiple sources including yourself, your employer, family members, or anyone else also may contribute to your HSA up to the maximum annual contribution limit.
-- The interest you earn on your HSA balance is not subject to federal income taxes (or state income taxes in most states).

In addition, HSA accounts are flexible and portable as described below:

Flexible: The money is yours; it grows and remains with you, even when you change medical plans, change employers or retire. There are no "use it or lose it" rules. Even if you are no longer eligible to make contributions, funds in your account may still be used to pay for qualified medical expenses tax-free. And after age 65, or in cases of disability, the funds in the account can be used for non-qualified expenses.

Portable: Accounts move with you when you change medical plans, change employers or retire.

What is a High Deductible Health Plan (HDHP)?
With a High Deductible Health Plan, you have the security of comprehensive healthcare coverage. Like a traditional plan, you are responsible for paying for your qualified medical expenses up to the in-network deductible ($1,750 per person/$3,500 per family); however,

the deductible will be higher, and you can use HSA funds to pay for these expenses. After the annual deductible is met, you are responsible only for a portion of your medical expenses through coinsurance or co-payments, just as with a traditional health plan.

How do HSAs differ from healthcare Flexible Spending Accounts (FSAs)?
Both HSAs and FSAs allow you to pay for qualified medical expenses with pre-tax dollars. One key difference, however, is that HSA balances can roll over from year to year, while FSA money left unspent at the end of the year is forfeited. You may contribute to both an HSA and a Limited Purpose FSA. A Limited Purpose FSA is an FSA that may only be used to pay for certain permitted healthcare expenses not otherwise covered by your High Deductible Health Plan such as:
-- Vision expenses including glasses, frames, contacts, prescription sunglasses, goggles, vision co-payments, optometrists or ophthalmologist fees and corrective eye surgery
-- Dental expenses, including dental care, deductibles and co-payments, braces, x-rays, fillings and dentures

How is an HSA different from a savings account?
The funds in a regular savings account do not have the tax advantages of an HSA.

What if I go outside the network for my medical care?
Claims for non-network healthcare providers can be paid for through the HSA but will not count toward your in-network deductible or out-of-pocket maximum.

Can my spouse and I have a joint HSA, like our regular checking account?
No, an HSA is an individual account; only one person can be named the account owner. If both you and your spouse have qualified HDHP coverage and you both want to make contributions to an HSA, you must each have your own account. If both you and your spouse have family coverage under qualified HDHPs, the tax-deductible HSA contribution (including employer contributions) that may be made to both accounts is limited to a single IRS maximum contribution for family coverage. In 2012, that amount is $6,150. This contribution can be divided between you and your spouse however you wish. If you and/or your spouse are eligible to make catch-up contributions, you may each contribute your eligible catch-up contribution to your individual HSA. In 2012, the catch-up contribution amount is $1,000.

Why is IU Health offering an HSA in conjunction with the HDHP?
Offering an HSA is an excellent way to help you save for future medical expenses and pay for current expenses with tremendous tax advantages. In addition, HSAs offer investment opportunities unavailable through other reimbursement plans.

Eligibility and Enrollment

Can I have an HSA in addition to an IRA or other qualified retirement plan?
Yes, you can have both an HSA and an IRA. Although HSAs operate under many of the same rules that apply to traditional IRAs, an HSA is not an IRA; it is a tax-advantaged savings account for current and future medical expenses. (However, it may be used to pay for non-medical expenses without penalty after the account holder turns 65, so it can be used to save for retirement.)

My spouse's employer provides low-deductible family coverage at no cost. I am covered under my spouse's plan. If I enroll in my employer's qualified HDHP, am I eligible for an HSA?
No. You are not eligible for an HSA if you are covered by any other health plan that is not a qualified HDHP, other than permitted coverage such as coverage for dental, vision or disability.

I am eligible for Veterans Affairs (VA) benefits, but I haven't used these benefits for more than three months. I'm also currently enrolled in a qualified HDHP. Am I eligible for an HSA?
Yes, as long as you haven't received any VA medical benefits other than benefits like dental, vision or preventive care benefits during the preceding three months, and you are currently enrolled in a qualified HDHP, then you are eligible to open and contribute to an HSA.

I am 65 years old, which makes me eligible for Medicare, but I'm still working and have kept my employer's health plan instead of enrolling in Medicare. If I enroll in the qualified HDHP, am I eligible to open an HSA?
Yes. You are eligible to open and contribute to an HSA as long as you are not enrolled in benefits under Medicare—including Medicare A—and are covered by a qualified HDHP.

If I elect the HDHP offered by IU Health, can I contribute to an HSA?
Yes. If you choose to be covered by the HDHP, you may open and contribute to an HSA.

If I elect a dental plan and the vision plan offered by IU Health, along with the HDHP, can I contribute to an HSA?
Yes. As long as you are covered by the HDHP you may also be covered for any benefit provided by "permitted insurance" as defined by IRS code. Permitted insurance includes insurance for a specified disease or illness, such as cancer, diabetes, asthma or congestive heart failure. Other permitted insurances include policies that provide coverage for accidents, disability, dental care, vision care or long-term care.

What is first-dollar coverage?
First-dollar coverage means that you may receive a reimbursement for expenses immediately, without first meeting a deductible. First-dollar benefits paid for "permitted insurance" expenses (such as vision and dental paid through a Limited Purpose FSA) or preventive care do not disqualify you from making HSA contributions.

What first-dollar benefits make me ineligible for an HSA?
First-dollar reimbursements for covered expenses from the following may make you ineligible for an HSA:
-- Medicare
-- Medicaid
-- Flexible Spending Account (FSA)
-- Health Reimbursement Account (HRA)
-- Coverage under a spouse's plan, including:
    -- Low-deductible insurance coverage
    -- FSA or HRA through spouse's employer

Are there any age restrictions regarding opening an HSA?
The only age-related restriction for HSAs is that once an HSA account owner enrolls in Medicare, contributions to the account must stop. Generally this means at age 65. If, however, you become disabled and entitled to Medicare earlier, contributions to the HSA account must stop beginning with the month in which you enroll in Medicare. If you can be claimed as a dependent on someone else's tax return, you are ineligible to open an HSA. In addition, although this is not an age restriction, generally you cannot open an HSA for your child if you or someone else claims them as a dependent.

What happens to my HSA if I become disabled?
If you become disabled and enroll in Medicare, contributions to your HSA must stop as of the first of the month in which you are enrolled in Medicare. You may use your HSA funds to pay Medicare Part A and/or B premiums. Payment of Medicare premiums is a qualified expense and a tax-free distribution. HSA distributions used for non-qualified expenses will be subject to ordinary income taxes but exempt from penalty.

What happens to my HSA if I quit my job or otherwise leave my employer?
Your HSA is portable, meaning you can take your HSA with you when you leave and continue to use the funds you have accumulated. Funds left in your account continue to grow tax-free. If you are covered by a qualified HDHP, you can even continue to make tax-free contributions to your HSA.

What is the USA Patriot Act and how does it apply to my HSA?
The USA Patriot Act established requirements for account holders as of Oct. 1, 2003 to help fight the funding of terrorism and money-laundering activities. Banks that open HSAs must obtain, verify and record information that identifies individuals and entities that engage in certain transactions with or through the bank. Some account holders will be asked to provide additional documentation to verify their identity as required by the USA Patriot Act. Typically, this includes a copy of a current driver's license or utility bill. You will be notified if such information is requested for your account.

My spouse is contributing to a health FSA that reimburses expenses before the deductible is met. Can I make contributions to my HSA if I participate in the HDHP?
No. A general-purpose health FSA or HRA that pays first-dollar benefits is the same as family coverage, because it is available to reimburse the qualified expenses of the employee and the employee's spouse and dependents. Consequently, if either you or your spouse participates in a general-purpose health FSA or HRA, neither of you will be eligible to contribute to an HSA.

Does how much I contribute to my IRA limit how much I can contribute to my HSA?
No. Your contributions to your HSA are limited to a maximum annual contribution adjusted each year by the IRS. Your contributions to an IRA have no bearing on your HSA and vice versa.

Can anyone make catch-up contributions to an HSA?

Yes. If you are 55 or older and covered by a qualified HDHP, you can make additional catch-up contributions each year until you are enrolled in Medicare benefits. The maximum annual catch-up contributions for 2012 and after are $1,000. If both spouses have HSAs, then each is permitted full catch-up contributions, provided they are covered by a qualified HDHP for the entire year.

How much can I contribute to my HSA?
For 2012, the combined maximum contributions to your HSA, including any made by IU Health to your account, are $3,050 if you have individual coverage and $6,150 if you have family coverage. If you turn age 55 or older in 2012 or after, you may add up to $1,000 more as a "catch up" contribution. These amounts are valid as long as you are enrolled in qualified HDHP coverage for the entire tax year or enroll before the first day of December, meaning you have held at least one full month of HDHP coverage, and then continue to maintain qualified HDHP coverage for the next 12 months (13 months in total).

What is the tax treatment of my HSA contributions?
Contributions to your HSA are not subject to federal taxes or state tax (for most states) unless used to pay for non-qualified expenses. Contributions may be made either directly by you to your HSA or through payroll deduction. Either way, your contributions are not subject to federal income tax, FICA (Social Security and Medicare) tax and for most states, state income tax. If you make your contributions through payroll deductions, the amount is taken before taxes are calculated. If you make deposits directly to your account, you may take an "above the line" deduction when filing your annual tax return. "Above the line" means you reduce your taxable income regardless of whether you itemize or use the standard deduction on your income tax form. You may deduct the contribution amount, subject to the maximum annual contribution limits, from your taxes at filing time. You do not take a deduction for contributions made by IU Health to your account, but they are excluded from your gross income.

What is the tax treatment of contributions made by a family member or anyone else to my HSA?
If a family member or anyone else makes a contribution to your HSA, the tax advantages apply to you and not the person making the contribution. You may deduct the contribution amount when filing your annual income taxes in the same way you would if you had deposited the post-tax contribution on your own. IU Health will make contributions to your account as well; while you do not take a deduction for these contributions, they are excluded from your gross income. All contributions to the account are combined and subject to maximum annual contribution limits.

Can I make one lump-sum contribution to my HSA early in the year or spread contributions out during the year?
Contributions for the taxable year can be made in one or more payments at your convenience. The IRS determines maximum annual contributions by your coverage type (single or family). The annual total of all contributions to your account, from all sources, cannot exceed the IRS maximum annual contribution.

What are "catch-up" contributions?

Catch-up contributions are permitted contributions made by an eligible participant that are in excess of maximum annual contribution limits. Eligible participants are HSA owners who are covered by a qualified HDHP and who are age 55 or older. Catch-up contributions to your HSA are available for the calendar year in which you reach age 55.

What happens if I contribute more than my maximum annual contribution to my HSA?
If you contribute more than your maximum annual contribution to your HSA, you may withdraw the excess without penalty until Apr. 15 of the following year. After that time, the funds are subject to both ordinary income taxes and an excise tax.

If I make contributions to my HSA through pre-tax payroll deductions (Section 125 cafeteria plan), can I change the per-payroll deduction at any time?
You may be allowed to increase, decrease, start or stop your HSA contributions at any time, but remember that you are still restricted to your maximum annual contribution.

What is the last date that I may deposit toward my maximum annual contribution and still take an "above the line" deduction for the year?
You have until Apr. 15, 2013 for contributions to your 2012 HDHP coverage.

HSA Distributions

Can I pay out-of-pocket covered expenses with after-tax dollars instead of using my HSA funds?
Yes, you may pay for qualified medical expenses with after-tax dollars, allowing your HSA balance to grow tax-free. Many HSA participants elect to pay smaller expenses with after-tax dollars while allowing their HSA balances to grow for the future.

What healthcare expenses does my HSA cover?
Your HSA funds can be used tax-free to pay for out-of-pocket qualified medical expenses, even if the expenses are not covered by your HDHP. This includes expenses incurred by your family. There are hundreds of qualified medical expenses, including many you might not expect, such as dental visits, orthodontics, glasses, long-term care insurance premiums, cost of COBRA coverage, medical insurance premiums while receiving federal or state unemployment compensation and post age-65 premiums for coverage other than Medigap or Medicare supplemental plans. In addition, HSA funds may be used to pay your Medicare parts A and B premiums and for employer-sponsored retiree plans.

Amounts paid for over-the-counter drugs are not eligible for reimbursement from your HSA unless prescribed by a doctor.

Expenses for over-the-counter items such as insulin and diabetic supplies, bandages, band-aids and contact lens supplies are reimbursable from your HSA without a prescription. Refer to IRS Publication 502 for a more complete list of qualified medical expenses.

Can I pay for my spouse's/dependent children's qualified medical expenses from my HSA even if they're not covered by a qualified HDHP?
Your HSA funds can be used to pay for out-of-pocket qualified medical expenses without federal taxes or state tax (for most states), even if the expenses are not covered by your

HDHP. This includes expenses incurred by your family members who qualify as your dependents for tax purposes.

What happens if I take a non-medical distribution or a distribution for a non-qualified expense?
If you take a non-qualified distribution, you are subject to ordinary income tax and a 20-percent penalty tax. If you are age 65 or older, disabled, or your estate pays bills subsequent to your death, the 20 percent penalty may not apply. The IRS requires confirmation that your distributions are for qualified medical expenses. It is your responsibility to keep all documents (such as receipts) that show how you used your HSA, including any for non-qualified transactions, and self-report accordingly on your annual tax return.

How are distributions from my HSA taxed?
Distributions from your HSA that are used exclusively to pay for qualified medical expenses for you, your spouse or tax-qualified dependents are excludable from your gross income. Your HSA funds can be used for qualified medical expenses and will continue tax-free (from federal taxes and state tax, for most states) even if you are not currently eligible to make contributions to your HSA. If you take a non-qualified distribution, you are subject to ordinary income taxes and a 20 percent penalty tax. The 20-percent penalty may not apply if you are age 65 or older, disabled, or for the year in which you die.

Are dental and vision care qualified expenses under an HSA?
Yes. Dental and vision care expenses are qualified expenses, as long as these are deductible from your income tax under the current IRS rules. For example, glasses, contacts and braces are deductible; cosmetic procedures, like cosmetic dentistry, generally are not deductible and would not be considered qualified expenses.

I already have an HSA. I am now enrolled in a PPO plan. Can I use the funds in my HSA to pay for expenses not covered by this plan, such as when I go out of network?
Yes. You always have the option to use your HSA funds however you wish. Distributions used exclusively to pay for qualified expenses continue to be free of federal taxes and state taxes (for most states). You may not, however, make contributions to your HSA because you are not covered by a qualified HDHP at this time. Should you enroll in a qualified HDHP at another time, you may then make contributions to your established HSA.

How soon can I withdraw funds from my HSA for qualified expenses? For example, what if I incur a medical expense in January and need $1,000 for the cost of treatment, before my deductible has been met?
Just like a checking account, you can only access funds once they are posted to your account. As additional funds are added to your account via your deposits (and/or deposits from your employer), you can reimburse yourself for qualified medical expenses paid for out of pocket, so long as those expenses occur after the date of the establishment of your HSA.

If I have a qualified HDHP and an HSA, and I see a doctor for treatment (not a preventive visit), am I charged the typical co-payment for the visit, or am I responsible for paying the full charge?
You are responsible for the full amount charged until you have met your deductible. Only then will co-payments and co-insurance apply. You may use your HSA funds to be

reimbursed for these qualified medical expenses without federal taxes or state tax, for most states.

Is there a time/age by which I must begin withdrawing funds from my HSA?
No, you are never required to withdraw funds from your account. Your HSA can continue to earn interest and grow until you decide to use the funds. If you never use your funds, your spouse may inherit your account and continue its tax-free status, or your beneficiaries will receive the funds as a taxable event as part of your estate.

Both my spouse and I have HSAs. Can we use both accounts to reimburse ourselves for a qualified expense?
No, a single expense can only be reimbursed by a single account. You may however, use both accounts to reimburse yourselves for different expenses. For example, you may use your spouse's HSA to reimburse the entire family's dental expenses, yourself included, and use your HSA to cover expenses incurred prior to reaching the deductible.

Who decides whether the money I'm spending from my HSA is for a "qualified medical expense?"
You are responsible for that decision, and should familiarize yourself with what qualified medical expenses are (as partially defined in IRS Publication 502) and also keep your receipts in case you need to defend your expenditures or decisions during an audit.

Managing Your HSA

What happens if my medical expenses do not reach my deductible?
There are no "use it or lose it" rules with regard to your HSA. Unused funds roll over from year to year. The money in your HSA is all yours. The less money you spend, the more money you have that may earn interest or be invested in investment options.

Do HSA funds remaining at year-end roll over?
HSAs are a convenient and easy way to save and invest for future medical expenses, as unused HSA dollars roll over from year to year. You may invest unused HSA dollars in investment options, providing the opportunity for funds to grow.

Who has control over the money invested in my HSA?
You have full control over the assets in your HSA. When the total funds in your account reach certain limits, you have the option to invest excess monies. The investment choices will be yours to select from the options offered.

What happens to my HSA in the case of divorce?
In case of divorce, an HSA can be transferred between spouses without taxation. This is not considered a taxable distribution. All HSA rules regarding tax-free status of contributions and distributions apply. Consult your personal tax advisor for information regarding how these rules may apply to your personal tax situation.

Do I need to elect COBRA to continue my HSA if I leave my current employer?
While you do not need to continue your qualified HDHP coverage through COBRA, you must maintain qualified HDHP coverage to continue making contributions. You may pay your COBRA premiums with tax-free HSA dollars if you wish.

Your HSA is not subject to COBRA provisions. It is your account to take with you and to maintain as you choose.

Reaching Age 65

What happens to the money in my HSA after I reach age 65?

At age 65 and older, your funds continue to be available without federal taxes or state tax (for most states) for qualified medical expenses; for instance, you may use your HSA to pay certain insurance premiums or your share of retiree medical coverage offered by a former employer. Funds cannot be used tax-free to purchase Medigap or Medicare supplemental policies.

If you use your funds for qualified medical expenses, the distributions from your account remain tax-free. If you use the monies for non-qualified expenses, the distribution becomes taxable, but exempt from the tax penalty.

With enrollment in Medicare, you are no longer eligible to contribute to your HSA. If you reach age 65 or become disabled, you may still contribute to your HSA if you have not enrolled in Medicare.

Death

How do I designate a beneficiary for my HSA?

You should choose a beneficiary when you set up your HSA by completing a Master Signature Card. And as circumstances in your life change, be sure to review your beneficiary designation. You can change your beneficiary by completing a new signature card.

What happens to my HSA when I die?

Your HSA is an inheritable account. What happens to your HSA when you die depends on who you name as your beneficiary.

If your spouse is your designated beneficiary, the account will be treated as your spouse's HSA after your death. The account will continue to be tax-free for qualified medical distributions. If your spouse is covered by a qualified HDHP, contributions to the account may also be made tax-free, up to maximum annual contribution limits.

If you designate someone other than your spouse as the beneficiary of your HSA:
-- The account stops being an HSA on the date of your death;
-- The fair market value of the HSA becomes taxable (without penalties) to the beneficiary in the year in which you die; and
-- The amount taxable to a beneficiary (other than your estate) is reduced by any qualified medical expenses you incurred prior to your death that are paid from the HSA by the beneficiary within one year after the date of death.

If your estate is the beneficiary of your HSA, the value of your account is included on your final income tax return.

If you do not have a beneficiary on file, the funds are payable to the account holder's estate.

Tax Considerations

Is there a limit on how much I may contribute to my HSA and deduct from my taxes each year?

For 2012, the combined maximum contributions to your HSA, including any made by IU Health to your account, are $3,050 if you have individual coverage and $6,150 you have family coverage. If you turn age 55 or older in 2012 or after and are covered by a qualified HDHP, you may add up to $1,000 more as a "catch up" contribution until you are enrolled in Medicare benefits. The maximum annual catch-up contribution is $1,000.

These amounts are valid as long as you are enrolled in the HDHP for the full tax year or enroll before the first day of December, meaning you have held at least one full month of HDHP coverage, and then continue to maintain qualified HDHP coverage for the next 12 months (13 months in total).

The IRS determines these maximum contribution limits annually.

Are there tax penalties if I close my HSA?

There are no tax penalties for closing an HSA. However, if you use your IU Health HSA funds for other than qualified medical expenses, those distributions will be subject to ordinary income taxes, and in some cases, a 20-percent penalty.

When will the penalty be assessed for a distribution for non-qualified expenses?

The 20-percent penalty will be assessed for the year in which you take the distribution for non-qualified expenses. The penalty will be due and payable when you file your annual tax return.

How are distributions from my HSA taxed?

Distributions from your HSA that are used exclusively to pay for qualified medical expenses for you, your spouse or tax-qualified dependents are excludable from your gross income. Your HSA funds can be used for qualified expenses and will continue to be free from federal taxes and states taxes (for most states) even if you are not currently eligible to make contributions to your HSA.

If you take a non-qualified distribution, you are subject to ordinary income taxes and a penalty tax. The penalty may not apply if you are age 65 or older, disabled, or for the year in which you die.

How are distributions from my HSA taxed after I am no longer eligible to contribute?

If you are no longer eligible to contribute because you are enrolled in Medicare benefits, or are no longer covered by a qualified HDHP, distributions used exclusively to pay for qualified medical expenses continue to be free from federal taxes and state taxes (for most states) and excludable from your gross income.

What about taxes on the money in my HSA not used for medical expenses?

All the dollars in your HSA, including earnings on those dollars, are completely free of federal taxes and state taxes (for most states) while in your account. IU Health offers you the option of selecting your own investment options for savings above the minimum required for your transactional (checking) account.

The only time tax is ever owed on principal or interest from your HSA is if the money is distributed for non-qualified expenses prior to your reaching age 65, becoming disabled or upon your death. Even if you use the funds for non-qualified expenses after you are 65 or disabled, you will only be subject to tax on the money you withdraw without penalty. You can always withdraw funds to pay for qualified medical expenses at any time without tax or penalty.

How are domestic partners treated in regard to HSAs?
The IRS does not consider a domestic partner a spouse, regardless of any state law exceptions. Thus, unless your domestic partner qualifies as your dependent under the federal tax laws you cannot withdraw funds tax-free to pay for your domestic partner's qualified healthcare expenses.

However, if you are enrolled in a family HDHP that covers your domestic partner and your domestic partner satisfies the other HSA eligibility rules; they may be able to establish and contribute to their own HSA. Informally, the IRS has indicated that the combined contribution limit that applies to married couples should not be applied to domestic partners. This means that both you and your domestic partner may be able to make the maximum HSA contribution for family coverage to your separate HSAs. You should consult with your personal tax advisor to assess the application of these rules to your personal tax situation.

Rollovers/Transfers, FSAs and HRAs

Can I roll over or transfer funds from my HSA into my IU Health HSA?
Yes. Pre-existing HSA funds may be rolled into an HSA and will continue their tax-free status.

Can I roll over or transfer funds from my HSA to my IRA?
No. You can only roll over or transfer your HSA funds into another HSA.

What is the difference between a rollover and a transfer between HSA accounts?
A rollover or transfer may be used by an individual to move HSA funds from one HSA account to another. Generally, a transfer does not result in the receipt of funds by the account holder; rather, the funds are transferred directly from one HSA custodian to another HSA custodian. In a rollover, the account holder may actually receive the distributed funds from the HSA custodian and then deposit those funds with a new HSA custodian. Other differences between a rollover and transfer include:

> **Frequency:** The IRS limits rollovers to one every 12 months; this limitation does not exist for transfers. When using a rollover to move funds, the amount will be included on the 1099-SA from the distributing HSA custodian. The account holder will demonstrate the completion of the rollover to the new account on his or her tax filing. With a transfer, no 1099-SA reporting is generated.
>
> **Timing:** The account holder controls the timing when using a rollover as the account holder writes a check for the rollover amount and submits it for deposit. In

a transfer situation, the account holder submits the transfer request for the custodian to process**.**

Cost: The costs associated with a rollover are those the individual incurs related to writing and presenting a check for payment. A transfer may have a transaction processing fee assessed by the custodian as detailed in the rate and fee schedule for the account.

What is the difference between healthcare flexible spending accounts (FSAs) and HSAs?
Both HSAs and FSAs allow you to pay for qualified medical expenses with pre-tax dollars. One key difference, however, is that HSA balances can roll over from year to year, while FSA money left unspent at the end of the year is forfeited. If you have both an HSA and an FSA, you must pay certain expenses, such as those that apply to the HDHP deductible, out of your HSA before you may use your limited-purpose FSA.

What is a limited purpose FSA and how does it work in conjunction with an HSA?
A Limited Purpose FSA is an FSA that may only be used to pay for certain permitted healthcare expenses not otherwise covered by your High Deductible Health plan such as:
-- Vision expenses, including glasses, frames, contacts, prescription sunglasses, goggles, vision co-payments, optometrists or ophthalmologist fees and corrective eye surgery
-- Dental expenses, including dental care deductibles and co-payments, braces, x-rays, fillings and dentures
-- Preventive care expenses, including annual physicals, prenatal and well-child care and child and adult immunizations

Working with your HDHP

My doctor just prescribed a medication. Do I have to meet my HDHP deductible before I can be reimbursed for any of my medications?
Prescription medications are covered expenses under a qualified HDHP, but you must meet the deductible before you will be reimbursed by the insurance plan for these expenses. You may use tax-free HSA funds for reimbursement before the deductible is met.

How do I use my HSA to pay my physician when I'm at the physician's office?
If you are still covered by your HDHP and have not met your policy deductible, you will be responsible for 100 percent of the amount agreed to be paid by your insurance policy to the physician. Your physician may ask you to pay for the services provided before you leave the office. You may use your HSA debit card or check book to pay your physician directly from the account. Alternatively, you can pay the physician with your own money and reimburse yourself for the expense from the account after your visit.

If your physician does not ask for payment at the time of service, the physician will probably submit a claim to your insurance company, and the insurance company will apply any discounts based on their contract with the physician. You should then receive an "Explanation of Benefits" from your insurance plan stating how much the negotiated payment amount is, and that you are responsible for 100 percent of this negotiated amount. If you have not already made any payment to the physician for the services provided, the physician may then send you a bill for payment.

Investing Your HSA

May I invest my HSA dollars?

Unlike other healthcare savings accounts, the HSA has no provision insisting you "use or lose" your account dollars at the end of the year. Any funds you do not use in a given plan year remain in your interest-bearing account for future healthcare expenses. Over time, you can build a nest egg of savings. You can elect to move some of your HSA dollars into an HSA Investment Account once you reach a minimum level.

Is the interest earned from my HSA Investment Account taxable income?

No. Contributions, interest, investment earnings and withdrawals (for qualified medical expenses) are not taxed as long as account holders meet IRS eligibility requirements. Current taxes and IRS penalties may apply to nonqualified withdrawals. (For a list of qualified medical expenses, visit the IRS website at www.irs.gov.)

Non-HDHP/HSA Questions

If I live in Vigo County or Vermillion County and I am currently enrolled in the Quality Plan – Out-of-Area, what do I need to do to continue medical coverage after 1/1/12?

Because these counties are now covered counties, you will need to choose either Quality Plan I – Select or Quality Plan II during open enrollment. If you select Quality Plan I – Select, you will also need to choose a primary care physician for yourself and each enrolled dependent.

What is the prescription co-pay for a Tier 4 (Specialty, Bio-med) drug in 2012?

The maximum co-pay for a Tier 4 drug will decrease from $200 to $150 for a 30-day supply.

If I am a Tier 1 employee (full-time base pay less than or equal to $32,496) and I or one of my enrolled dependent is diabetic, what are my prescription co-pays for diabetes prescriptions?

In 2012, your co-pays for diabetes prescriptions filled at an IU Health Pharmacy will be waived.

Is there a second dental plan option?

Yes, there is a "high option" dental plan now available to employees. This plan will have the same employer contribution as the standard plan. The "high option" plan will provide a higher annual maximum reimbursement ($1,500) per member. Members can use non-participating dentists without a decrease in coinsurance for Class I and II benefit levels. Coinsurance levels paid by this plan for Class II benefits will increase to 80 percent.