High Deductible Health Plans and Health Savings Accounts

BlueCross BlueShield Nebraska

The advantages to you of combining a High Deductible Health Plan (HDHP) with a Health Savings Account (HSA)…

- Lower premium contributions
- Tax-free contributions
- Tax-free withdrawals when used for qualified medical expenses
- Tax-free investment earnings

High Deductible Health Plans

An HSA-eligible HDHP is a medical and prescription drug plan that meets certain federal requirements with respect to deductibles and out-of-pocket expenses. If you are enrolled in an HDHP and meet the eligibility requirements, you can fund an HSA to pay for qualified health care expenses on a tax-free basis.

An HDHP is different from a traditional Preferred Provider Organization (PPO) health plan in that an HDHP has a combined deductible for medical and prescription drug expenses.

The calendar year deductible applies to most covered services, including prescription drugs. Prescription drug expenses for you and/or your family will be subject to your plan's calendar year deductible.

Preventive care, such as a routine exam, is generally covered at 100% when a network provider is used. See the Schedule of Benefits Summary for your plan's covered services, deductibles, coinsurance amounts, and out-of-pocket limits.

With an HDHP, you receive care exactly as you would with any Blue Cross and Blue Shield of Nebraska PPO plan.

Health Savings Accounts

An HSA is a tax-advantaged savings account that can be funded by individuals whose only health care coverage is provided through an HDHP. HSA funds used to pay for qualified health care expenses are not taxable. Funds that are not used in a given year carry over to the next year. This allows you to build up funds to cover future health care expenses.

Advantages of an HSA

1. Contributions made to the HSA are tax-deductible.
2. Funds can be invested or spent – your decision. If invested, earnings grow tax-free.
3. Withdrawals are tax-free if used for qualified medical expenses.
4. Unused HSA funds carry over from year to year – no "use it or lose it" rule.
5. You own the account. Even when you are no longer enrolled in an HDHP, the HSA funds are yours.

Eligibility for Contributing

You may establish and contribute to an HSA if you are:

- covered under a qualified HDHP
- not covered by other health insurance, except as specifically allowed
- not enrolled in Medicare
- not claimed as a dependent under someone else's tax return

You are also eligible for an HSA if you have other insurance that pays medical bills, such as automobile, dental, vision, disability and long-term care insurance. Plus, you may have coverage for a specific disease or illness, as well as hospital insurance that pays a fixed amount per day of hospitalization.

Annual Contribution Limits

In 2017, the maximum annual contribution is $3,400 if you have self-only coverage, and $6,750 if you have family coverage. Rollover amounts from previous years do not count toward the maximum annual contribution. The maximum contribution is updated each year to account for inflation.

Individuals between the ages of 55 and 64 can contribute an additional $1,000 above the maximum annual contribution. Once you reach age 65 and enroll in Medicare, you will no longer be able to contribute to the HSA. However, the balance in your account can be used for qualified health care expenses or to pay for certain insurance premiums, like Medicare Part A and B.

Frequently Asked Questions

The following frequently asked questions are based on material provided by the United States Department of the Treasury. To review more information regarding federal guidelines for health savings accounts, visit the U.S. Treasury web site at **http://treasury.gov/resource-center/faqs/Taxes/Pages/Health-Savings-Accounts.aspx**.

1. What are "qualified medical expenses"?

HSA distributions are tax-free if used for qualified medical expenses as defined by Internal Revenue Code Section 213(d). Refer to IRS Publication 502 at **www.irs.gov** for a partial list. Qualified medical expenses include (but are not limited to):

- Health plan deductible and coinsurance amounts
- Medical expenses not covered by your health plan (e.g., eye exam, contacts, glasses, LASIK vision treatment, dental services)
- Prescription drugs and over-the counter medicines (with a prescription)
- Qualified long-term care insurance premiums
- COBRA health care continuation coverage or other medical insurance premiums during periods of unemployment or temporary layoff
- Premiums and expenses for Medicare Part A or B
- Retiree health insurance premiums if age 65 or older

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

You are responsible for that decision, and therefore should familiarize yourself with what qualified medical expenses are (as partially defined in IRS Publication 502). You are also responsible for maintaining records/receipts of your medical expenses in case you need to defend your expenditures during an audit.

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

No. You cannot reimburse qualified medical expenses incurred before your account is established. We recommend you establish your account as soon as possible.

4. Can I use the money in my HSA to pay for medical care for a family member?

Yes, you may withdraw funds to pay for the qualified medical expenses of yourself, your spouse or a tax dependent without tax penalty. This is one of the great advantages of HSAs.

5. Do HSA funds roll over year after year and get invested?

Unlike some other types of accounts, you don't lose HSA funds at the end of the year. The money invested in the HSA rolls over each year.

6. If I am no longer covered under an HDHP, what happens to the HSA funds?

The money in your account belongs to you. If you are no longer covered under an HDHP, further contributions to the account are not allowed. However, you can continue to use the account funds for your qualified medical expenses.

7. If I am covered under my spouse's health plan, am I eligible to fund an HSA?

If your spouse's plan does not meet the HDHP requirements, you are not eligible to contribute to the HSA. If your spouse's plan does meet the minimum deductible and out-of-pocket maximum requirements, you and your spouse can contribute to separate HSAs up to the maximum family contribution amount.

8. Can I fund an HSA even if I have other insurance that pays medical bills?

Yes, you may fund an HSA even if you have automobile, dental, vision, disability and long-term care insurance. You may also have coverage for a specific disease or illness, as well as hospital insurance that pays a fixed amount per day of hospitalization.

9. What happens if I don't use the money in the HSA for qualified medical expenses?

If the money is used for other than qualified medical expenses, the expenditure will be taxed and, for individuals who are not disabled or over age 65, subject to a 20% penalty.

10. What happens to the money in a Health Savings Account after I turn age 65 and am enrolled in Medicare?

You can continue to use your HSA money for out-of-pocket health expenses on a tax-free basis. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. The one expense you cannot use your account for is to purchase a Medicare supplemental insurance or "Medigap" policy.