HIGH DEDUCTIBLE HEALTH PLAN (HDHP)
AND HEALTH SAVINGS ACCOUNT (HSA)
SUMMARY AND FAQs

Health Savings Account (HSA) Summary

A Health Savings Account (HSA) is a savings account that allows you to set aside money on a pre-tax basis for health care. It is intended to cover current and/or future expenses. You must be enrolled in a High Deductible Health Plan (HDHP) to contribute to an HSA. An HSA differs from other plans in several respects:

- An HSA rolls over from year to year (there is no “use it or lose it”).
- You receive interest on your money; you can also transfer money out to invest in mutual funds.
- You own the account.

An HSA is a great savings vehicle. Why? Because there are three levels of tax savings with an HSA:

- Contributions are tax-free.
- Money spent (also called “distributions”) on qualified medical expenses is tax-free.
- Any money earned in the HSA is tax-free.

There are four federal requirements to be eligible for an HSA. The HSA enrollee:

- Must be covered simultaneously by a qualified HDHP (the City’s Plan A is a qualified HDHP);
- Cannot be covered by any other health insurance plan, such as a spouse’s plan;
- Cannot be enrolled in Medicare; and
- Cannot be claimed as a dependent on someone else’s federal income tax return.

The money you contribute to your HSA, either through payroll deductions or other deposits, is yours. The HSA account is in your name and you have sole rights to this account, regardless of what company you work for. Any contributions the City of Carmel makes to your HSA are also yours to keep, even if you leave the City’s employ. It will not be forfeited due to termination of employment. However, due to its tax-preferred status, there are rules about how you can spend the money in your HSA.

Traditional medical costs, such as routine medical care and the diagnosis and treatment of disease are allowable. In addition, many expenses that may not be covered by traditional health insurance can be paid for through HSA accounts. These include eye care, dental care, vision care, COBRA premiums, qualified long-term care services, Braille books, seeing-eye dogs and more. A complete list can be found in *IRS Publication 502 Medical and Dental Expenses* for the tax year in question. You may be required by the IRS to prove that all expenditures from your HSA are allowable expenses.

If you use HSA money for non-medical expenses and you are under age 65, you will incur a 20% penalty in addition to owing regular federal income tax on these amounts. After age 65, there is no such penalty, but regular federal income taxes will apply for non-medical expenditures.

HDHP/HSA FAQs

What is a high deductible health plan?

Plan A, the high deductible health plan (HDHP), is a federally-regulated, consumer-driven health plan with a $2,000 (individual) or $4,000 (family) deductible. You pay all medical expenses up to the applicable annual deductible. As long as you stay within the Anthem network, the Plan pays 100% of all eligible medical expenses after you meet your deductible.

An HDHP may be combined with a tax-advantaged health savings account (HSA) set up through a designated financial institution.   The HDHP combined with the HSA gives you greater flexibility, control and discretion over how you use your health care dollars.

What are the main differences between the HDHP (Plan A) and the traditional PPO (Plan B)?

The main differences between the plans are:

- The HDHP has significantly lower bi-weekly premiums than Plan B;
- The HDHP deductibles and out-of-pocket maximums are higher;
- The HDHP has no copays; and
- The HDHP has 100% coinsurance as long as you stay in-network (this means the plan pays 100% of eligible expenses after you meet your in-network deductible).

How much less expensive are the HDHP premiums?

The HDHP would cost you approximately 37% less than Plan B in bi-weekly premiums. For example, in 2020 if you have family medical coverage under Plan B, you will pay $266 in bi-weekly premium. Under the HDHP, your bi-weekly premium for family medical coverage will be $168.

How is the deductible in the HDHP calculated when there is more than one person on the Plan?

Unlike Plan B, the deductible in the HDHP is not broken down on a per-person basis. All qualified medical expenses for any one individual in a family, or any combination of individuals in a family, may be applied toward the deductible. In other words, in the family plan you will be responsible for the first $4,000 of qualified in-network medical expenses, regardless of which family member incurs them.

Does the HDHP have a carry-over deductible?

No. Regardless of which health plan you are enrolled in, the deductible starts over on January 1st of each year.

What is the most I would spend out-of-pocket for medical services and prescriptions during one year in the HDHP?

Your annual out-of-pocket total for qualified medical services and prescriptions in the HDHP would match the applicable deductible for your situation. For example, if you and your spouse have coverage under the HDHP, the most you will pay for qualified in-network medical services would be $4,000 in 2020. Keep in mind the out-of-network deductible for an employee and spouse would be $8,000. Unlike Plan B, there are no prescription drug, office visit, or emergency room copays in the HDHP. So, once you have met your deductible each year, as long as you remain in-network, all qualified medical services and prescriptions are provided at no cost to you throughout the remainder of that year.

If I am in the HDHP, do I still need to show my insurance identification card to doctors and pharmacies?

Yes. In order to receive discounts for qualified in-network medical services through the Anthem network, you will need to show your insurance card to your healthcare providers. They will then process your claim through Anthem and let you know the total charges. The same applies to prescriptions. You will need to show your insurance card when filling a prescription so the pharmacy will know to collect the full cost rather than a copay. After your deductible is met each year, as long as you remain in-network, all additional qualified medical services and prescriptions are covered at 100%.

What if I use the Anthem Rx mail prescription service?

Rather than paying a copay, you would be required to pay the full cost of any mail-order prescriptions, up to your applicable deductible. After the deductible is met each year, all eligible mail-order prescriptions are covered at 100%.

Are the dental and vision plans part of the HDHP?

No. The dental and vision plans are separate and independent plans which exist alongside both the HDHP and Plan B. They have their own benefit structures, copays, deductibles and out-of-pocket limits. The deductibles on vision and dental do not apply to your medical deductible. While the premium for the vision plan is included in your medical premium under either plan, the dental premium is paid through a separate payroll deduction. Therefore, you can opt in or out of dental coverage independent of medical coverage.

Will my basic preventive (wellness) services, such as physicals and immunizations, be covered by the HDHP?

Yes. The Patient Protection and Affordable Care Act (PPACA) requires that all age-appropriate preventive and women's preventive services be covered at 100% (not subject to a copay or deductibles) under both the HDHP (Plan A) and Plan B. For a complete list of preventive services covered at 100%, go to www.healthcare.gov/center/regulations/prevention/recommendations.html.

Can I have a medical flexible ("flex") spending account if I am in the HDHP?

No, you cannot have a medical flex account with the HDHP; however, you have the option to open a health savings account (HSA) to pay your out-of-pocket expenses. You are, however, allowed to have a dependent care flex account with the HDHP.

Are there any other incentives for electing the HDHP?

Yes. The City will make a bi-weekly deposit into your HSA account to help you meet your deductible and/or other eligible out-of-pocket expenses. For 2020 the incentive will be $23.08 per pay for Employee Only coverage, $30.77 per pay for Employee/Spouse or Employee/Child(ren) coverage, and $38.47 per pay for Family coverage. This equates to $600, $800 or $1,000 annually.

What is a health savings account?

A health savings account (HSA) is a federally-regulated account that allows you to make pre-tax contributions through payroll deposit (as well as additional tax-deductible contributions if you wish) that can be used to pay for qualified medical expenses. You are able to carry over any unused balance from year to year, even into retirement. The funds remain untaxed, as long as they are used for qualified medical expenses.

What are the general features of an HSA?

The HSA is used in conjunction with the HDHP to pay out-of-pocket qualified medical expenses. The City will deposit your pre-tax bi-weekly contributions, as well as any bi-weekly incentives, into the HSA account you open or already have opened at the designated financial institution. The account will earn interest, and you will have the option to invest the money within the account. All withdrawals will be tax free, as long as the money is used for qualified medical expenses. Unused funds and interest are carried over from year to year, even when you change plans, employers or retire. There is no limit to the amount that can be carried over.

Is the HSA the same as a medical flex account?

While you are able to use the HSA for the same qualified medical expenses as a flex account, there are two important and distinct differences:

- Unlike the flex account, you do not lose any unused money at the end of the year. Any balance is carried over from year to year and can be used for future medical expenses.
- Unlike the flex account, all of the money directed to an HSA is not available on January 1st. You cannot use HSA funds until after the money is actually deposited into the account.

Am I eligible to open an HSA?

You are eligible to open an HSA if you are covered by the HDHP (Plan A), are not covered by another health insurance plan, are not enrolled in Medicare and cannot be claimed as a dependent on someone else's tax return.

How and when do I open my HSA?

If you do not already have your HSA opened through the designated financial institution, you should open the account before January 1st, 2020 - representatives from the financial institution will make sure you have the opportunity to do so. You do not need to deposit any money at the time the account is opened.

Are there any fees attached to the HSA?

There are no monthly or transaction fees for your HSA, as long as you use electronic banking features. You will pay fees if you wish to write paper checks on the account or if you overdraw the account.

How much money can I deposit into my HSA?

In 2020 an individual can deposit up to $3,550; a family can deposit up to $7,100. These limits include both your contributions and the City's incentive contributions. In other words, the total deposits for the year must not exceed these amounts. For example, if you are an individual for whom the City makes a $600 annual incentive contribution into your HSA, you cannot deposit more than $2,900 during the year ($3,400 - $600). If you are age 55 or older you are eligible to make an additional $1,000 annual catch-up contribution.

How does the money get into my HSA?

During open enrollment (October 1st through October 31st) you will indicate how much you want deducted from each paycheck and directly deposited into your HSA. The City's incentive contributions will also be made bi-weekly by direct deposit.

Can I open my HSA at any bank other than the designated financial institution?

No. All employer and employee HSA deposits must go to the same designated financial institution. If you want to transfer the money after it is deposited, you may do so at your own discretion. Remember, however, that the IRS may require you to account for all HSA funds.

Can I make additional contributions to my HSA, outside of the direct deposits made from my paycheck?

Yes. You can make additional contributions into your HSA directly through the designated financial institution any time during the year. These additional deposits are deductible on your State and Federal income tax returns. If you make contributions outside of payroll deduction, you will need to keep in mind the maximum annual amount you are allowed to contribute and adjust accordingly.

Can I change my payroll-deducted contribution during the year?

You can increase or decrease your contribution at any time during the year by submitting your request in writing to Payroll. If you increase your contribution during the year, you will need to keep in mind the maximum annual amount you are allowed to contribute and adjust accordingly.

How do I pay medical bills with my HSA?

The preferred methods of bill payment are either through debit card or online bill pay. You can write checks on the account, although you will have to pay a fee for those checks. You can also withdraw funds from the account at a branch ATM machine - however, for IRS purposes, you should make certain you have medical expenses that either match or exceed any amount withdrawn through an ATM.

What if I don't have enough in my HSA to pay a medical bill?

If you have a qualified medical expense early in the year, before enough has accumulated in your HSA, you can pay the bill with other funds (savings, checking, etc.), then reimburse yourself from your HSA later in the year when enough money is available in the account. Or, you can ask your healthcare provider to set up a payment plan, making payments as funds are deposited into your HSA (this can be set up as an automatic online payment directly to the provider).

Do I have to keep transaction records or receipts with an HSA?

Yes. Even though the participating financial institution can help you make corrections if you deposit too much or use funds for an ineligible expense, you need to remember that the HSA is your account and you are ultimately responsible for incoming and outgoing funds. At the end of each year you should have documentation to prove that the total amount withdrawn from your account equals your qualified medical expenses for the year.

What if I take out money for an ineligible expense?

If you realize you withdrew money for a non-eligible expense, you will have a window in which to put the money back into the account. If you fail to do so, the ineligible amount will be subject to both income tax and a 20% penalty.

How do I know if the HDHP/HSA is right for me?

Each employee needs to closely examine his or her specific situation. In broad terms, you should at least consider the HDHP (Plan A) if your annual medical expenses are minimal and/or limited to preventive care. On the other hand, you should consider Plan B if you are not in a financial position to pay the annual deductible in the first months of the year.

Use the 2020 Plan A/Plan B Cost Comparison Worksheet to help you determine which Plan best suits your needs.