CITY OF NORWALK

FREQUENTLY ASKED QUESTIONS

High Deductible Health Plan-Health Savings Account (HDHP-HSA)

- **What is a High Deductible Health Plan?**

  A High Deductible Health Plan (HDHP) is a new health plan product. When it is combined with a Health Savings Account (HSA), it provides insurance coverage and a tax-advantaged way to help save for future medical expenses.

  The HDHP/HSA gives you greater flexibility and discretion over how you use your health care dollars.

- **What are the general features of an HDHP?**

  HDHP's have a higher annual deductible than traditional health plans. For example, in 2014 the City's HDHP Program has a minimum annual deductible of $2,000 for Self coverage and $4,000 for Self and Family coverage.

  The City's HDHP also has an out-of-pocket maximum, which is $2,000 for Self coverage and $4,000 for Self and Family coverage for in-network, and $4,000 for Self coverage and $8,000 for Self and Family coverage for out-of-network.

  This means that if you enroll in the HDHP you will not have to pay more than the plan's annual "out-of-pocket" limit of $2,000 for **in-network** Self Only coverage and $4,000 for **in-network** Self and Family coverage. It is important to remember that once the limit is met, you will **not** incur additional out-of-pocket covered medical expenses, including doctor visit co-payments and prescriptions which may be excluded from a traditional plan's limit.

  Service delivery within the HDHP Program will be offered by CIGNA using the same Point of Service (OAPOS) network as we currently use.

  In the HDHP, you will have the choice of using either in-network or out-of-network providers. Using in-network providers will save you money. With the exception of preventive care, the annual deductible must be met before the plan benefits are paid.

- Preventive care services are generally paid at first dollar coverage.

- **<u>Who would benefit from changing to such a plan, and why? And, who would NOT benefit from such a plan and why?</u>**

  If your medical expenses are generally limited to preventive care, you should definitely consider an HDHP, especially if you also have the ability to make additional voluntary contributions to your HSA to accelerate the accumulation of funds for future medical expenses. If your in-network medical expenses would trigger the limit, you may also want to consider an HDHP, if the nature of those expenses is such that you continue to pay out-of-pocket costs in your traditional plan even after you hit your traditional plan's lower limit. This can happen because traditional plans may exclude drug and other costs from their limits but an HDHP cannot. With an HDHP, once you hit the limit, there is no out-of-pocket expense for covered in-network services. If you have significant medical expenses that do not approach limits, you may be better off in a traditional OAPOS plan.

  In addition, the following are a number of steps you should take in order to make an informed decision as to whether or not an HDHP/HSA is the right health program option for you:

  - Determine the premium you would pay out of your pay check for both the HDHP and OAPOS. (These amounts will be provided in the Open Enrollment period)
  - Review the plan design elements: deductible, out-of-pocket limits, the amount the plan (The City) contributes to your HSA
  - Subtract the annual plan contributions from the annual plan deductible to determine your true out-of-pocket cost.
  - Review the eligibility considerations for an HSA
  - Determine if your financial resources allow you to make additional tax-deductible voluntary contributions
  - If you are between the ages of 55 and 65, determine whether or not your financial situation will allow you to make "catch up contributions".

- **<u>What is the main financial risk (i.e. If you have an expensive year medically, how much will it cost you under plan x, or plan y)?</u>**

  Your out-of-pocket expenses for covered medical services are limited to the in-network limit of $2,000 for Self Only coverage and $4,000 for Self and Family coverage. It is important to remember once the limit is met, you will **not** incur additional out-of-pocket covered medical expenses, including doctor visit co-payments and prescriptions. Out-of-network amounts are $4,000 and $8,000 respectively.

- **<u>Are bills for dental/vision work applicable to the HDHP deductible?</u>**

  No. Dental and vision coverage is a separate plan, and those claims would be paid as provided under those benefit plans. Even though claims regarding dental coverage and vision coverage under EyeMed are not part of the HDHP plan, you can use your Health Savings Account to pay the part of the bill that is your responsibility. However, the amount you pay for those claims does not go towards the HDHP deductible. The deductible is for medical/pharmacy claims only.

- **<u>Will switching to the HSA-eligible plan change anything with the dental insurance?</u>**

  No. Dental coverage will remain the same. The dental plan is a stand-alone plan that is independent of the HDHP account. The dental plan has its own deductible and co-insurance amounts, and is not affected by enrollment in a HDHP plan.

- **<u>What change will I encounter when I go to the doctor's office?</u>**

  Inform the office that you have a HDHP insurance plan. Give the office your medical ID card, which indicates that payment should not be required at the time of service. The claim will be sent to CIGNA for processing. CIGNA will send the doctor and you an explanation of benefits (EOB) showing the discounted rate the doctor should charge. You will then receive a bill from your doctor.

- **<u>Under the HDHP how does the pharmacy coverage work?</u>**

  The pharmacy coverage remains administered by Express Scripts. Pharmacy expenses under the HDHP plan are generally treated the same as a medical claim under the HDHP. You are responsible for the cost of the prescription until you satisfy the deductibles and then coverage is at 100%. The traditional copay structure does NOT exist under the HDHP.

- **<u>What if I am on my spouse's coverage and wish to enroll in the HDHP/HSA?</u>**

Individuals who are covered by another health plan that is not an HDHP/HSA may not make HSA contributions. So, if you are on your spouse's coverage and wish to enroll in the HDHP/HSA you should disenroll from your spouse's plan.

<u>Health Savings Account (HSA): The Basics</u>

- **<u>What is a Health Savings Account?</u>**

  An HSA is a tax-sheltered trust account you own for the purpose of paying qualified medical expenses for yourself, your spouse, and your dependents.

- **<u>What are the general features of an HSA?</u>**
  - Your own HSA voluntary contributions are tax-deductible. Your own HSA contributions are either tax-deductible or pre-tax (if made by payroll deduction). See <u>IRS Publication 969</u>.
  - Interest earned on your account is tax-free.
  - Tax-free withdrawals may be made for qualified medical expenses.
  - Unused funds and interest are carried over, without limit, from year to year.
  - You own the HSA and it is yours to keep - even when you change plans or retire.
  - Your HSA is administered by a trustee/custodian.

- **<u>How will an HSA plan save me money?</u>**

  An HSA plan may save you money through lower premiums, tax savings, and money deposited in your account, which can be used to pay your deductible and other out-of-pocket medical expenses in the current year or in the future.

- **<u>What is a qualified medical expense?</u>**

  Generally qualified medical expenses will be determined by the plan in conformance with IRS requirements. See IRS Publication 502 for a list of qualified medical expenses. Please note some insurance premiums cannot be paid for by HSA funds.

- **<u>Does the money in my HSA earn interest?</u>**

  Yes. Your HSA funds are invested. Depending on which HSA plan you are enrolled in, the interest rate and payment of interest will vary. Your earnings are tax free.

- **<u>Can the unused funds in my HSA be rolled over each year?</u>**

  Yes. Your funds will accumulate without a maximum cap. However, the annual limit you can contribute to the HSA may not exceed the maximum contribution amount set by the IRS, plus "catch up" contributions for those ages 55 to 65.

- **<u>What happens to my HSA if I leave my health plan or job or switch to a traditional plan?</u>**

  You own your account, so you keep your HSA, even if you change health plans or leave the City. However, if your HSA was fully funded and you leave the HDHP during the year, then you will have to withdraw some of the contributions from the account. You must pay income tax on your excess contributions and income tax on any earnings of the excess contribution. There is no 20% penalty on excess contributions.

  If you no longer are enrolled in an HDHP you are not eligible to make contributions to your HSA, but you may request withdrawals for qualified medical expenses.

- **<u>Are there any fees associated with the Health Savings Account?</u>**

  Yes, there are administrative fees; however, they are paid by the City. If you elect to have a paper checking account with Chase there is a fee for the account.

- **<u>What is the process for setting up an HSA?</u>**

  First, you must elect a high deductible health plan. Once the plan (the City) receives your election, your account will be set up for you. You will then receive a Welcome Kit and Debit card in the mail. The City will make its' contribution to your account on or about the first week of January.

- **<u>Does the HDHP decide which company can administer my HSA?</u>**

  All plans offering an HDHP are required to have a financial trustee who can administer the HSA. However, you can decide which company will administer your HSA and what type of investments you can make with your account once it is established.

- **<u>Who is the City using for the financial trustee?</u>**

  The City is using CIGNA's financial trustee JP Morgan Chase Bank. There are many advantages to using CIGNA's partner. They include:

  <u>Specialized customer service representatives</u>
  - Respond to questions about both the medical plan and the HSA (including account balance and transaction information) through a single convenient 800 number, available 24/7.

  - Direct individuals to medical resources that include health and wellness programs, disease management programs, and health coaching that will help them maintain a healthier lifestyle.

  <u>Website – myCigna.com</u>
  With **myCigna.com**, customers can:
  - View and manage account activity 24/7/365
  - Contribute to their HSA account
  - Request additional cards
  - Download monthly statements
  - Set up email and text alerts
  - View and pay health-care related bills right online
  - Manage and categorize eligible expenses
  - Set-up direct deposit of reimbursement funds to personal checking or savings accounts

  <u>Claim payment</u>
  - Individuals can elect HSA automatic claim forwarding (ACF) to pay their share of any medical claims directly from the HSA. This election can be turned on or off at any time.
  - An integrated single EOB is provided when HSA participants select automatic claim forwarding. This allows them to view data on medical expenses paid by the plan, as well as expenses paid directly by the HSA.
  - Online bill pay lets individuals schedule, monitor and manage payments directly from the HSA online, anytime.

- **<u>Where can I invest the money in my HSA?</u>**

  You can invest the money in your HSA in bank accounts, annuities, certificates of deposits, stocks, bonds, mutual funds, certain types of Bullion or Coins (please see section 408(m)(3) of the IRS Code). However, your HSA custodian or trustee may offer only some of these types of investments.

- **Is my money safe in this account?**

  The money market account portion of your HSA is normally insured by a Federal institution (e.g., FDIC, NCUA, etc.) Other types of investments, for instance, stocks, bonds and mutual funds, are subject to normal investment risk.

- **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.

HSA: Contributions

- **What is the total amount I can contribute to my account (including the City's contribution) and my voluntary contributions)?**

  The IRS sets the maximum contribution limits. The maximum annual contribution limit for 2014 is $3,300 for Self Only coverage and $6,550 for Self and Family coverage.

  If your HDHP was effective on January 1st, the total amount you can contribute to your account is the maximum contribution amount set by the IRS.

  If your HDHP is effective after the first day of the month, you may make or receive a full year's contribution to your HSA for partial year coverage as long as you maintain your HDHP enrollment for 12 months. If enrollment is less than 12 months, the tax benefit is lost and a 10% penalty is imposed. There is an exception for death or disability. Previously, enrollees' contributions were pro-rated based on the number of full months their HDHP was in effect.

- **What is the amount of the plan's premium pass through (City's contribution) to the HSA?**

  The amount is determined in the various union contract negotiations. For 2014, the City's contribution to the HSA will be 65% of the applicable deductible or $1,300 for Self or $2,600 for Self plus family coverage.

- **When is the City's contribution made to the HSA?**
  The City amount is deposit at the beginning of each calendar year.

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

  First, determine the maximum allowable contribution to your HSA (please see the first question above). Second, subtract the amount the plan puts into your HSA through the plan's premium pass through (City's contribution). The remaining amount is what you can voluntarily contribute.

- **What happens if I contribute more than my maximum allowable contribution?**

  You may withdraw the excess amount and any earnings on the excess amount prior to April 15th of the following year. However, you must pay income tax on your excess contributions and income tax on any earnings of the excess contribution. There is no 20% penalty on excess contributions.

- **What happens if I don't withdraw my excess contributions prior to April 15th of the following year?**

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

- **How is the HSA maximum contribution calculated?**

  By statute, the annual HSA contribution cannot exceed the maximum contribution amount set by the IRS; however, additional contributions, called catch-up contributions, are available to those between the ages of 55 and 65.

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

  Catch-up contributions are only available to those between the ages 55 and 65. The amount of additional catch up contributions allowed for 2014 is $1,000. If you are covered by your HSA for the entire year, you may deposit the entire catch-up amount starting with the year you turn 55. In the year you enroll in Medicare, you must pro-rate your catch-up contribution for the number of months you had your HSA, prior to the month your Medicare enrollment is effective.

- **How do I contribute to my HSA?**

  You may contribute your own money to your account by making a lump sum contribution or periodic payments at any time, in any amount up to a maximum limit established by the IRS. However, your trustee/custodian can impose minimum deposit and balance requirements. You can claim your total amount contributed for the year as an "above the line" tax deduction when you file your income taxes. Your own HSA contributions are either tax-deductible or pre-tax (if made by payroll deduction). See IRS Publication 969. You have until April 15 of the following year to make HSA contributions for the prior year. If you are between the ages of 55 and 65, you can make additional catch-up contributions.

- **Can we make voluntary contributions to the HSA via payroll deduction?**

  Yes, Employees who are enrolled in HDHPs are eligible to make pre-tax allotments via payroll to their HSAs.

- **Do I have to continue to fund my account each year?**

  No. You are not required to contribute to your account. However, there may be a minimum balance required to maintain your HSA.

- **Can I contribute to another person's HSA?**

  Yes, anyone can contribute to an HSA. However, the tax benefit from such a contribution is gained by the person receiving the contribution, not to the person giving the contribution.

- **Are investment options available for dollars remaining in my HSA?**

  Yes, investment options are available after you have $2,000 in your account.

HSA: Coverage

- **What expenses can I pay for with my HSA?**

  Your HSA can be used to pay for "qualified medical expenses," as defined by IRS Code 213(d). These expenses include, but are not limited to, medical plan deductibles, diagnostic services covered by your plan, long-term care insurance premiums, and health insurance premiums if you are receiving Federal unemployment compensation, LASIK surgery and some nursing services. Please note only some insurance premiums are considered "qualified medical expenses."

  When you become Medicare enrolled you can use the account to purchase any health insurance other than a Medigap policy. You may not, however, continue to make contributions to your HSA once you are Medicare enrolled.

  For the complete list of IRS-allowable expenses, you can request a copy of IRS Publication 502 by calling 1-800-829-3676, or visit the IRS website at www.irs.gov and select "Forms and Publications." Please note, however, while health insurance premiums are listed as an allowable expense they are not reimbursable from HSAs, unless you are receiving Federal unemployment compensation.

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

  Yes. You may withdraw money from your HSA for items other than qualified health expenses, but it will be subject to income tax and, if you are under 65 years old, an additional 20 percent tax penalty on the amount withdrawn.

- **If you have an HDHP/HSA and go to the doctor for a visit, not preventive service, on the day the plan coverage begins, are you charged the typical co-payment visit or are you responsible for paying the full doctor charge as if you had no insurance?**

  You are responsible for the full amount until you meet your deductible, then generally coverage is 100% for in-network expenses. If you use an in-network provider, the amount you are charged is limited to the contracted amount the provider agreed to.

- **Is it true you can use money from your HSA for even non-preferred providers?**

  Yes, money from your HSA can be used to pay for all qualified medical expenses. You will usually save money, however, if you use network providers. See IRS Publication 502 for a list of eligible expenses.

- **I have a Self Only health plan. Will my spouse's otherwise uncovered medical expenses be payable from my HSA, the way they are from my current FSA?**

  Yes, you may use the money in your HSA to pay your spouse's or other family members' uncovered medical expenses. However, you are not allowed to have both an HSA and a Health Care FSA at the same time.

- **What happens during the year, while covered under an HDHP/HSA, when one changes from Self Only coverage to Self and Family coverage or vice versa based on a qualified life event?**

  You will be able to continue contributing to your HSA. The amount you are permitted to contribute will change from the Self Only to Self and Family contribution or vice versa, prorated appropriately for the year.

HSA: Eligibility

- **Who is eligible for an HSA?**

  You must participate in a High Deductible Health Plan, have no other insurance coverage other than those specifically allowed, and not be claimed as a dependent on someone else's tax return in order to be eligible for an HSA. Some examples of other coverage that would cause ineligibility are: a health care flexible spending account (HCFSA), a spouse's FSA, a spouse's family enrollment in an HMO, other non-high deductible health insurance coverage, TRICARE, Medicare, or receipt of VA benefits within the previous three months. You can still have dental, vision and long-term care insurance policies.

- **<u>Must a participant in a High Deductible Health Plan have no other insurance coverage other than those specifically allowed, and not be claimed as a dependent on someone else's tax return in order to be eligible for an HSA?</u>**

  Correct.

- **<u>If we apply during Open Enrollment Season, and then find we are not eligible for an HSA, can we cancel?</u>**

  It is important to review eligibility requirements before you enroll. If you have not used any benefits or received a plan contribution to your HSA, you may cancel your enrollment no later than 60 days after the effective date of your enrollment, and you may enroll in another plan with a retroactive effective date.

- **<u>I carry the health insurance for my family, but I file jointly with my husband on my Federal taxes. Does this mean I am not eligible?</u>**

  You are eligible. Filing jointly as a spouse does not mean you are a dependent on your husband's tax return.

- **<u>Can I open separate HSA accounts for my minor dependent children?</u>**

  No, you cannot open separate HSA accounts for your minor dependent children.

<u>HSA: Withdrawal</u>

- **<u>What expenses can I use for my HSA?</u>**

  You can use the money in your account for qualified medical expenses. See IRS Publication 502 for a full list. Keep in mind health insurance premiums, which are listed, are generally not reimbursable.

- **<u>When can I use my HSA?</u>**

  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 amount currently in your account.

- **<u>Will I have to pay out of my pocket at the time of service?</u>**

  It depends. Please see the health plan's brochure for specific information about receiving medical care.

- **<u>How will the HSA be paid out?</u>**

  It depends on the arrangements your health plan has with its providers. Usually, you can access your account in one of three ways: debit card, check, or withdrawal request.

- **<u>Is there a minimum reimbursement amount I can request from my HSA?</u>**

  Yes. Funds will not be disbursed until your reimbursement totals at least $25 or a higher amount based on the rules of the trustee administering the HSA.

- **<u>Do I have to use my HSA to pay for my annual physical or flu shot?</u>**

  No. Preventive care is covered at no cost.

- **<u>Can I use my HSA to pay for medical services provided in other countries, such as Mexico and Canada?</u>**

  Yes.

- **<u>What if my medical expenses are more than my health savings account?</u>**

  You will pay any difference between the balance of your HSA and the plan's deductible. Please consult the plan's brochure for more information.

- **<u>How soon can you withdraw funds from your HSA for medical expenses? For example, if you have surgery in January and need $2,000 for your deductible, are you able to pay the deductible then (as in the case of a health care flexible spending account, HCFSA) or do you have to wait until your account has accumulated $2,000?</u>**

  You have to wait until $2,000 is accumulated. Just like a checking account, you can only draw out what is in your account. The City will contribute its share at the beginning of the plan year and you can contribute additional funds up to the maximum amount permitted by the IRS. Because the City's contribution is made at the beginning of the plan year that amount are available immediately.

- **<u>What are my options if I withdraw money from my HSA for an expense I thought was a qualified medical expense, and I find out later the expense is not a qualified medical expense?</u>**

  You can return the money to the HSA if there is clear and convincing evidence the withdrawal was a mistake of fact. You must repay this money before April 15th of the year following when you knew or should have known that the withdrawal was a mistake.

- **<u>Do I have to keep my receipts showing what I withdrew from my account?</u>**

  Yes, you should keep your receipts. If you exceed your deductible, you may need the receipts to send to your HDHP. If you are audited by the IRS, you may need to explain your HSA expenditures.

- **If I don't have enough money in my HSA and I paid out of pocket for a medical claim, how do I reimburse myself?**

  A: You have two options. You can to go an ATM and use your MasterCard debit card to withdraw the cash. If you elected to receive a checkbook, you can write yourself a check to reimburse yourself. Be sure to keep receipts of your medical expense to prove the withdrawal was for a qualified expense.

- **Can Long Term Care (LTC) premiums be paid from the HSA account money?**
  Yes. There is a long list of eligible expenses that can be paid from the HSA account money, and long term care premiums are on that list. You can get the complete list from the IRS web site, **www.irs.gov**.

HSA: IRS Tax Questions

- **What are the tax benefits of an HSA?**

  Tax benefits are three-fold: your additional voluntary contributions are pre-tax or tax-deductible*, interest earned is tax-free, and HSA distributions are tax-free if they are used to pay for qualified medical expenses.

  * Contributions are tax-deductible on your Federal tax return. Some states do not recognize contributions to an HSA as deduction. Your own HSA contributions are either tax-deductible or pre-tax (if made by payroll deduction). See IRS Publication 969 .You **should consult your tax advisor.**

- **Are heath plan contributions to my HSA considered taxable income and are they tax-deductible?**

  "Premium pass through" (City's contribution) payments are not considered income, and you cannot deduct them on your income tax return.

- **May voluntary contributions to an HSA, while enrolled in an HDHP, be deducted pre-tax from my paycheck?**

  Employees who are enrolled in HDHPs are eligible to make pre-tax allotments to their HSAs.

  Disclaimer: The City has made its best effort to ensure the accuracy of these responses; however, in the event there is a conflict between these responses and the Summary Plan Descriptions and/or union contracts, those sources will prevail.