

# Health Savings Accounts

Handbook for Individuals and Families



**OptumHealthBank**<sup>SM</sup>

# Putting the Savings in Health Insurance



For many Americans buying their own health insurance, traditional plans may not be the most affordable, or even the best, option. The copay plans that have been the backbone of health insurance for such a long time are great — especially when someone else, like an employer, helps share the costs.

It just doesn't always work that way when you buy your own insurance. But the bottom line is the same: You and your family need health insurance coverage.

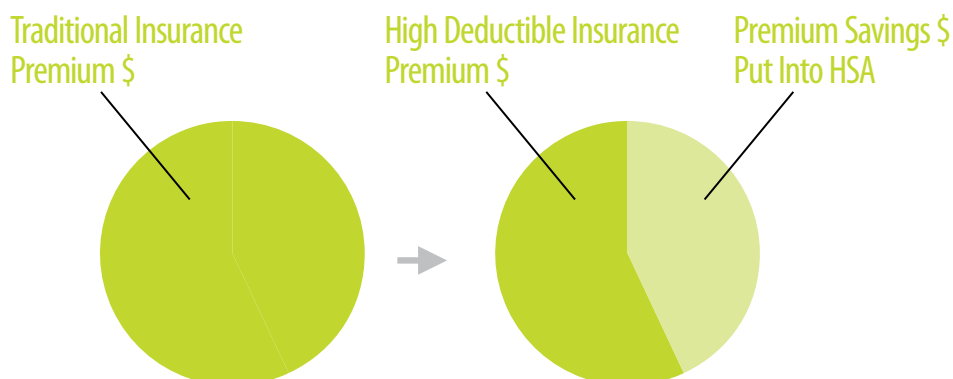
## A new lower-cost solution

Would you be interested in a new kind of health insurance plan that offers quality coverage and lets you save on your income taxes?

- A plan that gives you and your family more control over how you spend your health-care dollars?
- An often lower-cost alternative to traditional copay insurance that still gives you and your family coverage that you need, when you need it?
- One that's rapidly growing in popularity among the millions of Americans who are faced with buying their own health insurance?

Then you need to know more about health savings accounts (HSA).

## How HSA plans work



# We Have the Answers

## Frequently asked questions about HSA plans

### HSA and Eligibility

#### What is an HSA?

A health savings account (HSA) is a tax-favored savings account created for the purpose of paying medical expenses.

- **Tax-deductible**  
Contributions to the HSA are 100% deductible (up to the legal limit) — just like an IRA.
- **Tax-free**  
Withdrawals to pay for qualified medical expenses are not subject to Federal income tax.
- **Tax-deferred**  
Interest earnings accumulate tax-deferred, and if used to pay qualified medical expenses, are tax-free.
- **HSA money is yours to keep**  
Unlike a Flexible Spending Account, unused money in your HSA isn't forfeited at the end of the year; it continues to grow, tax-deferred.

#### Who can have a Health Savings Account?

The individual must be:

- 1) Covered by a high-deductible health insurance plan;
- 2) Not be covered by any other health plan\* (such as a spouse's plan) that is not a high-deductible health plan;
- 3) Not enrolled in Medicare; and
- 4) Not be claimed as a dependent on another person's tax return.

\*Exceptions: Other health plan does not include coverage for the following: accidents, dental care, disability, long-term care, and vision care. Workers' compensation, specified disease, and fixed indemnity coverage are also permitted.

#### What is high-deductible health insurance?

A health insurance product that has minimum annual deductibles and maximum out-of-pocket limits.

- **Limits for 2009:**

	<b>Minimum Deductible</b>	<b>Maximum Out-of-Pocket</b>
Single	\$1,150	\$ 5,800
Family	\$2,300	\$11,600

- **Future Limits**

These minimums and maximums may be adjusted annually, based on changes in the Consumer Price Index (CPI).

#### How does an HSA plan work?

An HSA works in conjunction with high deductible health insurance.

**Your HSA money** can be used to help pay the health insurance deductible and qualified medical expenses not covered by the health insurance.

Any funds you withdraw for nonqualified medical or other expenses will be taxed at your income tax rate plus 10% tax penalty.

#### Can my spouse have a HSA?

Yes, provided he or she is covered under his or her own high deductible health insurance product. In these situations, the maximum tax-deductible savings account contribution is divided equally between you, although you can agree to a different division. The exact amount depends upon whether each or both of you have family coverage and the deductible levels under each of your plans. Your spouse can also be covered under your plan. In that case, you can use money in your HSA to pay for your spouse's qualified medical expenses, but your spouse cannot have his or her own HSA.

### OptumHealth Bank<sup>SM</sup> HSAs

OptumHealth Bank, Member FDIC, is dedicated to health care banking. It is a leading administrator of health savings accounts (HSAs) for individuals and families.

#### What will I receive from OptumHealth Bank?

OptumHealth Bank will provide online monthly statements showing your account balance and deposit and withdrawal activity. If you prefer to have statements mailed to your home, simply notify OptumHealth Bank. You can opt out of electronic statements at [OptumHealthBank.com](http://OptumHealthBank.com), call customer service to do so, or send your request to P.O. Box 271629, Salt Lake City, UT 84127-1629.

### Are there HSA management fees?

You will receive a fee schedule with your OptumHealth Bank welcome kit after you open your account. Banking services provided at no charge include use of an OptumHealth Bank Debit MasterCard® prepaid debit card to pay charges directly at the point of service, such as a doctor's office or pharmacy. You also get online banking and bill payment at no additional charge. Checks, if you choose to purchase them, cost \$10 for 25 checks.

## HSAs With Physician and Provider Networks

### How do HSAs work with Physician and Provider Networks?

**Paying the bill.** If you have network coverage, your provider should send the bill to the network for repricing at the discounted rate.

When you receive an Explanation of Benefits (EOB). You should pay the physician or provider promptly.

## Access to HSA Dollars

### How do I withdraw money?

You'll receive a **Debit MasterCard™** shortly after your insurance becomes effective. Use your card at any doctor's office or pharmacy that accepts MasterCard®. You can access your HSA funds through:

- Any ATM displaying the MasterCard® brand mark (\$1.50 per transaction). In addition to OptumHealth Bank's fee, the bank/ATM you use to withdraw funds will charge you its own fee (variable by bank) for the transaction.
- Online bill payment available at *OptumHealthBank.com*.
- Checks, if you choose to purchase them.

Be sure to retain copies of your medical bills for tax purposes.

**Noncovered expenses.** If coverage of a condition is excluded, limited, or simply not a covered expense under the health insurance, you can still use your HSA money to pay the bill.

### Can my HSA be used for dependents not covered by the health insurance?

Generally, yes. Qualified medical expenses include unreimbursed medical expenses of the account holder, his or her spouse, or dependents.

### What about nonmedical withdrawals?

Nonmedical withdrawals from your health savings account are taxable income and subject to a 10% tax penalty.

**Exception.** This tax penalty does not apply if the withdrawal is made after the date you:

- 1) Attain age 65;
- 2) Become totally and permanently disabled; or
- 3) Die.

### Can my HSA be used to pay premiums?

No, this would be a nonmedical withdrawal, subject to taxes and penalty.

**Exceptions.** No penalty or taxes will apply if the money is withdrawn to pay premiums for:

- 1) Qualified long-term care insurance; or
- 2) Health insurance while you are receiving federal or state unemployment compensation; or
- 3) Continuation of coverage plans, like COBRA, required under any federal law; or
- 4) Health insurance after you turn 65 but not Medicare supplement insurance.



## Tax Benefits

### What are the tax benefits?

There are three major tax advantages to your HSA:

- 1) Cash contributions to an HSA are 100% deductible from your federal gross income.**
- 2) Interest earnings accumulate tax-deferred.**
- 3) Withdrawals from an HSA for “qualified medical expenses” are free from federal income tax.**

### What is a qualified medical expense?\*

A qualified medical expense is one for medical care as defined by Internal Revenue Code Section 213(d). The expenses must be used primarily to alleviate or prevent a physical or mental defect or illness. Most expenses for medical care will fall under IRC Section 213(d).

### However, some expenses do not qualify.

A few examples are:

- Surgery for purely cosmetic reasons.
- Health club dues.
- Illegal operations or treatment.
- Maternity clothes.
- Toothpaste, toiletries, and cosmetics.

HSA money cannot generally be used for insurance premiums. See prior page for exceptions.

\*See IRS Publications 502 *Medical and Dental Expenses* and 969 *Health Savings Accounts and Other Tax-Favored Health Plans* for more information.

### What are the tax-deductible contribution limits?

#### • Single

Maximum deposit (tax-deductible limit)	2009	\$250.00 month/\$3,000 year
	Catch-up	Individuals aged 55+ may contribute an additional \$1,000 for tax year 2009 & later

#### • Family

Maximum deposit (tax-deductible limit)	2009	\$495.83 month/\$5,950 year
	Catch-up	Individuals aged 55+ may contribute an additional \$1,000 for tax year 2009 & later

## Deposits

### How can I make deposits into my account?

We make it easy. Choose to have your HSA contributions deposited each month to OptumHealth Bank and make one payment! Your UnitedHealthOne insurance premium and HSA contribution are paid together. You get one bill and make one payment. Minimum \$25 monthly HSA contribution required.

### What if I open my HSA in the middle of the year?

You may contribute up to the maximum allowed no matter what time of year your health insurance becomes effective. There are penalties if you don't maintain the health insurance for the required length of time. If your insurance takes effect after the month of January, you must maintain that insurance for 13 months, starting in December of that year. Otherwise, contributions will be subject to income taxes and a 10% penalty.

**Excess Contributions.** If contributions exceed the amount you can legally deduct/exclude from your taxes, the excess is taxed as ordinary income and subject to a 6% excise tax.

**Avoiding Penalties.** You can avoid the additional tax by withdrawing the excess and interest on it before your tax filing deadline.

### **Who is responsible for my HSA?**

You own your account, and you manage how funds are spent. Once your savings deposits reach \$2,000 you may, if you choose, transfer a portion of your savings into an investment account for investment in mutual funds.\*

## **The Savings Account**

### **Are there adjustments for inflation?**

Yes, the tax law requires an annual Cost of Living Adjustment (COLA) based on changes in the Consumer Price Index. This calculation, rounded to the nearest \$50 increment, affects deductible limits, maximum out-of-pocket amounts, and the maximum annual HSA contribution limits.

Health insurance deductibles may change by the COLA each year.

### **Can I have an HSA and an IRA?**

Yes, having an HSA in no way restricts your ability to have an IRA.

### **Can HSA money be rolled into an IRA?**

No, it can only be rolled over into another qualified HSA without incurring tax consequences.

### **Must distributions begin at age 70½?**

The law is silent on this point at the present time.

### **What happens to my HSA when I die?**

Your HSA will be treated as your surviving spouse's HSA, but only if your spouse is the named beneficiary. If there is no surviving spouse or your spouse is not the beneficiary, then the savings account will cease to be an HSA and will be included in the federal gross income of your estate or named beneficiary.

### **When can I start to use the funds in my HSA?**

Once your account is open, a deposit has been made, and funds are available, you can start using your HSA.

### **What expenses are qualified for reimbursement from my HSA?**

You are eligible to receive tax-free reimbursement for qualified health expenses not covered by your insurance as defined by Section 213(d) of the Tax Code. A list of these expenses is available on [www.irs.gov](http://www.irs.gov) (the IRS Web site). HSA distributions used for any purpose other than the qualified medical expenses listed will be taxable, and the appropriate tax rules will apply.

### **What are "catch-up" contributions and when can I begin making them?**

Once you turn 55 until you are eligible for Medicare, you may make an annual \$1,000 "catch-up contribution" to your HSA. You can make a one-time contribution or several contributions over time. For more specifics on eligibility, please refer to IRS guidelines or a tax advisor.

### **Can individuals 65 or older take out funds from their HSAs for any reason without a penalty?**

If an individual is age 65 or older, regardless of whether the individual has been enrolled in Medicare, there is no penalty to withdraw funds from the HSA. As always, normal income taxes will apply if the distribution is not used for unreimbursed qualified medical expenses (expenses not covered by the medical plan).

## **OptumHealth Bank Details**

### **About Your Account**

Your HSA funds are deposited in a custodial account at OptumHealth Bank, a leading administrator of health savings accounts (HSA). With expertise in health care and financial services, OptumHealth Bank is uniquely positioned to offer HSAs. Your savings earn a competitive interest rate with the first dollar deposited. Investment options are available for accounts maintaining balances of at least \$2,000.\*

### **What to Expect From OptumHealth Bank**

**Upon approval of your health insurance coverage and your HSA application, an account will be established in your name.** The account belongs to you. All information regarding your HSA will be sent to you directly from OptumHealth Bank.

\*Investments are not FDIC insured, are not guaranteed by OptumHealth Bank and may lose value.

### OptumHealth Bank will send you a welcome kit to provide:

- Your Account Number.
- Schedule of Fees and Charges.
- Custodial and Deposit Agreement.
- Truth in Savings/Funds Availability Disclosure — To provide the interest rate your account will earn and the bank's policy for funds availability.
- Privacy Policy and Beneficiary Form.

You will also receive your Debit MasterCard® and your PIN under separate cover.

### Making Contributions

#### You can make contributions to your HSA:

- Online at *OptumHealthBank.com* anytime.
- By mailing a deposit with a contribution form, available at *OptumHealthBank.com* or by calling OptumHealth Bank customer service at 1-866-234-8913.
- With your insurance premium.

You can contribute as frequently or as much as you wish, provided your total contribution does not exceed the limits specified by the Internal Revenue Service.\* Once you are no longer covered by a high-deductible health plan, you cannot continue to make contributions. The money in your HSA is yours to keep. Should you choose to transfer your HSA to another qualifying account, you must do so within 60 days of withdrawing the funds from OptumHealth Bank to avoid taxes and an additional 10% penalty.

If you are no longer covered by a high deductible plan later in the year and have contributed the maximum annual amount, you will have to withdraw the excess contribution from your HSA. If you don't withdraw the excess amount, it will be subject to a 6% excise tax.

\*Subject to the required minimum monthly deposit of your health insurance carrier.

### Account Information by Phone or Online

#### With an OptumHealth Bank HSA account, information is available, day or night, through:

- Toll-free customer service at 1-866-234-8913 — representatives are available to assist you Monday through Friday from 8 a.m. to 7 p.m. EST.
- Interactive voice response, 24/7.
- *OptumHealthBank.com*, 24/7.

#### You can:

- Pay bills online. Plus, view monthly statements, check current balance, transfer funds, and see how much interest has been paid.
- Check last five (5) account transactions (deposits and/or withdrawals).
- Activate your Debit MasterCard™.
- Speak to a customer service representative during business hours.
- Make lump-sum contributions to your HSA.



### Online Services with OptumHealth Bank

Visit *OptumHealthBank.com*, register for a user name and password and begin banking online. The Web site features:

- Your balance information and monthly statements.
- Tax filing information.
- Service forms.
- Online bill payment.
- And other banking services, such as electronic account contributions and transfers.

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### Important Note:

Health savings accounts are offered by OptumHealth Bank and are subject to eligibility. This communication is not intended as legal or tax advice. Please contact a competent legal or tax professional for personal advice on eligibility, tax treatment and restrictions. Federal and state regulations are subject to change. You should review the appropriate product brochure describing the benefits, exclusions, limitations, and renewal terms of the high-deductible health insurance.