About HSA Blue

Questions and Answers for 2005

Content in this piece is based on frequently asked questions outlined by the United States Department of the Treasury. To view more information regarding federal guidelines for Health Savings Accounts, visit the U.S. Treasury's Web site at *www.ustreas.gov*.

Q: What is an HSA?

A: An HSA (health savings account) is a tax-exempt trust or custodial account established exclusively for the purpose of paying qualified medical expenses of the account's beneficiary. That person, employee or third party contributes to the HSA and is covered under a qualified high-deductible health plan (HDHP).

Q: Who is eligible for HSAs?

A: An "eligible individual" can establish an HSA. A person is "eligible" when he or she is:

1) covered under a high-deductible health plan (HDHP);

2) not also covered by any other health plan that is not an HDHP (with certain exceptions);

3) not a Medicare beneficiary; and

4) not claimed as a dependent on another person's tax return.

Q: What is a high deductible health plan?

A: It is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses. For example, with HSA Blue, an individual may have a deductible of $1,500 or $3,000 per year, depending on the option chosen by his or her employer. The annual out-of-pocket expenses would not exceed $5,000 (single) and $10,000 (family) for in-network health care services.

Q: How can an HSA be established with HSA Blue?

A: Once you have enrolled in a qualified High Deductible Health Plan, you will need to complete an HSA application. It is completely at the discretion of the individual whether or not to establish an HSA with the qualified custodian of his or her choice.

Q: Who may contribute to my HSA fund?

A: Contributions may be made by the employee, and/or employer or a third party (subject to gifting rules).

Q: How much may be contributed to an HSA in a calendar year?

A: Federal mandates for HSAs limit the amount of money you can contribute to an HSA per year. For 2005, the maximum amount is the lesser of the annual deductible, but no more than $2,650 for single coverage, or $5,250 for family coverage. The maximum annual contribution is the sum of the monthly limits. The monthly limit is 1/12 (one-twelfth) of the maximum funding level for each month the member is covered by the High Deductible Health Plan.

Q: What are "catch-up" contributions for those age 55 or older?

A: For eligible individuals between ages 55 and 65, the annual HSA contribution is increased by $600 in calendar year 2005. This catch-up amount will increase by $100 per year until it reaches $1,000 in 2009. After you or your spouse turn 65, you may no longer contribute to your HSA.

Q: If my spouse and I work for the same company and elect for family coverage, how is the contribution limit computed?

A: Both would be treated as having family coverage, but the contributions would be equally split unless you agree otherwise. For example, if you and your spouse are covered under the same family plan at a $3,000 deductible, both of you would contribute $1,500 to your family's HSA, unless you elect to make different arrangements.

Q: In what form must contributions be made to the HSA?

A: Contributions can be made in one or more payments at the convenience of the employee or employer. Contributions may not be made in the form of stock or other forms of property. Cash, debit, credit and stored-valued cards are acceptable forms of payment, as are payroll-deducted cafeteria plans through your employer.

Q: What is the tax treatment of contributions made by a third party on my behalf?

A: Contributions made on your behalf are deductible on your tax return, and regardless of whether or not you itemize. For example, if your mother, as a gift to you, gives you money to deposit in your HSA, she cannot deduct this from her taxes. Instead, you can. However, if you are claimed as a dependent on someone else's tax return, you are not eligible for an HSA.

Q: What is the tax treatment of employer contributions to an employee's HSA?

A: Employer contributions to employees' HSAs (under certain federal guidelines), are treated as employer-provided coverage for medical expenses under an accident or health plan and are excludable from the employer's gross income. Therefore, you cannot deduct this type of HSA contribution.

Q: What is the tax treatment of an HSA?

A: An HSA generally is exempt from tax, unless it ceases to be an HSA. Earnings on amounts in an HSA are not includable in gross income while held in the HSA (i.e., any interest the HSA accrues is not taxable as long as the fund remains an HSA). However, if you choose to use HSA monies for non-qualified expenses, the funds are taxed and subject to an additional penalty. Exceptions to the rule are distributions made after the account beneficiary's death, disability, or after age 65.

Q: When may HSA contributions be made?

A: Contributions for the taxable year may be made in one or more payments, at the convenience of you or your employer, but not before the beginning of that year. The deadline for contributions to an HSA is generally April 15 following the year for which the contributions are made. So if you wanted to contribute and claim those contributions on your 2005 tax return, you typically would have until April 15, 2006 to do so.

Q: What happens when HSA contributions exceed the maximum amount allowed per year?

A: If you or your employer contributes more than the federally mandated allotment per year, an excise tax will be levied for each taxable year.

Q: Are rollover contributions to HSAs permitted?

A: Rollover contributions from Archer Medical Savings Accounts or from other HSAs into your current HSA are permitted, and do not need to be in cash. Rollovers are not subject to the annual contribution limits. Rollovers from an individual retirement account, health reimbursement account (HRA) or from a flexible spending account (FSA) to an HSA are not permitted.

Q: When is an individual permitted to receive distributions from an HSA?

A: You may receive distributions from your HSA at any time.

Q: How are distributions from an HSA taxed?

A: HSA distributions used exclusively to pay for the qualified medical expenses of you, your spouse or dependents are excludable from gross income. However, any amount of the distribution not used for that purpose is included in your gross income and is subject to tax and an additional penalty. Exceptions to this rule are distributions made after the account beneficiary's death, disability, or after age 65.

Q: What are "qualified medical expenses" eligible for tax-free distributions?

A: Expenses paid by you, your spouse or dependents for medical care, excluding costs covered by health insurance. Also, the following qualify as medical expenses: long-term care insurance, COBRA health care contribution coverage, and health care coverage while an individual is receiving unemployment compensation. **Some other limitations do apply and are outlined in federal guidelines.**

Q: Can an HSA pay for premiums for Medicare Part A or B, Medicare HMO plans and the employee share of premiums for employer-sponsored health coverage?

A: Yes, for individuals age 65 and older. However, premiums for Medigap policies are not qualified medical expenses.

Q: What if I am over 65 and no longer an eligible individual?

A: You may no longer contribute to your HSA but you may still use the funds you accrued before turning 65. As in other cases, you will not be taxed on disbursements only if that money is used to pay for qualified medical expenses. For example, if you chose to spend HSA money to make your car payment, you would be taxed.

Q: What are the income tax consequences after the HSA account beneficiary's death?

A: Any balance remaining in the account beneficiary's HSA becomes the property of the individual named as the beneficiary of the account. For example, if your spouse is named as the beneficiary of your HSA, the HSA would belong to your spouse upon your death.

Q: What reporting is required for an HSA?

A: Employer contributions to an HSA must be reported on the employees' Form W-2. The Internal Revenue Service will release forms and instructions on how to report HSA contributions, deductions and distributions.

Q: Are HSAs subject to other statutory rules and provisions not outlined in this notice?

A: Yes. No inference should be drawn regarding issues not expressly addressed in this document that may be suggested by a particular question or answer, or by the inclusion or exclusion of such.

BlueCross BlueShield of Oklahoma

www.bcbsok.com

Health savings accounts are subject to rules set out in the Internal Revenue Code and IRS regulations, which may change or be interpreted. BCBSOK is offering a health plan only, and is not offering tax or investment advice. The information in this brochure is a summary, and you should seek advice from qualified tax and investment advisors for details regarding your HSA and the tax treatment of that arrangement.

This is not a contract. The product description in this brochure is not intended to be more than a summary of the benefits available to you through the program. This brochure does not contain a complete listing of the exclusions, limitations and conditions that apply to the benefits shown, nor does it contain additional benefits that may be available to you. Full information can be found, including medical necessity and pre-existing condition provisions, in the specific product's contract or the member's certificate of benefits booklet.

10.469 (1/05)