



HSA Guide – Individual Medical

Questions and Answers on the Health Savings Account (HSA) from Assurant Health

General Information

Legislation authorizing Health Savings Accounts (HSAs) was signed by the President on December 8, 2003. Assurant Health, a national leader in Medical Savings Accounts (MSAs), has fully supported HSAs and was at the forefront of the legislation. HSAs are a significant expansion of MSAs. We hope that you and your clients are as excited about the legislation as we are.

HSA Plans

Q. What is a Health Savings Account (HSA)?

A. An HSA works like an IRA, except that money is used to pay health care costs. Participants enroll in a relatively inexpensive high deductible insurance plan. Then, a tax-deductible savings account may be opened to cover current and future medical expenses. The money deposited, as well as the earnings, are not taxable. The funds can then be withdrawn to cover qualified medical expenses tax free. Unused balances roll over from year to year.

HSAs are a significant expansion of the MSA program. HSAs provide the following:

- Everyone with a qualified high deductible plan is eligible to participate (includes all size employers, the self-employed, individual and families who are not self-employed)
- HSAs can be funded by the employer, employee or combination of both within the same calendar year
- HSAs are permanent and portable
- Larger tax-deferred contributions to custodial accounts
- Broader deductible ranges

Q. Who can qualify?

A. Everyone (not just self-employed or small businesses) with a qualified high deductible insurance plan is eligible for a tax-deductible HSA.

Q. What is a high deductible insurance plan?

A. A high deductible insurance plan is a health plan with a minimum deductible of \$1,100 for single coverage and \$2,200 for family coverage. The maximum out-of-pocket expenses for allowed costs must be no more than \$5,500 for single coverage and no more than \$11,000 for family.

Q. What deductible amounts are available?

A. As of January 1, 2007, the deductibles available are single: \$1,100, \$1,600, \$2,100, \$2,850, \$3,750 and \$5,000; family: \$2,200, \$3,200, \$4,200, \$5,700, \$7,500 and \$10,000

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Q: Does the maximum OOP expense of \$5,250 for individuals and \$10,500 for families include the deductible?

A: Yes. Total OOP expenses including the deductible can be no greater than \$5,250 for an individual and \$10,500 for a family.

Q: Is an integrated (common) deductible part of the definition of high deductible health plan/HSA legislation?

A: No, a “common” deductible is not required. However, no family member may receive benefits until at least \$2,200 has been incurred. Our plans have deductibles that are compliant with the HSA law.

Q: Will existing qualified plans continue to have deductibles increasing annually according to the Cost of Living Adjustment (COLA)?

A: Yes.

Q: Can minors have a “self-only” HSA?

A: According to the Treasury guidance, minors who are claimed as a dependent on another person’s tax return are not eligible to have a “self-only” HSA. They can be covered by their parent’s or guardian’s HSA plan.

Q: Does a person buying an HSA need to have “earned” income in order to deduct the contribution? Can they deduct it against “unearned” income i.e. pension, investment, etc.?

A: An individual who has less earned income (even no earned income) than his/her HSA contribution may still take the full above-the-line deduction.

Q: How are wellness benefits handled under an HSA plan?

A: There is no legal requirement for a high deductible health plan (HDHP) to provide benefits for preventive care or to cover these services before the minimum deductible is reached. We will continue to offer coverage for preventive care subject to deductible and coinsurance unless state mandated. This is similar to our other plans. With the OneDeductible Plan, an optional benefit provides \$250 per person for preventive services—before the deductible is met—once coverage has been in effect for 12 months. Then additional preventive services are covered subject to deductible and coinsurance up to the \$500 annual preventive services benefit maximum.

Q: How are prescription drug benefits handled under an HSA plan?

A: Prescription drugs are subject to the health plan’s deductible and coinsurance. Under the HSA legislation, individuals with an HDHP are not allowed to have prescription drug coverage that has no deductible or has a deductible that is lower than the minimum deductible required for an HDHP. However, individuals participating in an HSA who also have prescription drug coverage under a separate insurance plan or rider that does not meet the HDHP requirements may continue to be eligible for an HSA until January 1, 2006. We do not offer separate prescription drug coverage.

Q: Is the One Deductible the only HSA compatible plan?

A: No. RightStart HSA is also available in many states.

Q: How do I use software to quote and sell HSAs?

A: HSA quoting features are available on software. HSA Plans are sold through our One Deductible and RightStart HSA plan types. You will need to indicate “Yes” in the HSA field and select “HSAFund, HSATool, or Other” in the HSA Type field. An HSA Adoption Agreement must accompany your proposal if HSAFund or HSATool is selected.

Q. What if my clients aren't sure they want an HSA? How can I handle that situation?

A: If at the time of sale, you believe your client may want an HSA account sometime in the future, but doesn't want to fund it right now, the best practice is to set up the account immediately. The client doesn't need to fund the account right away. In this situation, have the client complete an HSA Adoption Agreement. Just select "Yes" in the HSA field and indicate the type of custodial account (HSAFund, HSATool, Other) in the HSA Type field. If you send an HSA Adoption Agreement with the One Deductible Plan or RightStart HSA Plan type, we will automatically note on our system that the client has enrolled in the HSA (this is required for our reporting to IRS), regardless of what is indicated in the HSA field.

Q: Where should completed HSA Adoption Agreements be sent?

A: Completed Adoption Agreements should be sent to Assurant Health, P.O. Box 624, Milwaukee, WI 53201-0624. Agents can also fax completed HSA Adoption Agreements to 414-299-8493.

HSA Custodial Accounts

Q: What sets Assurant Health HSAs apart from the competition?

A: Our reputation speaks for itself. We are an industry leader in the "medical IRA" business given our leadership position in MSAs. We have one of the only "feeless and seamless" custodial accounts in the country. Our core reputation on claim payments was built over a century. We make it simple to understand and sell and we are ready to assist you today with educational and point-of-sale materials.

Q: What are the current interest rates on HSAs?

A: Our HSA earns interest at the annual rate of 3% on a minimum balance of \$5,000. An account balance of less than \$5,000 but at least \$750 will earn interest at the rate of 2%. Interest is compounded monthly. We reserve the right to alter the minimum account balance requirements and the interest rates we pay.

Q: Are HSAs insured through the government?

A: Our HSAs are not federally insured. Although we are not FDIC-insured, we provide a higher rate of return than a typical passbook account and back your funds by the full faith of Assurant, Inc., our parent company. Assurant, Inc., is traded on the New York Stock Exchange under the symbol AIZ and has approximately \$24 billion in assets and \$7 billion in annual revenue.

Q: Could a client decide to have his/her HSA custodial account administered by someone other than Assurant Health?

A: Yes, a client can have a qualified medical plan and decide to have his/her HSA account with another administrator. You can designate this on the agent software by selecting the One Deductible or RightStart HSA plan type and selecting "Yes" in the HSA field and then "Other" in the HSA type field.

Contributions

Q. What are the annual contribution limits?

A. As of January 1, 2006, annual contribution limits are either the high deductible plan deductible, or \$2,850 for an individual or \$5,650 for a family – whichever amount is less.

Q. What is the annual contribution deadline?

A. Clients have until the tax-filing deadline of the following year to make a contribution for the previous tax year.

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Q: Is the HSA contribution pro-rated for the year?

A: Yes, if your client's plan isn't effective for the entire calendar year, only the pro-rated portion of the maximum may be contributed and deducted. For example, if your client's plan is effective February 1st, he/she could contribute 11/12 of the maximum contribution limit.

Q: How much can a client contribute to an HSA account if he/she changes the plan deductible mid-year?

A: If a client changes his/her deductible mid-year, his/her contribution will be pro-rated based on the new deductible. For example, if your client changes the deductible from \$1,100 to \$2,850 in June, his/her contribution is 6/12 of \$1,100 (\$550) plus 6/12 of \$2,850 (\$1,425), for a total of \$1,975 for the year.

Q: If a client files an extension on his/her taxes, would he/she have extra time to contribute money into his/her HSA custodial account?

A: The client could contribute until the tax-filing deadline. An extension does not affect the amount that a client can contribute to the HSA.

Q: May an employer contribute to an employee's HSA even if the employer does not provide health insurance for employees?

A: The new HSA law expressly permits an employer to contribute funds to an employee's HSA on a tax-favored basis. Generally, HSAs are not subject to ERISA and an employer's contribution to an employee's HSA will not render the HSA an "employee welfare benefit plan."

Q: What happens under the HSA law once someone becomes eligible for Medicare?

A: Once a person enrolls in Medicare, he/she can no longer contribute to an HSA. However, he/she can use the accumulated funds to cover qualified medical expenses not covered under Medicare or his/her supplemental plan.

Tax Implications

Q: Since deposits can be made by anyone on behalf of the account beneficiary, who can legally take the tax deduction?

A: Contributions made by a family member on behalf of an eligible individual to an HSA are deductible by the eligible individual in computing adjusted gross income. Employer contributions to the employee's HSA are excludable from the employee's gross income. The employee cannot deduct employer contributions on his/her federal income tax return.

Q: Who can deduct premium payments from their taxes?

A: Today, the self-employed can deduct their premiums. We are working with congress to pass legislation that will allow everyone to deduct 100% of their premium payments. Until such legislation is passed, only the self-employed can deduct any portion of their premium payments.

Q: Can clients roll funds from an IRA, HRA or FSA into an HSA?

A: Rollovers from an IRA, HRA or FSA are not permitted.

Q: Can clients roll funds from an HSA into another investment vehicle, such as an IRA, HRA or FSA?

A: No.

Disbursement and Qualified Medical Expenses

Q: How are HSA-qualified medical expenses paid? How do I advise my clients to choose between a manual or automated disbursement?

A: On the HSA Adoption Agreement, clients choose whether they prefer a manual or an automated disbursement. As long as there is money in their HSA, the automated disbursement occurs regardless of whether the deductible has been met. If you need to advise clients on which method is better (automated or manual), you should consider how much control your client wants to exercise over the distribution of HSA funds. If the customer just wants the disbursement to be distributed without a lot of intervention on his/her part, then automated disbursement may be the better choice. Otherwise, if the customer wants tighter control on the funds, then the manual disbursement may be the way to go. Either way, checks will be sent to the client, not the provider.

Q: What is the timing of disbursements relative to an incurred medical expense?

A: Federal law places no restriction on when disbursements must occur. We offer feeless/seamless administration of the client's account and the client can expect prompt disbursements of qualified medical expenses. Disbursements of \$100 or more are issued on a monthly basis. Checks will be issued quarterly for requests that total less than \$100. A claim total that is less than \$10 will be addressed at year-end.

Q: Can medical expenses incurred before the HSA was established be paid from the HSA?

A: Individuals who establish an HSA on or before April 15, 2005 can use the HSA to reimburse qualified medical expenses incurred on or after the later of: 1) January 1, 2004; or 2) the first day of the first month that they are covered under an HDHP. For HSAs established after April 15, 2005, medical expenses may not be paid from an HSA if the expenses were incurred before the HSA was established.

Q: Are health insurance premiums considered a qualified medical expense?

A: Health insurance premiums are **not** qualified eligible medical expenses except for the following scenarios: qualified long-term care insurance, COBRA and health care coverage while receiving unemployment compensation. Funds can also be used to pay for Medicare Part A or B premiums (not Medicare supplement premiums).

Q: If an unmarried insured has single coverage, can HSA funds be used to pay for qualified medical expenses for his/her dependents?

A: Yes.

Q: Is there an age at which an individual must withdraw their money from an HSA?

A: With an IRA or 401K once the person reaches 70 ½ they are required to make withdrawals from the money in these tax-deferred accounts. That is not the case with HSAs. There is no requirement that withdrawals from an HSA begin at 70 ½ as there is with IRAs and 401Ks.

Medical Savings Accounts (MSAs)

Q. Can a Medical Savings Account be rolled into a Health Savings Account?

A. Yes. MSAs can be rolled into HSAs on a tax-free basis in most states, but it is not necessary.

Q. Can MSA inforce business participate in the new HSA program (i.e. expand the contribution amounts)?

A. Yes. Your clients can participate in the HSA program as long as they complete the HSA Adoption Agreement. Your MSA clients may retain their current deductible, coinsurance limits and contribution amounts, if they choose.

Q: Can clients roll their MSA funds into an HSA any time?

A: Yes, clients can roll their funds into an HSA and increase their deductible at any time.

Q: Can a policyholder continue to deposit into an MSA as long as the insurance plan is a qualified high deductible plan?

A: Yes. MSA policyholders have a lifetime right to their MSA custodial account under the MSA rules.

Q. Will Assurant Health continue to administer both the MSA and HSA custodial accounts?

A. Yes. Existing MSAs may continue under the current rules.