

*Blue Health Fund<sup>SM</sup>*



Health Savings  
Accounts:  
Own and Control  
Your Healthcare  
Spending Decisions



**Blue Cross BlueShield  
of South Carolina**

An Independent Licensee of the  
Blue Cross and Blue Shield Association

# Take Ownership

*Blue Health Fund*<sup>SM</sup> gives you the **security** of a traditional health plan with greater **flexibility**, more **control** and new tools to help **manage** your healthcare spending decisions. It combines a lower premium, **high deductible health plan** (HDHP) and a separate savings account called a **Health Savings Account** (HSA).

## Health Savings Account (HSA)

*An HSA is a special savings account that allows you to set aside pre-tax or after-tax funds for future medical and retirement expenses. You can invest these funds in your choice of stocks or mutual funds or manage the HSA like a traditional savings account. A qualified bank, financial institution or trustee can administer your HSA. This account works much the same way as contributions to a qualified retirement plan.*

You can use your HSA funds to pay your first medical expenses, including office visits, prescriptions and other healthcare costs. The amount you spend from the HSA for covered medical expenses counts toward your health plan deductible. Once you meet the deductible, the health plan coverage kicks in, and you are only responsible for coinsurance payments.

Interest earned on funds in the HSA is tax-deferred, and withdrawals for your qualified medical expenses are tax-free. You can also withdraw money from your HSA for non-medical expenses. Withdrawals for non-medical expenses must be included in your gross income and are subject to a 10% tax penalty. Your HSA savings roll over every year. To open an HSA, you must have qualified high deductible health plan coverage.

## High Deductible Health Plan (HDHP)

*A qualified high deductible health plan must meet certain requirements set by the Internal Revenue Service (IRS). It has a minimum annual deductible for single or family benefits. Federal legislation defines the deductible amount, which applies to all medical expenses covered by the policy. You must meet the deductible each year before your benefits pay on any medical claims.*

Each year the IRS and U.S. Treasury Department set minimum deductible and maximum out-of-pocket expense limits for HSA plans. The limits on maximum out-of-pocket expenses include both the deductible and any coinsurance you pay for your plan. These limits are subject to annual cost-of-living adjustments determined by the IRS. Your employer will provide the limits on your Blue Health Fund plan.



### **Blue Health Fund Is Also a Preferred Provider Organization (PPO) Plan.**

It gives you access to the large BlueCross PPO network. You have the freedom to use any doctor, specialist or hospital nationwide, without referrals. When you stay within the network, you will enjoy discounted rates, and you won't have any claims or paperwork to file — the network providers do it for you.

### **HSA vs. HRA vs. FSA**

An HSA is different from other kinds of tax-deferred savings accounts. You might be familiar with Health Reimbursement Accounts (HRAs) or Flexible Spending Accounts (FSAs). The chart on the right illustrates some of the main differences between the three types of accounts.

### **Who Is Eligible for an HSA?**

You are eligible to open an HSA if:

- You have qualified high deductible health plan coverage.
- You are not enrolled in Medicare.
- You do not have other general health coverage, such as through a spouse's plan.\*
- You are not claimed as a dependent on someone else's tax return.

*\* Certain types of insurance or coverage are permitted with HSA plans, including those that cover a specific disease, such as cancer, or provide a fixed payment for hospital coverage. Supplemental coverage for accident, disability, dental, vision or long-term care benefits is also allowed.*



	HEALTH SAVINGS ACCOUNTS	HEALTH REIMBURSEMENT ACCOUNTS	FLEXIBLE SPENDING ACCOUNTS
<b>Contributor</b>	Employee, employer or both, family and friends of eligible account holders.	Employer only.	Employee only.
<b>Balances carried over to next year</b>	Yes.	Permitted at the discretion of the employer.	Not permitted. Use it or lose it.
<b>Portability</b>	Yes, funded individual account. Employee retains access to unused account balance even upon termination.	No. Because HRAs are employer-owned, the funds must be used during periods of employment, and/or continuation under COBRA.  Employer determination of continued access to unused balance if the employee is no longer working for the employer.	No. Must be used during periods of employment, and/or continuation under COBRA.  Cash-outs not permitted.
<b>Can someone participate in more than one of these accounts at the same time?</b>	A traditional, general-purpose health FSA or HRA would make an individual ineligible for an HSA. But a limited purpose FSA or HRA*, a post-deductible FSA or HRA, or a retirement HRA will not prevent HSA eligibility.	An employee who is covered by an HRA may also participate in a health FSA.	An employee who is covered by a health FSA may also participate in an HRA.

*\* Limited purpose FSAs or HRAs limit covered reimbursements to expenses that qualify as permitted coverage, permitted insurance or preventive care. (For example: vision and dental expenses.)*

## How Can I Benefit From an HSA Plan?

### You'll Save Money With:

- **Tax-Deferred Savings** — You can have contributions into your HSA deducted from your paycheck before taxes are calculated. This reduces the amount of income on which you pay income taxes. You can also make after-tax contributions from your earnings. After-tax contributions are tax deductible from gross income, earned interest is tax-free and qualified medical disbursements are tax-free.
- **Reduced Insurance Premiums** — Your high deductible health plan premiums will be less than traditional medical plans.
- **Withdrawals made to pay qualified medical expenses**, including prescription and over-the-counter drugs, are tax-free.
- You do not have to itemize deductions to deduct after-tax HSA contributions on your tax returns.
- **Long-Term Savings** — The funds in your account grow tax-deferred. After age 65, you can use the funds to help pay your retiree health expenses.

### Your HSA Is Portable:

- You own the account, and the HSA funds go with you even if you change jobs.
- If you no longer have qualifying high deductible health plan coverage, you cannot continue to make contributions to your HSA. However, you can make withdrawals for qualified or non-qualified expenses. Non-qualified expenses are subject to a 10% penalty.

### Your HSA Can Be Passed to a Beneficiary After Death:

- Upon enrollment, you will designate a beneficiary for your HSA funds.
- If your spouse is the beneficiary, your HSA transfers to him or her. Your spouse is subject to income tax and excise tax penalties only if he or she uses the withdrawals from the HSA for something other than qualified medical expenses.
- If someone other than your spouse is the beneficiary, the account ceases to be an HSA as of the date of your death. The beneficiary is required to include the HSA funds in his or her gross income unless he or she uses the funds within one year of your death to pay your qualified medical expenses.

### You'll Feel Empowered:

- As the account holder, you own and control the funds in your HSA.
- You have the power to choose the doctors, services and products that are best for you. And if you choose providers from the BlueCross PPO network, you will be able to take advantage of the discounted rates they extend to BlueCross members.
- You can take control of and manage your own healthcare spending.



# Take Charge

## ***How Does the Blue Health Fund HSA Plan Work?***

First, you enroll in the **Blue Health Fund** plan offered by your employer to obtain the qualified **high deductible health plan** coverage. Then you set up your **HSA** with a qualified bank or financial institution. You can either use a bank of your choice or allow **BlueCross'** trustee to administer your HSA. Each year, money can be **contributed** into the HSA, subject to the maximum annual limit set by the IRS.

*You can use the HSA to pay for your qualified medical expenses. Once you meet the health plan deductible, the plan starts paying for your medical expenses according to your coinsurance percentages. Any unused funds remain in the HSA at the end of the year and roll over to the next year.*

### Using Your HSA

You can contribute funds to your account and anyone — including your employer, your family or your friends — can contribute on your behalf. There is no minimum annual contribution limit, although most banks will require a minimum deposit to open your account.

The IRS and U.S. Treasury Department set maximum annual contribution limits for both single and family coverage. The maximum limit is equal to the health plan's deductible or an indexed maximum cap set by the IRS, whichever is less. All contributions are combined, which means the total amount deposited into the HSA by all contributors cannot exceed the annual maximum. The IRS indexes the contribution limits for inflation and may increase them in the future.

If you are 55 or older, you can make additional contributions. If you're nearing Medicare eligibility, the additional contributions allow you to build funds faster in a shorter period of time for medical expenses and retirement planning.

*Your employer will provide information on contribution limits for your HSA.*

### Managing Your HSA Funds

*You control how you use or invest your HSA funds. A choice of investment options allows you to build your account, and your investment earnings grow tax-deferred. Unused funds roll over year after year.*

Depending on which bank, financial institution or trustee administers your HSA, you may receive a debit card and/or checks to access your funds.

### Qualified Medical Expenses

*Withdrawals from your account are not taxable if you use them for qualified medical expenses. A qualified medical expense is any cost paid on behalf of the HSA account holder (or his or her spouse or dependents) for medical care as defined by Revenue Code Section 213(d). Only qualified medical expenses that you incurred after the HSA was established are eligible.*

Qualified medical expenses are services typically covered by your health plan. They include expenses such as:

- Office visits
- Emergency room services
- Hospitalization
- Prescriptions
- Eyeglasses and contacts
- Health plan deductibles
- Non-cosmetic dental expenses

The premium (the periodic charge or rate) for your health plan is typically not a qualified expense, except when it is for qualified long-term

care coverage, COBRA healthcare continuation coverage or healthcare coverage while you are receiving unemployment compensation.

### **Non-Qualified Expenses**

If you make a withdrawal for non-qualified health-care expenses, a penalty of 10% plus ordinary income taxes will be due on the amount of money used. Some examples of non-qualified expenses include:

- Elective cosmetic surgery
- Teeth whitening procedures
- Vitamins
- Toiletries used for general well-being

The 10% penalty does not apply once you turn 65 years old, become disabled or upon your death. However, you still must pay income taxes on the funds that are not used for qualified medical expenses.

### **Keep Records of Your Healthcare Expenses**

*The funds in your HSA belong to you, and you can use them however you choose.*

However, withdrawals for non-medical expenses are subject to a 10% penalty, and must be included in your gross income when you file your taxes. You will receive an annual Form 1099 from your HSA trustee with a record of all distributions made from your account during the year. You should keep accurate and complete records of your medical expenses for auditing purposes.



## ***Blue Health Fund — the right plan for you?***

- Would you like to reduce your health insurance premium costs?
- Do you want to save money on taxes?
- Is control over how you use your personal healthcare funds important to you?
- Would you like to roll over your unspent funds each year for future medical expenses or retirement?
- Does taking your healthcare dollars with you if you change jobs or quit working appeal to you?
- Do you like to take an active role in managing your health decisions and reducing your healthcare costs?

*If you answered “yes” to one or more of the questions above, Blue Health Fund may be the right choice for you.*



## *Glossary*

***Allowable Charge:*** Charges for medical services or supplies provided by a hospital or physician that qualify as covered expenses, as stated in the health plan's Schedule of Benefits.

***Beneficiary:*** Someone designated to receive something from a legal arrangement, such as the proceeds of an insurance policy received by the estate of a deceased person.

***Benefit:*** The amount of money a health plan pays for the cost of covered services, as defined in the Schedule of Benefits.

***Benefit Period:*** The maximum length of time for which the health plan will pay benefits.

***Claim:*** An itemized statement of healthcare services and their costs from a hospital, physician's office or other provider facility.

***COBRA (Consolidated Omnibus Budget Reconciliation Act):*** A federal law that, among other things, requires employers to offer employees and their dependents (who would otherwise lose their group healthcare benefit plan eligibility) continuation of coverage. Employers must make health plans available for periods ranging from 18 to 36 months.

***Coinsurance:*** An amount or percentage that health plan members must pay for healthcare products or services in conjunction with their employer's benefit plan, typically after a deductible has been satisfied. For example, in an 80% / 50% plan, the health plan pays 80% of your in-network healthcare expenses and you pay 20%. For out-of-network expenses, you and the health plan each pay 50%.

***Covered Services:*** Services for which you receive benefits under your employer's healthcare benefit plan.

***Deductible:*** Set amount that a health plan member must spend before the benefit plan begins to pay a predetermined percentage for covered medical services, as stated in the Schedule of Benefits. The predetermined percentage is called coinsurance.

***Dependent:*** An individual other than a health plan member who is eligible to receive healthcare services under the subscriber's contract. Generally, dependents are limited to the member's spouse and minor children.

***Flexible Spending Accounts (FSAs):*** Employee-owned accounts used to pay for medical and/or dependent care throughout the year. Contributions to FSAs reduce employees' taxable income, but any amount that remains in the account at year-end is forfeited; employees must "use it or lose it."

***Gross Income:*** All income received in the form of money, goods, services and property, excluding nontaxable income.

***Health Benefit Plan:*** The health insurance product defined by the benefit contract that represents a set of covered services and a provider network.

***Health Reimbursement Accounts (HRAs):*** Nontaxable employer-owned and funded accounts that employees use to pay for healthcare services throughout the year. Employees may be able to roll over unused funds from year to year. However, they forfeit or lose the accounts if they switch jobs.

**Health Savings Account (HSA):** A tax-sheltered savings account created by the Medicare Prescription Drug Improvement and Modernization Act signed on December 8, 2003, and designed to help individuals save for qualified medical expenses and retiree health expenses on a tax-free basis. An HSA belongs to the individual and is portable.

**High Deductible Health Plan (HDHP):** A qualified HSA-compatible health plan that has a minimum annual deductible for individual or family benefits, as defined by federal legislation, that applies to all medical expenses covered by the policy. This deductible must be satisfied each year before your benefits pay on any medical claims. Each year the Internal Revenue Service (IRS) and U.S. Treasury Department set minimum deductible and maximum out-of-pocket expense limits for these plans.

**In-Network:** Refers to the use of providers who participate in the health plan's network. Many benefit plans encourage members to use participating (in-network) providers to reduce the member's expenses.

**Long-Term Care:** Range of medical and/or social services designed to help people who have disabilities or chronic care needs. Services may be short- or long-term and may be provided in a person's home, in the community or in residential facilities (e.g., nursing homes or assisted living facilities).

**Network:** A specific group of healthcare professionals or facilities that have contracted with a health benefits company to provide services.

**Out-of-Network:** The use of healthcare professionals and facilities who have not contracted with the health plan to

provide services. Members enrolled in preferred provider organizations (PPO) can receive services out-of-network, but will pay more of the costs.

**Out-of-Pocket:** Costs that a member must pay outside of his or her health benefit plan.

**Out-of-Pocket Maximum:** A cap on the amount a health plan member must pay outside of his or her benefit plan for covered services. Refer to your benefits booklet for specific details on the type of expenses that count toward your plan's Out-of-Pocket Maximum.

**Premium:** The periodic charge, or rate, you pay for your insurance policy.

**Qualified Medical Care Expenses:** Expenses paid for medical care, as described in Section 213(d) of the Internal Revenue Code, and defined amounts paid to diagnose, treat or prevent disease, and to treat any part or function of the body. The expenses must be to alleviate or prevent a physical defect or illness. Expenses incurred solely for cosmetic reasons generally are not qualified. Also, expenses that merely benefit one's general health are not qualified medical expenses.

**Tax-Deductible:** An item or expense subtracted from adjusted gross income to reduce the amount of income subject to tax. The Internal Revenue Service (IRS) specifies the items that can be deducted from gross income for the purpose of reducing taxable income, and the specific rules governing the deductibility of each of these items.



# BLUE HEALTH FUND<sup>SM</sup>



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