The BESTflex℠ Plan

Health Savings Accounts

Contents

Learn how your BESTflex℠ Plan works with Health Savings Accounts.

About Health Savings Accounts

Your employer has added the Limited Health Care Flexible Spending Account (FSA) to your BESTflex Plan, allowing you to save money on eligible vision and dental expenses through the BESTflex Plan and still make contributions to a Health Savings Account (HSA).

HSAs are tax-advantaged savings accounts that were first introduced in 2003. As a consumer-driven option, HSAs serve to control rising health care costs by giving you insight into how much health care actually costs and more control over how you spend your health care dollars.

HSAs cover current and future medical expenses. Funded by employees, employers or a combination of the two, the account allows you to contribute and withdraw money on a tax-free basis, as long as you use it for eligible, Section 213(d) medical expenses. The account is also portable, meaning it can grow over time, even as your circumstances change.

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You must be enrolled in a high-deductible health plan (HDHP) in order to establish and contribute to an HSA, and you cannot have any disqualifying health coverage. The BESTflex Plan Limited Health Care FSA works in conjunction with the HDHP and HSA because it only reimburses dental and vision expenses; it is not considered disqualifying health coverage.

The following information describes how HSAs work with the BESTflex Plan, when you are eligible to establish an HSA, HSA contributions, qualified distributions from HSAs, and the differences between HSAs and FSAs.

Eligibility to Establish an HSA

To be eligible to participate in an HSA, you must be covered, as of the first day of any calendar month, by an HDHP. You must not be covered by other non-HDHP health insurance – including that of a spouse. (Certain types of insurance, such as vision or dental coverage, are not considered disqualifying health insurance and can coexist with an HSA.) You must not be enrolled in Medicare and no one can claim you as a dependent for tax purposes.

Your employer is allowed to establish an HSA for you and select an HSA administrator. However, you can establish more than one HSA and transfer funds between accounts.

High-Deductible Health Plans

Specifically, an HDHP is a health plan that meets statutory requirements for annual deductibles (other than for preventive care) and out-of-pocket expenses. For plans with a network of providers, the requirements do not apply to out-of-network services. The requirements are as follows:

- Deductibles: In 2016, the minimum deductible under self-only HDHP coverage is $1,300. For family HDHP coverage, it is $2,600.
- Out-of-Pocket Expenses: The maximum out-of-pocket expense limit in 2016 for the HSA-compatible HDHP is $6,550 for single coverage and $13,100 for family coverage.

In general, coverage under any non-HDHP health plan disqualifies you from contributing to an HSA. However, dental, vision, disability, accident and long-term care coverage are not considered disqualifying. The following are two examples of disqualifying health coverage:

- Example A (Other Employer's Plan): You will be disqualified from participating in an HSA if you are covered under your spouse's employer's health plan and it is not an HDHP.
- Example B (Health Care FSA): You will be disqualified from participating in an HSA if you are covered under the Health Care FSA, unless it is the Limited Health Care FSA, which only reimburses dental or vision expenses

Warning: *If you intend to make an HSA contribution during the BESTflex Plan plan year, you cannot elect the regular Health Care FSA since it reimburses all medical expenses and is disqualifying coverage.*

How HSAs Interact with the BESTflex Plan

Participating in the BESTflex Plan Health Care FSA disqualifies you from establishing or contributing to an HSA. However, Employee Benefits Corporation offers a Limited Health Care FSA, which only reimburses dental and vision expenses and is not disqualifying health coverage. The Limited Health Care FSA works in conjunction with an HSA, allowing you to establish and contribute to an HSA, and make tax-free HSA contributions through the BESTflex Plan. Because you pay for dental and vision expenses with the pre-tax dollars in the Limited Health Care FSA, you can save more money in your HSA.

If your employer offers it, you can choose to participate in the Limited Health Care FSA and determine your pre-tax HSA contributions, which are made through the BESTflex Plan, on the *Enrollment Form*.

Examples of Limited Health Care FSA Eligible Expenses

DENTAL SERVICES	***VISION EXPENSES***
Crowns/Bridges	*Contact Lenses*
Dental X-Rays	*Contact Lens Solution*
Dentures	*Eye Examinations*
Exams/Teeth Cleanings	*Eyeglasses*
Extractions	*Laser Eye Surgeries*
Fillings	*Prescription Sunglasses*
Gum Treatments	*Radial Keratotomy/LASIK*
Orthodontia/Braces	

Please Note: *If you elect the Limited Health Care FSA, eligible medical expenses listed in your Summary Plan Description booklet are not valid.*

Employee and Employer Contributions

After establishing an HSA, employees and employers can begin contributing to the account. If you participate in the Limited Health Care FSA, you can choose to make pre-tax HSA contributions, as well as determine the contribution amount, through salary reduction on the BESTflex Plan *Enrollment Form*, which your employer provides. Your employer is allowed, but not required, to contribute additional amounts to your HSA.

Your employer's HSA contributions must generally be comparable for all employees in the same HDHP coverage category. They can be different between part-time and full-time employees and employees with single and family HDHP coverage. Your employer may contribute more to non-highly compensated employees than highly compensated employees.

If your employer makes HSA contributions through a cafeteria plan, these comparability rules do not apply, but are subject to the IRS nondiscrimination testing required of a cafeteria plan.

Tax Treatment of HSA Contributions

The amount of money you contribute to an HSA by salary reduction through the BESTflex Plan is excluded from your income and not subject to payroll taxes. The HSA itself, like an IRA, is exempt from tax.

Three states do not exempt state taxes from HSA payroll contributions: Alabama, California and New Jersey. Two states may require taxes on interest earned: New Hampshire and Tennessee.

Contribution Limits

The IRS has set the maximum annual HSA contribution amount for 2016 to $3,350 for single HDHP coverage and $6,650 for family coverage. You may contribute the annual maximum for single or family HDHP coverage, regardless of your deductible. If you participate in an HDHP and become HSA-eligible by December 1. You must remain HSA-eligible through December of the same year – the last month of the HDHP plan year – to be treated as having been eligible for all 12 months of the year.

You must also remain HSA eligible through the end of December in the following year (the 12-month "testing period"). If you do not remain eligible, all HSA contributions during the months when you were ineligible will be subject to income tax and an additional 10 percent excise tax. The tax penalties do not apply if the individual loses eligibility due to disability or death.

- Catch-up Contributions: If you are at least age 55 by the end of the year, then you can contribute an extra amount. The extra amount is $1,000 each year.

Contributions During the 2-1/2 Month Grace Period

The Tax Relief and Health Care Act of 2006 allows you to make HSA contributions during the Health Care FSA's 2-1/2 month grace period. You must have a zero balance in your Health Care FSA on the last day of the BESTflex Plan plan year.

Otherwise, you must wait until the end of the Health Care FSA runout period to begin making contributions to an HSA.

Excess HSA Contributions

You should have your excess HSA contributions (plus attributable earnings distributed from the HSA) returned before the tax filing due date (including extensions). These are used when filing your federal income tax return for the year (generally April 15). You are required to pay an excise tax of 6 percent on excess contributions left in your HSA beyond that time.

HSA Distributions

HSA distributions that are exclusively used to pay for your, your spouse's, or your dependent's qualified medical expenses are excluded from income. This is the case even if, at the time of distribution, you are no longer eligible to make HSA contributions.

Any distribution that is not exclusively used for such qualified medical expenses becomes taxable income. Unless it is distributed after you die, become disabled or reach age 65, the distribution is also subject to an additional 20 percent tax. (This tax increased, effective January 1, 2011, by 10% due to the 2010 health care reform legislation.)

Differences Between HSAs and FSAs

While there may be some basic similarities between HSAs and FSAs, the two types of accounts are largely different. The following is a rundown of the primary contrasts:

- Difference #1 (Elections): You must make a Health Care FSA election before the plan year begins and this election can only be changed during the year in limited circumstances. In contrast, you can start or stop, or increase or decrease your HSA contributions at any time, as long as the change is effective prospectively (i.e., after the request for the change is received).

When you change your HSA contributions, the change cannot take place until the next payroll

- Difference #2 (Availability of Reimbursements): The total, annual reimbursement amount you elect under a Health Care FSA must be available when the year begins, even though your salary-reducing contributions to the Health Care FSA are made evenly throughout the year. In contrast, an HSA can pay out no more than its current balance.
- Difference #3 (Year-to-Year Carryovers): Health Care FSAs cannot carry balances over from one year to the next; you must "use it or lose it" under IRS regulations. HSA balances do carry over from one year to the next.
- Difference #4 (Post-Termination Reimbursements): If you terminate employment with your employer, expenses you later incur are generally not reimbursable by a Health Care FSA. (An exception applies if you elect and pay for COBRA continuation coverage under the Health Care FSA.) You own an HSA and it stays with you beyond termination of employment. You can use your HSA to pay for qualified medical expenses that are incurred at any time after establishing the HSA.
- Difference #5 (Reimbursement for Certain Premiums): Your HSA can pay your premiums for COBRA continuation coverage or health plan coverage while you are receiving unemployment compensation, qualified long-term care insurance coverage or qualified long-term care services. If you are over age 65, your HSA can also pay your premiums for Medicare Part A or B, Medicare HMO, and your share of premiums for employer-sponsored health plan coverage, including premiums for employer-sponsored retiree health insurance. Health Care FSAs cannot reimburse participants for any of the above. (Other group health insurance premiums are not reimbursable under either Health Care FSAs or HSAs.)
- Difference #6 (Claim Adjudication): You can be reimbursed under the Health Care FSA only if you provide Employee Benefits Corporation (or other administrator of the Health Care FSA) with an independent party's written substantiation, such as a bill,

of the medical expense. You can be reimbursed from your HSA without providing any such substantiation to the HSA trustee or custodian; an HSA has no "administrator." But you must maintain records of your medical expenses sufficient to show that the HSA distributions were made exclusively for qualified medical expenses and are, in turn, excludable from income.

FAQs

Q. What happens to my HSA if I die?

A. Any balance remaining in your HSA becomes the property of the beneficiary who you named in your HSA trust/custodial agreement. If the beneficiary is your surviving spouse, your HSA becomes your spouse's HSA. The spouse is taxed only to the extent of the distributions from the HSA that are not used for qualifying medical expenses. If the beneficiary is a person other than a surviving spouse, as of your death, the HSA ceases to be an HSA and the beneficiary is required to include the HSA balance in his or her income.

Q. Can I participate in an HSA if my spouse has disqualifying health coverage?

A. If you are covered by your spouse's disqualifying health coverage, such as a general-purpose FSA or non-HDHP health coverage, you cannot establish and contribute to an HSA. If the disqualifying coverage does not cover you in addition to your spouse, you may still be eligible to establish and contribute to an HSA.

Q. Can someone else contribute to my HSA account?

A. Yes, contributions can be made into your account by your employer, your spouse, another family member or entity (e.g., a governmental program). Those contributions count toward your annual maximum HSA contribution amount. In other words, the amount that someone else contributes into your HSA account reduces how much you can contribute.

Q. What if my spouse and I are both HSA eligible?

A. If you and your spouse each have single coverage, then you and your spouse both need to establish and contribute into your own HSA accounts. The amount that can be contributed into each account is the maximum for single plan coverage plus any applicable catch up contribution.

If you have family HDHP coverage that covers your spouse, the maximum that can be contributed into an HSA account or accounts is the family amount. That maximum contribution can be contributed into one account to cover the expenses of both spouses and other eligible family members. If the account holder is 55 or older, the maximum is increased by the catch up provision.

Or, you and your spouse can establish your own HSA accounts and make or receive contributions into that account to cover the expenses of both spouses and other eligible family members. However, the maximum that can be contributed into the separate accounts is the family maximum split between the two accounts in any percentage split you and your spouse agree on. The catch up provision would apply to the account holder and, if each spouse is eligible for the catch up provision, each spouse can contribute that extra amount into their own HSA account.

Contact Employee Benefits Corporation

Contact Employee Benefits Corporation if you have any questions about your BESTflex Plan.

Email: www.participantservices.com