City of SACRAMENTO
Department of Human Resources

HEALTH SAVINGS ACCOUNT INFORMATION

ACCOUNT-BASED HEALTH PLAN

What is an Account-Based Health Plan? An Account-Based Health Plan (ABHP) is the combination of a High Deductible Health Plan (HDHP) coupled with a Health Savings Account (HSA). It offers employees the choice of paying lower monthly premiums and is designed for you to be in control of your health costs. By enrolling in an Account-Based Health Plan, you may also enroll in a HSA to help pay for eligible medical expenses by contributing funds each pay period.

GENERAL PLAN OVERVIEW

What is an Account-Based Health Plan?

An Account-Based Health Plan offers lower monthly premiums than traditional copay plans, which may reduce out-of-pocket costs. With this plan, savings from the City's health contribution will be deposited into an HSA and the employee may contribute additional money into their HSA, up to the annual IRS limit. The money deposited each pay period into an HSA is taxed by the State of California but not subject to Federal income taxes. An HSA can used to pay for all eligible health expenses.

Account Based Health Plan

- Can have lower monthly premiums than other health plans.
- Provides quality health insurance.
- One calendar-year deductible per family.
- Can pay 100 percent of covered expenses after deductible is met.

Counting the Cost

When considering the ABHP plan, it is a good idea to do some research regarding potential out-of-pocket costs, especially if you or a dependent take maintenance medications. Review the City's Health Plan Coverage Summaries to compare plans and out of pocket costs for care.

FREQUENTLY ASKED QUESTIONS

What is an HSA?

An HSA is an individually owned account that allows pre federal tax dollars to be set aside to pay for qualified medical expenses, as defined by the IRS. The money can also be spent on IRS-qualified dental and vision expenses. The money saved with a lower monthly premium can be deposited into an HSA. Contributions made to an HSA, up to the IRS annual limits, will earn interest. HSAs are only available to those enrolled in an Account-Based Health Plan.

HSA Savings

- Used to meet your deductible.
- Federal tax deductible off of gross income.
- Grow tax deferred.
- Pay no federal taxes when used for qualified medical expenses.
- Roll over year after year -- no "use it or lose it".
- Portable; goes with you wherever you go.

HSA Savings can also be used for:

- Health insurance premiums when you're unemployed.
- Qualified long-term care premiums.
- Medicare premiums and out-of-pocket expenses.
- Living expenses after age 65 (pay ordinary income taxes).

ABOUT THE ACCOUNT-BASED HEALTH PLAN

What is a deductible and how does it work?

A deductible is the amount you must pay each year before your health insurance plan starts to pay the costs for covered medical expenses. Until your annual deductible is reached, your insurance will pay a portion of medical costs and the costs you pay are applied toward the deductible. After your annual deductible is met, you will only pay the plan's defined co-payments or co-insurance for medical services until you reach your annual out-of-pocket maximum. Once you have met the out-of-pocket maximum, the health provider will cover 100 percent of the medical services for the year. Please refer to your health provider's summary plan overview for more information.

Will I receive the same medical care and services as I currently do?

Yes. The only change you will see are lower premiums and the costs you will pay for medical services beyond preventative care. Annual exams are considered preventative care.

If I'm paying for doctor visits other than preventative care such as annual exams, how much will I be paying for an office visit?

The cost depends upon which healthcare provider you choose. All healthcare providers offer online estimating tools to use before doctor visits to determine if an Account-Based Health Plan is right for you.

How much will I save on my monthly health premiums?

Each employee's savings will be different depending on the health provider, number of people being enrolled, and the City's contribution toward health plans. The City's contribution varies per rep unit.

To determine an approximate savings, you will need to know:

- Your rep unit and associated labor agreement.
- What you currently pay for your HMO health plan.
- Choose an Account-Based Health Plan to compare to your current plan.
- Look up the City's contribution towards your health insurance.
- Subtract the City's contribution from your current monthly premium and vice versa – subtract the City's contribution from the Account-Based Health Plan.
- Compare the out-of-pocket costs for both after the City's contribution.

Is an Account-Based Health Plan with an HSA a good choice for me?
Do you currently have a way to pay for healthcare costs? Do you have a savings account specifically for medical expenses that is earning interest and can be invested to increase your savings? Are you aware of what you are charged every time you go to the doctor? Are you actively taking steps to prepare for your future medical expenses? All of these are good reasons to consider enrolling in an Account-Based Health Plan and contribute to an HSA.

If I enroll in the Account-Based Health Plan and am not satisfied, can I return to a traditional health plan?
You can only change your health plan coverage during the next annual enrollment period (usually October) or if you experience a Qualifying Life Event outside the annual open enrollment period. You can no longer make contributions to your HSA once you return to a traditional health plan, however, you can use your existing HSA funds to pay for qualifying health expenses.

ABOUT THE CITY'S HAS PLAN HELD WITH BANK OF AMERICA

Who is eligible to set up an HSA?
Employees who meet the following requirements are eligible to enroll in an HSA.

- Must be enrolled in a qualified Account-Based Health Plan.
- Must not be claimed as a dependent on anyone else's tax return.
- Currently not entitled to Medicare benefits.
- Must not be enrolled in any non-qualifying health coverage that does not satisfy the statutory minimum deductible requirements of the IRS.

You may not be eligible to open an HSA if you have a Flexible Spending Account or a Health Reimbursement Arrangement, or if you are covered under your spouse's Flexible Spending

Account or Health Reimbursement Arrangement. However, employees can have ***a limited-purpose*** Flexible Spending Account for **dental and vision expenses** only and be enrolled in an HSA for medical expenses.

Am I required to enroll in an HSA?
Yes. If enrolled in an Account-Based Health Plan and you meet eligibility requirements, you are required to enroll in the City's HSA plan with Bank of America. The amount you decide to contribute to your HSA is at your discretion.

What are the maximum IRS allowed Health Spending Account contributions?
The contribution amount is total regardless of if it is made by the employee or employer or a combination of both. There is a "catch-up" provision for anyone 55 or older; additional contributions up to $1,000 can be made without penalty. Information about annual HSA contribution limits can be found on the IRS website.

You cannot contribute more than the annual maximum amount allowed by IRS to a Health Saving Account – there are associated IRS penalties if contributing more than the maximum annual amount.

What are the advantages of an HSA?
Employees who open an HSA receive the following benefits:

- Contributions are pre-tax by the federal government.
- Unused funds roll over annually. No "use or lose" penalty.
- Unused funds stay with you through all life changes, including a new job, new health plans, and retirement.
- Funds can be used to pay for any IRS-approved medical, dental and vision expenses.
- Tax-free growth, current interest rates apply.
- After 65, or if you become disabled, you can use the funds for whatever you choose penalty free.

What are the tax benefits?
There are major tax advantages to your HSA.

1. Contributions to an HSA are 100 percent deductible from your federal gross income (within legal limits).
2. Contributions to an HSA are taxed as income from the State of California.
3. Interest on savings accumulates tax deferred.
4. Withdrawals from an HSA for "qualified medical expenses" are free from federal income tax.

How can I make contributions to my HSA?

Contributions are made through payroll deductions on the first two paychecks of a month. Additional contributions can be made directly (not through payroll) to your HSA by anyone such as a family member or yourself, up to the annual maximum contribution.

What type of expenses can be paid for with an HSA?

Eligible medical expenses in IRS Code Section 213 can be paid from an HSA. They include, but are not limited to, the following:

- Standard medical services such as office visits.
- Prescribed health care products.
- Preventive and restorative dental care, as well as braces for children and adults.
- Eyeglasses, contact lenses and solutions and laser eye surgery.
- Co-payments, coinsurance, and deductibles.
- Acupuncture and chiropractic services.

A comprehensive list of eligible expenses can be found on the IRS website.

Is there a penalty for using my HSA to pay for non-qualifying expenses?

Yes. A 10 percent tax penalty will be assessed and you will have to report the amount of the withdrawal as taxable income for the year. You are responsible for saving your receipts in the event you are audited by the IRS.

How do I utilize my HSA?

Bank of America will issue you a Visa debit card with a four-year expiration date. There are no claim forms – you pay your portion of medical expenses with your Visa debit card.

Can I invest my Bank of America HSA funds?

Yes. Once your HSA balance reaches $1,000, you can invest any portion above this amount in select mutual funds with no additional fees.

Does my money in an HSA earn interest?

Yes. When you enroll, an interest-bearing deposit account is set up at Bank of America. Funds in the account can grow through tax-advantaged earnings, much like an IRA. Additional investment options may be available after your account balance reaches $1,000.

Can I still enroll in a Flex Spending Account?

Yes. You can enroll in a *limited-purpose* Flex Spending Account to be used for qualifying **dental and vision expenses only**. You cannot use both a Flex Spending Account and a Health Saving Account for medical expenses per the IRS.

What happens to my HSA if I leave City employment or switch back to a traditional HMO plan?
Nothing, you own your account. You can take your HSA with you to a new employer or into retirement. You will no longer be eligible to make contributions to your HSA if you switch back to a traditional HMO plan, however, the existing funds can be used to pay for qualifying health expenses.

For more information on Bank of America's Health Saving Account, please visit: https://healthaccounts.bankofamerica.com/.

Important Reminder: Contributions to an HSA are not taxed by the Federal Government. Currently the State of California does tax contributions.