

TUFTS HEALTH PLAN'S HSA OPTION

Tufts Health Plan's newest product option, the Health Savings Account (HSA), is available with our front-end deductible Advantage Saver HMO and PPO plans. Tufts Health Plan's HSA option is a tax-exempt account, that employees can use to pay for qualified medical expenses (as defined by IRS Publication 502, Section 213(d)) incurred by the employee and his/her eligible dependents.

In order to establish an HSA, the employee must be covered under one of the Advantage Saver Plans, which are high-deductible plans designed to meet IRS requirements for HSA compatibility.

The HSA account belongs solely to the employee. Should the employee terminate employment, or change to a health plan that is not HSA compatible, the funds in the HSA still belong to the employee and can continue to be used for qualified medical expenses. But the employee can no longer contribute to the account until such time as he or she is covered under another HSA compatible health plan.

Contributing to an HSA

HSA contributions can be made by both the employer and the employee. In fact, IRS regulations allow anyone to make a contribution to an employee's HSA on the employee's behalf, including family members.

Contributions can be made between January 1st and April 15th of the year following an employee's incurrence of a qualified medical expense. For example, you can contribute to an HSA through April 15th of 2008 to pay for 2007 HSA qualified expenses. This is similar to the rules for contributing to Individual Retirement Accounts (IRAs).

In accordance with 2009 IRS regulations, employees can make tax deductible contributions to the HSA on an annual basis up to a maximum of \$3,000 (individual) and \$5,950 (family).

Employees who are 55 and over are eligible to make "Catch Up Contributions" each year until they enroll in Medicare.

Employees must be actively enrolled in an HSA compatible health plan like Advantage Saver in order to make contributions. If they terminate employment or change to a health plan that is not HSA compatible, contributions to the HSA must stop, but the employee may continue to use existing funds for qualified medical expenses. Employees may begin making contributions again if they enroll in an HSA qualified health plan.

Using Funds

HSA funds can be used in a variety of ways:

- Funds can be used to pay for qualified expenses (as defined by Section 213(d)) tax free. This will include all Tufts Health Plan covered expenses, as well as other health care services that fall outside of the plan's benefits.
- Funds can be used to pay for health insurance premiums if the employee is receiving unemployment benefits or COBRA continuation benefits.

Funds can only be contributed to the HSA while an HSA compatible health plan is effective, but can be withdrawn at any time to pay for qualified expenses—even if the employee is not enrolled in an HSA compatible health plan. Funds that remain in the HSA rollover annually, allowing the employee to build up savings for future qualified medical expenses, while earning interest, tax-free. Prior to age 65, requests for HSA distributions for non-qualified medical expenses are subject to the income tax as well as a 10% tax penalty. For members over the age of 65, such requests for distributions are still taxable, but not subject to the 10% penalty. Distributions for qualified medical expenses for members over the age of 65 are tax-free.

Frequently Asked Questions about the Tufts Health Plan HSA Option

Who contributes to the HSA? The employer and the employee both have the option to contribute to the HSA. In addition, IRS regulations allow anyone to make contributions to an employee's HSA on his or her behalf.

Do funds in the HSA roll over from year to year? Yes. The employee owns the money forever, so the funds always belong to him or her.

When are funds available? Funds are available as soon as they are credited to the employee's HSA.

What expenses are eligible for reimbursement? Qualified medical expenses (as defined by IRS Publication 502, Section 213(d)) incurred by the employee and his/her eligible dependents are eligible for reimbursement.

Is it possible for employees to cash out an HSA? Yes. The HSA belongs to the employee and can be closed or cashed out at any time. Any distributions that are not used as reimbursement/payment for qualified medical expenses as defined by IRS Publication 502, Section 213(d) will be subject to a tax penalty.

If you cash out an HSA and do not put the funds into a new HSA, the funds are considered taxable income.

Are HSAs tax-deductible? Contributions to the HSA are tax-deductible to the employee.

Are HSA distributions taxable to employees? HSA distributions used as reimbursement/payment for qualified medical expenses as defined by IRS Publication 502, Section 213(d) are not taxable. However, distributions used for non-medical expenses are subject to income tax and a 10% tax penalty.

Is the HSA portable? Yes, the funds are fully portable and always belong to the employee.

U.S. News and World Report and the National Committee for Quality Assurance (NCQA) State of Health Care Report recently named Tufts Health Plan the number three health plan in the nation.

For more information, contact the sales offices at:

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