Frequently Asked Questions QHDHP and HSA

QHDHP Questions

Q. What is a QHDHP?

A. A Qualified High Deductible Health Plan (QHDHP) is a plan that meets certain IRS criteria. You must be covered by a Qualified High Deductible Health Plan to contribute to a Health Savings Account (HSA). Here are the basic requirements: .

- For 2021, the plan deductible must be at least $1,400 for single or $2,800 for family coverage.
- For 2021, the plan's maximum out-of-pocket must be less than or equal to $7,000 for single or $14,000 for family coverage, including the deductible.
- All covered medical services, including prescriptions, are integrated with the medical deductible and out-of-pocket maximum.

Q. Can a health plan that doesn't have a deductible for preventive care still qualify as a QHDHP?

A. Yes, a plan can still be considered a Qualified High Deductible Health Plan even if it doesn't have a deductible–or has just a small deductible or Copayment – for preventive care. Preventive care may include periodic health evaluations, routine prenatal and well-child care, child and adult immunizations, and certain screening services.

Q. If my health plan has a lifetime maximum limit on certain benefits, does it still qualify as a Qualified High Deductible Health Plan?

A. Yes. A lifetime maximum limit on certain benefits does not keep a plan from qualifying as a Qualified High Deductible Health Plan.

Q. Is it more expensive under the QHDHP to use out-of-network providers?

A. Yes. You will be responsible for a larger portion of the costs with out-of-network providers.

Q. Can I be covered by another health plan and still be eligible for an HSA?

A. The answer depends on the type of coverage you have with the other plan:

- If the other plan is not a Qualified High Deductible Health Plan or you have a Flexible Spending Account (FSA) or a Health Reimbursement Arrangement (HRA) under the other plan that pays for medical expenses, you're not eligible for an HSA.
- If the other plan is a Qualified High Deductible Health Plan, you are eligible for an HSA. And it's OK if you have an FSA or HRA with this second qualified high deductible plan as long as you can't use the FSA or HRA to pay for medical expenses until you satisfy the deductible. However, you can use these spending accounts to pay for vision, dental care, and preventive services at any time.

Q. What other types of health coverage can I have and still have an HSA?

A. You can have an HSA if you have one or more of the following types of coverage in addition to a Qualified High Deductible Health Plan:

- Insurance under which most of the coverage relates to workers' compensation laws, lawsuits, property ownership, or use of property, such as automobile insurance
- Insurance for a specified disease or illness, like a cancer policy
- Insurance paying a fixed amount per day – or other period – of hospitalization
- Coverage – whether through insurance or otherwise – for accidents, disability, dental care, vision care, or long-term care
- Employee assistance program, disease management, or wellness programs
- Drug discount cards
- Eligibility for Veterans Affairs (VA) benefits, unless you have received VA health benefits in the last three months

Frequently Asked Questions QHDHP and HSA

Establishing an HSA

Q. Am I eligible for an HSA?

A. To be eligible, the following must be true:

- You must be covered by a Qualified High Deductible Health Plan
- You cannot be claimed as someone's dependent
- You are not covered by other disqualifying insurance as described in the previous questions
- You are not enrolled in Medicare

Q. Whose responsibility is it to set up an HSA account?

A. It is solely your responsibility. This account belongs to you, not your employer.

Q. How can I set up an HSA?

A. If you are eligible for an HSA, you can open one with a qualified HSA trustee or custodian, such as a bank or insurance company. You don't need permission from the IRS.

Q. If I enroll in a Qualified High Deductible Health Plan but waive the HSA, can I establish an HSA later?

A. Yes. You can contribute the maximum amount for the year - in 2020, that's $3,550 for single coverage or $7,100 for family coverage-regardless of when you enroll; in 2021, that's $3,600 for single coverage or $7,200 for family coverage-regardless of when you enroll.

Contributions to HSAs

Q. Who can contribute to my HSA?

A. Any person – an eligible individual, an employer, a family member, or any other person – can contribute to your HSA. Each contribution counts toward the maximum amount you can contribute to the HSA in the year. See your tax advisor for details.

Q. Is there a lifetime maximum contribution limit for the HSA?

A. No. Contribution limits only apply to the annual IRS-allowed amount.

Q. How much can I contribute to an HSA?

A. The maximum amount you can contribute to an HSA in any year is dependent on whether you have single coverage or family coverage. The IRS-allowed amounts for 2021 are $3,600 for single coverage and $7,200 for family coverage.

Q. When can I make "catch-up" contributions to an HSA?

A. If you are age 55 and older, or turning 55 during the calendar year, you can make additional catch-up contributions to your HSA. For 2021, the maximum additional catch-up contribution is $1,000. If you have QHDHP coverage for the full year, you can make the full catch-up contribution, no matter when your 55th birthday falls during the year. If you do not have QHDHP coverage for the full year, you must prorate your catch-up contribution for the number of full months you're eligible – i.e., had QHDHP coverage. However, if you are covered on December 1, you are treated as an eligible individual for the entire year and you can make the full contribution.

Q. How do I make contributions to my HSA?

A. As long as you are not a partner, self-employed, or greater than 2% S-Corp shareholder, you can contribute through payroll deductions, which are tax-free contributions. You also can make cash contributions directly into your HSA. Banks typically accept rollovers or transfers of assets from an Archer Medical Savings Account (MSA), Individual Retirement Account (IRA), or another HSA – in accordance with the IRS requirements – as long as these rollover contributions are made in cash.

Frequently Asked Questions QHDHP and HSA

Contributions to HSAs *(cont.)*

Q. How can I change my contribution amount during the plan year?

A. You can change your payroll deduction amount or stop contributing on a quarterly basis by letting your employer know.

Q. How are my HSA contributions treated on my federal taxes?

A. When you contribute to an HSA, you can deduct the amount – up to the maximum contribution limit discussed above – from your adjusted gross income. You can deduct your contributions even if you don't itemize.

Banks typically send required forms annually to the IRS and to you for year-end tax preparation. State tax treatments may vary. You should consult a tax advisor to address specific circumstances.

Q. What if my employer makes a contribution to my HSA, but I never set up my HSA account?

A. You will forfeit the employer contribution.

Q. How are employer contributions to my HSA treated on my taxes?

A. If your employer makes a contribution to your HSA, the contribution is not taxable to you. The contribution is excluded from your income. You should consult a tax advisor to address specific circumstances.

Q. When is the yearly deadline for contributions to my HSA?

A. You can make HSA contributions for a particular year no later than the deadline, without extensions, for filing your federal income tax return for that year. For example, you can make contributions for 2020 until April 15, 2021. You can make contributions for 2021 until April 15, 2022. This information is only applicable to individual contributions, not your regular payroll deductions.

Q. Who is responsible for determining the amount of eligible contributions?

A. Under IRS rules, as the accountholder, you are responsible for determining the amount of eligible HSA contributions each year. Check with your tax advisor about your personal situation.

Q. What happens if my HSA contributions exceed the amount that may be deducted or excluded from my gross income?

A. Contributions you or anyone else, such as your employer, make to your HSA that exceed the amount allowed by law, or which are made during any year when you're not eligible to contribute, are called "excess contributions." You cannot deduct these excess contributions, and they are included in your gross income. There is also a 6% penalty on the excess funds, including any earnings through interest or investments, for each year they remain in your HSA. However, you can avoid this tax on excess contributions if you don't deduct the contributions on your taxes, and you take them out of your HSA along with any interest or capital gains they've earned, before the due date for filing your federal income tax return, including extensions, for the year in which you made the excess contributions.

If you take the excess funds out of your HSA, the funds and any net income from the excess contribution is taxable as income for the year in which the contribution was made. Rollover contributions from a previous year or from an Archer MSA don't count when determining if you've made an excess contribution. Funds transferred from an Individual Retirement Account (IRA) do apply to the maximum contribution limit. Note: if you roll over HSA funds from another HSA, and those contributions were made in the same calendar year, the rollover would apply to the limit.

Contributions to HSAs *(cont.)*

Q. When can I begin making contributions?

A. If you just signed up for the Qualified High Deductible Health Plan and HSA, you are required to wait until after the effective date of the plan before contributing to the HSA. If you contribute before the effective date, you are essentially contributing without Qualified High Deductible Health Plan coverage, and the contributions would then be subject to a penalty.

Using HSA Funds

Q. Does my entire yearly HSA contribution have to be in the account before I can use the funds?

A. No. You don't have to wait until all the funds are deposited to start making withdrawals, but you can only spend money actually in the account.

Q. How do I access my HSA funds?

A. You will receive a debit card (thru most banks) that you can use to pay expenses directly from your account. Swipe the card at the provider's office or pharmacy. Or write the card number on your provider's bill to pay directly from the HSA.

Q. Can my HSA cover expenses that are not covered under my Qualified High Deductible Health Plan?

A. Yes. In addition to using the HSA for expenses that count toward your deductible, you can use it for expenses like over-the-counter drugs (with a written prescription), vision care, dental services, and even long-term care insurance.

Q. What happens if all my HSA funds are gone, but I still have a deductible left to satisfy?

A. You are responsible for paying your medical expenses until you reach the deductible. Even if you put enough in your HSA to cover your deductible, you may come up short if you use HSA funds for over-the-counter drugs (with written prescription), dental services, or vision expenses.

Q. Do I have to use all my HSA funds each year?

A. No. Your HSA is like a savings account. The funds remain in your account until you spend them.

Q. How can I find out how much is in my HSA?

A. To view the current balance and account activity, you can go online to your bank's website and review your account summary. It's a good idea to check your balance just to be sure you have sufficient funds to cover the entire expense.

Q. What happens if I use HSA funds for non-qualified expenses?

A. If you use HSA funds for expenses the IRS doesn't allow, you could be charged tax and penalties by the IRS. You should check with a tax advisor for advice on handling this situation. It's best to pay the funds back to the HSA account by filling out a deposit slip with the payment and checking the "redeposit" box.

Q. If my Debit Card doesn't work, what could be wrong?

A. The most common reasons a Debit Card is declined are:

- The card hasn't been activated
- You are using the card at a non-qualified location
- You don't have enough money in the HSA to cover the expense

Frequently Asked Questions QHDHP and HSA

Using HSA Funds *(cont.)*

Q. How do I pay for prescriptions and other medications with the debit card?

A. Present the card for payment or swipe it through the credit card machine at the pharmacy counter. The funds are automatically taken out of your HSA. You can also buy qualified over-the-counter (OTC) medications with the card.

Q. How do I pay doctors' bills using my HSA?

A. Unless the doctor requires payment at the time of service, wait until the doctor sends a bill showing what is owed after the claim is processed. Then check the box on the bill to include the 8-16 digit debit card number, and send the bill back to the provider. You can also give the doctor the account number over the phone.

Q. If I overpay a doctor, what's the process for reimbursement?

A. Ask the doctor's staff to credit the HSA account by swiping the debit card and reversing the charge for the overpayment. If the doctor sends you a check instead, endorse the check and send it to your HSA Bank with a deposit slip. Be sure to mark the "Redeposit" box on the deposit slip.

Q. What should I do with my receipts for HSA transactions?

A. Save all receipts and documentation for all HSA transactions in case the IRS asks for verification that a distribution was for a qualified medical expense. It is your responsibility to maintain records in case of an IRS audit.

Q. What happens if my healthcare expense is more than the amount in the HSA?

A. If the expense is more than the current HSA balance, use the debit card to pay the exact amount left in the account and pay the remaining cost by some other means. Once more funds are added to the HSA, you can request reimbursement.

Q. Can I save my HSA funds for retirement healthcare expenses rather than using them now?

A. Yes, you can save your HSA funds for future healthcare expenses.

Investments and HSAs

Q. Is the HSA an investment account?

A. Think about your HSA as two accounts. First and foremost, the HSA is an interest-bearing savings account that allows you quick and easy access to pre-tax dollars to help you pay for healthcare expenses. Your employer's contribution and any contributions you make go into this savings account.

Once you reach a minimum balance to keep as a reserve in your savings account for healthcare expenses, you can invest the remaining dollars in a self-directed brokerage account or a money market fund sweep account. You have a wide range of nationally recognized funds to choose from.

Q. What is the minimum balance I must have in my HSA to have an investment account?

A. Different banks have different criteria for minimum balances. Transaction fees may apply if you elect to invest your HSA money in mutual funds or other investments. Check with your respective bank for specific information.

Frequently Asked Questions QHDHP and HSA

Dependents and HSAs

Q. I AM DIVORCED AND COUNT MY DAUGHTER AS A DEPENDENT ON MY TAX RETURN EVERY OTHER YEAR. CAN I COVER HER UNDER MY QHDHP AND USE HSA FUNDS TO PAY FOR HER MEDICAL EXPENSES?

A. Yes. The IRS allows divorced parents to use HSA dollars to pay for dependent expenses as long as the child is a qualified dependent under Internal Revenue Code Section 152. A child of divorced or separated parents can be treated as a dependent of both parents. Each parent can use their HSA funds to pay for the child's qualified medical expenses, even if the other parent claims the child's dependency exemption, if:

- The child is in the custody of one or both parents for more than half the year;
- The child receives over half of his/her support during the year from his/ her parents; and
- The child's parents:
  - Are divorced or legally separated under a decree of divorce or separate maintenance;
  - Are separated under a written separation agreement; or
  - Live apart at all times during the last 6 months of the year.

Q. IF BOTH SPOUSES ARE COVERED INDIVIDUALLY BY THEIR RESPECTIVE EMPLOYER, WHO DETERMINES WHO COVERS CHILDREN?

A. If dependents are covered under both policies, the dependents will be primary on the plan for the parent who has a birthday first in the calendar year. Example: if you and your spouse both cover your children and your birthdays are March 10 for mom and July 9 for dad, the dependents would be primary on mom's plan. This is a standard practice among all insurers.

Q. IF I COVER MY CHILD AND MYSELF ON MY PLAN, AND MY EX-HUSBAND COVERS HIMSELF AND OUR CHILD ON HIS PLAN, CAN I ELECT THE HSA if our child is claimed as a dependent on his taxes?

A. Yes. You can have a Qualified High Deductible Health Plan covering employee and child. Your husband can continue to cover your child as well. The IRS rule revolves around who is the owner of the HSA. Since you, and not your child, own the HSA, you can elect the HSA and your child can still be covered under both plans.

Q. IF MY CHILD HAS ACADEMIC COVERAGE FOR SPORTS, CAN I STILL COVER HIM OR HER AS A DEPENDENT UNDER MY QUALIFIED HIGH DEDUCTIBLE HEALTH Plan with HSA?

A. Yes. You can still cover the child on the Qualified High Deductible Health Plan and use HSA dollars for the child's medical expenses.

Rollovers and Transfers from HSAs or MSAs

Q. WHAT ARE THE RULES ABOUT ROLLOVERS AND TRANSFERS OF HSAS?

A. If you have HSAs or Archer MSAs with other financial institutions, you can transfer these funds into your HSA, either by rollover or transfer.

- Rollovers –The current trustee of the funds – the custodian – writes a check to you. You have 60 days to deposit the check into your HSA or you'll be subject to taxes and penalties. By law, this method is limited to one rollover per calendar year per account.
- Transfers –The current trustee sends the money directly to your trustee on your behalf. The law permits multiple transfers, but trustees aren't obligated to do multiple transfers. Either trustee can put limits on sending or receiving fund transfers, and bank fees may be applied to the transactions. You may have to pay an account-closing fee to the current account trustee.

Frequently Asked Questions QHDHP and HSA

Rollovers from an Individual Retirement Account (IRA)

Q. Do I have to keep QHDHP coverage to avoid taxes on the transfer of IRA funds to an HSA?

A. To avoid taxes and penalties, you must be covered by an QHDHP and remain a qualified individual for 12 months after the transfer of funds.

Q. When and how can I transfer funds from my IRA to my HSA?

A. The IRS allowed IRA-to-HSA transfers starting January 1, 2007.You can do this kind of transfer only one time. However, if you change coverage from single to family in the same year, you may elect to transfer additional funds from the IRA, as long as you don't exceed the maximum annual contribution limit.

Q. What types of IRAs are allowed to transfer to an HSA?

A. An individual can transfer funds from Traditional or Roth IRAs only. SEP and Simple IRAs do not qualify for transfer.

Tax Treatment of HSAs

Q. How are earnings on HSA funds treated for federal tax purposes?

A. Earnings on amounts in an HSA are not taxable unless the earnings are used for ineligible expenses - generally something other than healthcare. Some states do tax HSA funds, so check with your tax advisor.

Q. Are there any tax issues if I pledge my HSA as security for a loan?

A. Any portion of your HSA that you pledge as security for a loan is treated as being distributed to you in that year. In addition to any regular income tax you owe, you may also be liable for a 20% penalty for ineligible distribution.

Q. What tax forms relate to HSAs?

A. HSA-related forms include:

- Form 1099-SA – your account custodian, sends this form to you by January 31. The form reports all distributions from your account.
- Form 5498-SA – your account custodian sends this form to you by May 31. The form reports all contributions, rollovers, and transfers to your account. You can also view your paycheck deductions on the W-2 form your employer sends.
- Form 8889 –You or your tax preparer complete this form when you file your taxes. The form reports all HSA contributions and distributions – information shown on your 1099-SA and W-2.

Frequently Asked Questions QHDHP and HSA

Distributions from HSAs

Q. When can I withdraw funds from my HSA?

A. You can withdraw funds from your HSA at any time.

Q. How are distributions from my HSA taxed?

A. Distributions from your HSA are generally excluded from federal income tax if you are using the money for healthcare expenses not covered by insurance. If you use the funds for anything other than healthcare expenses, the distribution is included in your taxable income, and you may incur an additional penalty.

If you are under age 65 and use your HSA funds to pay for a non-qualified medical expense, you will pay income taxes and a 20% (10% for distributions before 2011) excise tax on that amount. If you are over 65, or become disabled at any age, and use your HSA funds to pay for a non-qualified medical expense, you will pay ordinary taxes (but not excise tax) on that amount. It is your responsibility to pay the taxes and/or penalties on HSA withdrawals used for non-qualified medical expenses and report them on your tax return. Failure to do so may result in additional penalties.

Q. What happens if I receive an HSA distribution as the result of a mistake?

A. If the IRS is satisfied that there is clear and convincing evidence that amounts were distributed from your HSA because of a reasonable mistake, you may repay the mistaken distribution no later than April 15 following the first year you knew, or should have known, about the mistake. Under these circumstances, the distribution isn't included in your gross income or subject to the 20% penalty (10% for distributions before 2011). The repayment is not subject to the 6% penalty for excess contributions, but it will be subject to payroll and income taxes.

Q. What expenses are eligible for tax-free distribution from my HSA?

A. Distributions made for "qualified medical expenses" are generally excluded from your taxable income. "Qualified medical expenses" means amounts paid for healthcare, as defined in Section 213(d) of the Code and Publication 969, for yourself, your spouse, or your dependents – but only if the care was not covered by insurance or another health plan, including a Limited Purpose FSA.

Qualified medical expenses include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body, as well as for transportation primarily for and essential to such care. Qualified medical expenses don't include insurance premiums other than premiums for long-term care insurance, premiums on a health plan during any period of continuation coverage required by federal law, COBRA coverage, or premiums for healthcare coverage while an individual receives unemployment compensation.

Q. Is my custodian responsible for determining whether HSA distributions are used for healthcare expenses?

A. No, it is your responsibility to determine the tax consequences of any distributions, to maintain adequate records for tax purposes, and to pay any taxes and penalties resulting from a distribution. Please consult your legal or tax advisor with any questions.

Q. If I am a retiree and age 65 or older, may I receive tax-free distributions from an HSA to pay my contribution to my employer's retiree health coverage?

A. After age 65, you may receive tax-free distributions from an HSA to pay for your employer's retiree health insurance coverage.

Distributions from HSAs *(cont.)*

Q. If I am a retiree who is enrolled in Medicare, can I receive a tax-free distribution from an HSA to reimburse my Medicare premiums?

A. Yes, these distributions are tax-free. When your Medicare premiums are deducted from your Social Security benefits, you can use your HSA to reimburse the Medicare premium deduction, and it's considered a qualified medical expense.

Divorce or Death of HSA Accountholder

Q. What happens if my HSA is transferred because of a divorce decree?

A. If your HSA is transferred to your spouse because of a divorce decree, it's not considered a taxable transfer. After the transfer, your former spouse is the accountholder of the HSA, but the former spouse must ask your bank to transfer the account to his or her name, must provide the bank with a certified copy of the divorce decree and property settlement or transfer agreement, and must sign appropriate documents to establish the account in his or her name.

Q. What happens to my HSA when I die?

A. You can designate one or more beneficiaries to receive your HSA when you die. At any time you can also cancel a beneficiary designation and, if desired, designate different individuals as beneficiaries. If you don't have a valid beneficiary designation, the bank typically distributes your HSA assets to your estate. In certain states, you'll need your spouse's consent if you wish to name a person other than, or in addition to, your spouse as beneficiary or change an existing beneficiary designation. Consult with your attorney before making a beneficiary designation.

Q. What are the tax consequences of HSA distributions following my death?

A. If your spouse is the named beneficiary of your HSA, your HSA becomes your spouse's HSA. The surviving spouse is not required to include any HSA amount in gross income for tax purposes as a result of your death, and he or she is subject to income tax only on those distributions that are not made for qualified healthcare expenses.

If, at your death, your HSA passes to a named beneficiary other than your spouse, the HSA ceases to be an HSA as of the date of your death. The beneficiary is required to include the fair market value of the HSA assets – at the date of your death – in his or her gross income for the taxable year that includes the date of death. The includable amount is reduced by the amount in the HSA used, within one year of your death, to pay your qualified healthcare expenses incurred before death. If there is no named beneficiary of your HSA, the HSA ceases to be an HSA as of the date of your death, and the fair market value of the HSA assets as of the date of death is included in your gross income for the year you died.

Statements and Filing Requirements

Q. What information do I need to file with the IRS?

A. Your Bank typically sends a 1099 Form to the IRS and to you each year showing the value of your HSA as of December 31 of the previous year along with a report of the contributions to your HSA for the previous year. The Bank reports all contributions as tax-deductible contributions by you, unless they receive:

1. Certification from your employer that the employer made contributions
2. Notification from you that a contribution is a rollover or transfer contribution

Unless you give the bank written notice otherwise, the bank assumes that any distribution, whether by check, debit card, or otherwise, is a "normal distribution" for tax reporting. Normal distributions include distributions for qualified healthcare expenses and exclude:

- Return of excess contributions
- Distributions following your disability
- Distributions following your death
- Prohibited transactions

You or your tax preparer will complete Form 8889 when you file your taxes. The form reports all HSA contributions and distributions – information shown on your 1099-SA and W-2.

Mid-Year Enrollees to the QHDHP and HSA

Q. What is a mid-year enrollee?

A. A mid-year enrollee is anyone who enrolls in an QHDHP with an effective date other than January 1, or becomes eligible to contribute to the HSA after January 1.

Q. If I enroll in an QHDHP after January, how much can I contribute for the year?

A. For 2021, you may contribute $3,600 for single coverage and $7,200 for family coverage – regardless of the enrollment date.

Q. If I enroll after January, do I have to keep QHDHP coverage to avoid taxes on a full-year contribution?

A. You must be covered by an QHDHP and remain a qualified individual for the remainder of the current taxable year and the following year. If not, you will be subject to taxes for the months not covered by an QHDHP.

Miscellaneous

Q. Should I know about any other legal requirements?

A. In addition to the legal requirements mentioned in this question and answer document, your HSA is subject to the following rules:

- You can't invest your HSA funds in life insurance contracts
- With the exception of investments in a common trust fund or common investment fund, you can't mix your HSA assets with any other funds or accounts

Q. What happens to my account if I leave my current employer?

A. Your HSA is yours forever and is portable, so it goes with you if you leave your employer. You can still use the funds even if you don't get an QHDHP elsewhere. However, you can keep contributing to the HSA only if you enroll in another QHDHP.

Q. Where can I go to find more information about IRS regulations for HSAs?

A. Go to www.irs.gov and type "HSA" in the search box at the top of the home page.

Q. What happens if I have a life event, like getting married or having a child?

A. Consult with your human resources representative. When you change your coverage type or deductible level, your maximum annual contribution limit may be affected.

EXAMPLES

Appendix A – How it works example – single coverage

Lucy enrolls in a Qualified High Deductible Health Plan with the following features:

- $2,500 single deductible
- 80% coinsurance for in-network providers

She also has a Health Savings Account. Even though Lucy can put up to $3,600 (in 2021) in a Health Savings Account, Lucy funds the account up to the $2,500 deductible.

Year 1	Year 2
Lucy's healthcare costs are higher than usual because she breaks her leg. Her expenses for the year total $10,865: • Hospital doctor's services.. $650 • Hospital facility cost .... $7,500 • X-rays at hospital .... $1,200 • Specialist Office visit .... $315 • Six physical therapy sessions .... $1,050 • Two prescriptions.. $150	Lucy's healthcare costs aren't as high as last year. She has an illness that requires two visits to the doctor's office and two prescriptions. Her expenses for the year total $435: • Two doctor's office visits .... $200 • Two prescriptions $235
Here's how Lucy uses her HSA to pay for healthcare HSA funds... $2,500 Total cost of services .... $10,865 Lucy uses HSA to pay deductible .... $2,500 Balance of cost of services .... $8,365 PPO plan pays 80% of costs ....$6,692 Lucy pays remaining 20% .... $1,673 HSA funds remaining $0	Here's how Lucy uses her HSA to pay for healthcare HSA funds.. $2,500 Total cost of services .... $435 Lucy uses HSA to pay .... $435 HSA funds remaining $2,065
Summary When the accident happened, Lucy used the HSA dollars deposited so far to cover her deductible. She wrote a check for the rest and then got reimbursed from her HSA when more money went into the account. After Lucy used the HSA to meet her $2,500 deductible, her health plan kicked in to help her pay the remaining $6.692. The plan paid 80% coinsurance, and Lucy paid the other 20% out of pocket. Because she used all the money in her HSA, Lucy has a zero balance at the end of the year.	Summary Because her healthcare expenses were only $435, Lucy didn't use all of her HSA funds. She also didn't have to use any of her take-home pay to cover out-of-pocket costs. At the end of the year, she has $2,065 left. She can use the money tax-free for healthcare expenses in the future and even invest it tax-free.

These examples are for illustration only. The amounts will vary depending on the plan selected and the number of people covered.

EXAMPLES *(cont.)*

Appendix A – How it works example – family coverage

Doug chooses a Qualified High Deductible Health Plan that covers himself, his wife Tina, and their two children – four-year-old John and newborn Julie.

- $5,000 family deductible
- 80% coinsurance for in-network providers

Even though Doug and his employer can put up to $7,200 (in 2020) in a Health Savings Account, Doug funds the HSA account up to the $2,500 deductible.

Year 1	Year 2
Both children get sick once during the year. Not surprisingly, they spread the illness to their dad – but Tina manages to avoid it. Doug, John, and Julie each visit the doctor once. Doug and John need a prescription to treat the illness, and John gets some lab tests. The family's expenses for the year total $775: • Three doctor's office visits .... $300 • Lab tests ....$100 • Three prescriptions $375	This year, John is injured – leading to X-rays, a three-day hospital stay, knee surgery, and two prescription drugs. On top of that, both Tina and Julie get sick and have to go to the doctor. The family's expenses for the year total $7,710: • Hospital care .... $3,000 • X-rays .... $250 • Surgeon and anesthesiologist......................... $4,000 • Two doctor's office visits .... $200 • Two prescriptions $260
Here's how Doug uses an HSA to pay for healthcare HSA funds .... $2,500 Total cost of services .... $775 Doug uses HSA to pay... $775 HSA funds remaining $1,725	Here's how Doug uses an HSA to pay for healthcare HSA funds .... $4,225 ($2,500 for Year 2 + $1,725 Rollover from previous year) Total cost of services... $7,710 Doug uses HSA to pay deductible................ $2,500 Balance of cost of services .... $5,210 PPO plan pays 80% of costs .... $4,168 Doug pays remaining 20% with HS .... $1,042 HSA funds remaining $683
Summary Because the family's healthcare expenses were only $775, Doug didn't use all of his HSA. At the end of the year, he's spent $775 on out-of-pocket costs, and he still has $1,725 left to use for future healthcare expenses.	Summary Doug used the $2,500 in his HSA to meet the plan's deductible, leaving $1,725 in his account. After meeting the deductible, the family's health benefits kicked in to pay 80% of the remaining healthcare costs. Doug paid the other 20% with his HSA, and he still has $683 left to use for future healthcare expenses.

These examples are for illustration only. The amounts will vary depending on the variation of benefits.