

Frequently Asked Questions (FAQ) about High Deductible Health Plans (HDHP), Health Savings Accounts (HSA), and changing from a traditional PPO insurance product to a Health Savings Account eligible plan with Blue Cross of Nebraska (BCBSNE)

- 1. What is the \$2,850 deductible plan? An HSA plan or a HDHP plan?**

Strictly speaking, it is an HDHP. The Health Savings Account is used to pay expenses from a high-deductible health plan on a tax-preferred basis. It is common to use the two terms interchangeably when referring to the health insurance plan, but there is a technical difference: you have the HDHP with BCBSNE, but would set up an HSA with a financial institution like Union Bank to pay your claims with pre-tax money.
- 2. Can the spouse of the retiree switch to the HDHP without the retiree switching?**

Yes. It is best that you have two single policies to make the conversion. If you have dependent children and currently have full family coverage, you can have one spouse enroll in an “employee and children” plan, while the other enrolls in single coverage in the HDHP plan.
- 3. Are the premium rates given in the materials for 2011, or will the premiums change next year?**

The rates given in the materials are for medical coverage only – you will need to add a dental plan before you determine what amount you will actually pay. The rates are for the 2010-11 plan year, which runs from September 1, 2010, to August 31, 2011.
- 4. Will switching to the HSA-eligible plan change anything with the dental insurance?**

No. Dental coverage will remain the same as with the PPO plans. The dental plan is a stand-alone plan that is independent of the HDHP account. The dental plan has its own deductible and co-pay amounts, and is not affected by enrollment in a HDHP plan.
- 5. Can Long Term Care (LTC) premiums be paid from the HSA account money?**

Yes. There is a long list of eligible expenses that can be paid from the HSA account money, and long term care premiums are on that list. You will receive a relatively complete list of eligible expenses from Union Bank when you enroll in their HSA account, and can get the complete list from the IRS web site, www.irs.gov.
- 6. If I enroll in the \$2,850 plan, it will be a new plan for me. Will pre-existing conditions be covered?**

Yes. Even though this is a change in the type of plan offered by BCBSNE, you are still part of the Educators Health Alliance group. Any pre-existing conditions will be fully covered.
- 7. Can IRA funds be rolled over into the HSA?**

Yes. You can use money you have in an IRA to fund the HSA account if you wish. Since the IRA money is currently tax exempt, you will not be able to claim the money you transfer to the HSA as income reduction. If you want a tax deduction for what you contribute to your HSA, you need to put new money into the HSA account. The IRS allows a one-time-only conversion of IRA money into the HSA account, so use

caution if you decide to transfer money from the IRA to the HSA: it is a once-in-a-lifetime occurrence. You cannot transfer 401(k) or 403(b) money to the HSA, but you can convert the 401(k) or 403(b) to an IRA, and then make the conversion. Please contact Union Bank for full details before making this kind of conversion. If you do not do the conversion properly, you may be liable for additional income tax and penalties.

8. If I were enroll in the High Deductible Health Plan, HDHP, on Sept. 1, what are my deductibles and premiums Sept thru Dec 2010? What if I go to the HDHP on January 1?

If you enroll in the HDHP on September 1, 2010, your premiums would be \$436.62 for single medical coverage plus \$22.25 when you enroll in the PPO dental plan with 80% A&B and 50% C coverage. You must choose a dental plan when you enroll in the HDHP. If you enroll in the same dental plan that you currently have, your dental benefits will be the same as what you currently experience. Your deductible for the medical plan would start September 1, 2010, and you would need to satisfy the entire \$2,850 deductible amount by December 31, 2010 before the medical health plan would pay any benefits for the remainder of this calendar year. Your dental coverage, since it is separate, would be paid according to the provisions of the plan in which you enroll. Since the deductible that you have for your current \$600 deductible plan does not carry over to the HDHP, you may wish to keep your current medical plan until January 1, 2011 and enroll in the HDHP effective January 1. If you do that, you will pay \$517.51 per month for single retiree coverage (plus the premium for the dental plan in which you enroll) until January 1, 2011. Your premiums for medical coverage would drop to \$436.62 for January, 2011, and your \$2,850 deductible will begin on January 1, 2011. Your dental premiums will not change in January. Just remember that all premiums will change on September 1, 2010.

9. Are bills for dental work applicable to the HDHP deductible?

No. Dental coverage is a separate plan, and your dental claims for the traditional PPO dental plan would be paid at 80% of the approved amounts for Parts A & B, and 50% for Part C. Even though the dental claims are not part of the HDHP plan, since you will pay part of the bill for dental claims yourself you can use your Health Savings Account to pay the part that is your responsibility. But the amount you pay for dental claims does not go towards the HDHP \$2,850 deductible. The \$2,850 deductible is for medical claims only.

10. Is the deductible based on a calendar or plan year?

The deductible for all EHA insurance plans is on a calendar year basis. If you were to switch to the \$1,500 deductible PPO plan (from the \$600 deductible plan) on September 1, 2010, you would need to satisfy the additional \$900 in deductible between September 1, 2010, and December 31, 2010, before the health plan would begin to pay a percentage of your claims. The deductible for all plans starts over every January 1, and runs through December 31 of that calendar year.

11. What is the maximum amount I can put into my HSA if I have a family plan?

Most retirees have two single plans, so the maximum amount that each individual can put into the HSA is \$3,050 plus an additional \$1,000 if you are over age 55. If you have family coverage, you can put \$6,150 into the HSA account, plus an additional \$1,000 if you are over age 55.

12. What limits are there on how much I have to pay out of my own pocket before the health plan begins to pay?

For single coverage, the maximum you will have to pay before the health plan picks up all of the covered charges for your medical care is \$2,850. If you enroll in family coverage, you must satisfy the entire family deductible amount of \$5,700 BEFORE the health plan will pay anything – and that might be just the expenses for one individual. In other words, if you have family coverage you will need to pay the full deductible of \$5,700 for the family plan before the medical plan pays anything. Once you have paid \$5,700 for the calendar year, the plan will pay 100% of all eligible expenses for the remainder of that calendar year.

13. The deductible amount is only \$2,850 for the HDHP. Can I contribute more than the deductible amount to the HSA?

Yes. You can pay more than just your medical claims from the Health Savings Account, so the IRS allows you to contribute more than just your deductible amount. In addition, the IRS allows a “catch-up” provision for individuals over the age of 55 to fund their Health Savings Accounts with an additional \$1,000 each year. The limit on contributions for this year and next is \$3,050 per individual plus an additional \$1,000 if you are over age 55. If the allowed contribution amounts change, Union Bank will notify you of the new contribution maximums.

14. If I want to join the \$2,850 plan in January, which insurance plan do I enroll in until then?

If you are currently retired, you will keep your \$600 deductible plan until January 1, and enroll in the \$2,850 plan effective January 1. If you are retiring this year, you will need to sign up for the \$600 deductible plan (plus a dental option) to be effective September 1, 2010, then make the switch to the \$2,850 plan to be effective January 1, 2011.

15. I want to sign up for the HDHP to be effective January 1, 2011. When do I enroll?

You need to have your completed application turned in to BCBSNE by December 1, 2010, in order to have an effective date of January 1, 2011.

16. Did you say that the HSA account can NOT pay for prescriptions?

No. If you have the \$2,850 HDHP plan, all medical claims count towards the deductible, including the cost of prescription medication. Once you have paid a total of \$2,850 out of your own pocket for doctor visits, lab work, prescription medication, or other covered services, the medical plan will pay all of the allowed charges that you have for the remainder of the calendar year. In short, you will pay for the first \$2,850 of your medical claims, after which the health plan pays for all of the rest of your covered claims for the rest of the calendar year.

17. If I pay for the first \$2,850 of medical claims, how does the insurance plan track that? Do I have to provide proof that I paid the claims?

No, you do not need proof. You will present your insurance card to the medical professionals who provide you care just like you do now, whether for an office visit, lab work, or prescription medication. The provider will file a claim with BCBSNE just like they currently do. If the claim has charges that are above the amount allowed with the BCBSNE network, you will continue to get that “discount” in the charges. Once the discounted amounts have been applied to your care, you will pay the first

\$2,850 of charges – using your Health Savings Account (if you want tax-preferred treatment of the expense) or using your own check. In effect, you have a “stop loss” amount of \$2,850 per plan year – you will be responsible for the first \$2,850 of covered charges, and the insurance plan will pay for all covered claims over that amount.

18. My school district provides a Health Reimbursement Account (HRA) for qualified medical expenses. That account has the money from my unused sick leave and vacation time. Can I use that account to fund the HSA?

That depends on how the HRA was set up. Since there were no HDHP plans available until recently, most likely the HRA will not allow you to fund an HSA account from your HRA account. But keep in mind that you cannot pay medical premiums from an HSA – you can only pay claims. The HRA account provides a tax-preferred source of funds to pay for the premiums for your medical care as well as any claims, and the HSA account provides a tax-preferred source of funds to pay just your medical claims. If you do not want to get an additional tax break by opening a Health Savings Account, you could use your HRA account to pay for both premiums and claims – but the HRA will be depleted more quickly if you do that than if you pay your premiums from the HRA account and any claims from your HSA account.

19. How does a person get the tax advantage if they initially fund the HSA from a standard savings account?

You will get the tax break when you file your tax return next year. There is a line on the tax form for you to indicate how much money you deposited into a qualified HSA account, and that will be used to reduce your taxable income for that tax year. You should consult a tax advisor to be sure that you are claiming the amount on the proper line of your tax return.